"K" LINE
KAWASAKI KISEN KAISHA, LTD.

100th ANNIVERSARY
Start! New "K" LINE

"K" LINE REPORT 2019

Contents

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.

- FTSE4 Good Index Series
- FTSE Blossom Japan Index
- ETHIBEL EXCELLENCE Investment Register
- Dow Jones Sustainability Asia/Pacific Index
- MSCI Japan Empowering Women Index (WIN)

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 third consecutive year.

HOME > CSR > External Recognition
https://www.kline.co.jp/en/csr/external_evaluation.html

(As of June 2019)

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 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 non-financial information. For more details on each of these initiatives, please visit our website (www.kline.co.jp/en/).

Forward-Looking Statements

The Company's plans, strategies and future financial results indicated in this report reflect the judgment made by its management based on information currently available and include risk and uncertainty factors. Consequently, the actual financial results may be different from the Company's forecasts due to changes in the business environment, among other factors.

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

Special Feature 1: 100 Years of Exploration

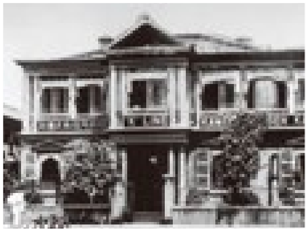
Since its establishment in 1919, the "K" LINE Group has overcome fiercely changing business conditions on many occasions while working tirelessly to ensure safe and reliable operations, evolving into "an integrated logistics company grown from shipping business." Now in 2019, we celebrate our 100th Anniversary. We have always sought advances with a boldness of spirit. Throughout our history, "K" LINE has explored and created new marine transportation business. Our history is proof that we have remained sensitive to current trends, blazing a path to the future through vigorous, flexible business activities.

1919

Establishment of Kawasaki Kisen Kaisha, Ltd.

When the demand for ships outstripped the supply due to World War I, Kawasaki Dockyard Co., Ltd. (the predecessor of Kawasaki Heavy Industries, Ltd.) promoted the construction of stock boats.* When the war ended, there was a surplus of ships. Kojiro Matsukata, who was then the president of Kawasaki Dockyard, saw the surplus as a new opportunity, and established Kawasaki Kisen in April 1919 under the belief that "Selling newly-built ships overseas would only give profits to foreign shipping companies. He believed that, in the interest of Japan's national development, the company had to retain newly-built vessels for use by Japan and set up a large shipping company capable of rivaling Nippon Yusen and Osaka Shosen to launch a ship operation enterprise."

* Stock boats:
Identical models of ships built without having orders from specific customers.



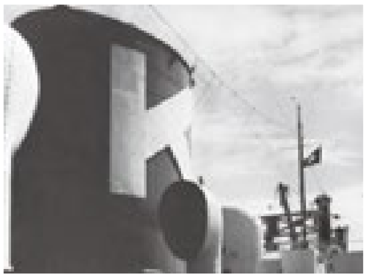
The office building at the time of founding

1921

Birth of "K" LINE

In 1921, Kojiro Matsukata, who simultaneously served as the president of three companies—Kawasaki Kisen, Kawasaki Dockyard and Kokusai Kisen—gathered key people in London to discuss his vision of jointly operating the three companies' fleets under one flag, and gained their endorsements. Given the initials of the three companies, they decided to name the new organization "K" LINE and designed the immediately recognizable funnel mark* with a white letter "K" on a red background. Thus, "K" LINE was born in London, far away from Japan.

* Funnel mark:
The chimney of a ship is called a funnel, and each shipping company has a distinct funnel design.



The funnel mark features a white letter "K" on a red background

1919 1921 1948

Salvaging of the *KIYOKAWA MARU*

The salvaged *KIYOKAWA MARU* is placed into service on New York route

1948

Postwar Revival

"K" LINE's business expanded after its establishment, but the Pacific War dealt a devastating blow to the company. More than 1,400 crew members and 56 ships were lost, leaving only 12 ships afloat at the end of the war. Amidst these circumstances, "K" LINE proceeded with reconstruction, including salvaging and restoring the highly-acclaimed *KIYOKAWA MARU* which was partially sunk during the war. As Japan entered its period of rapid economic growth, "K" LINE expanded its scale of operations, starting by launching a shipping route to Bangkok, and establishing locations throughout Asia—in Thailand in 1964, in Hong Kong in 1968 and in Singapore in 1974. "K" LINE also expanded beyond Asia and reorganized shipping routes to North America and Europe from Asia, and so on, and became the first Japanese shipping company to independently provide service between Asia and North America.

and Creation

1960
Development of Dry Bulk Business and Oil Tanker Business

As industrialization moved forward and improvement in living standards proceeded in the 1960s, Japan began to import vast amounts of iron ore, coal, oil, wood, wood chips and other resources. Dry bulk carriers and oil tankers handled the marine transportation of those resources. Starting with the *FUKUKAWA MARU* as an iron ore carrier, “K” LINE rapidly proceeded to dedicate carriers to the transportation of resources and raw materials for industry. In the oil tanker business as well, the *SHINANOGAWA MARU* headlined a succession of new tankers that delivered high quality transportation, that garnered praise from Japanese customers as well as the Oil Majors.


The tanker *SHINANOGAWA MARU*

1968
Start of Containership Service

The biggest technological innovation in the history of liner services was containerization of the mid-1960s. Although “K” LINE was initially founded on joint management services, we gradually demonstrated our uniqueness and proceeded to containerize nearly all our main routes in 1969, and in 1971, we independently opened a route between the Far East and the Pacific Coast of North America to function as a container route that did not involve calls at Japan. Progressing from the start of containerization to the independent establishment of such a shipping route in just three years was a revolutionary accomplishment at the time.


The *GOLDEN GATE BRIDGE*, our first containership

1960 1968 1970

1970
Japan’s First Pure Car Carrier

As a company that recognized the potential of the automobile industry early on, “K” LINE investigated the idea of dedicating carriers to automobile transportation, and in 1968 completed building the *TOYOTA MARU* No. 1, a car bulker for transporting cars to North America and grain to Japan on the return voyages. In 1970, we built the *TOYOTA MARU* No. 10, Japan’s first Pure Car Carrier. Its nickname at the time, “Pure Car Carrier,” and its abbreviation, PCC, became synonymous with car carriers. Later, in 1973, we built the largest PCC in the world at the time, which inspired the world to pursue increasingly larger PCCs. As a pioneer in automobile transportation, and with proactive efforts for routes from Japan as well as non-Japan-related routes, “K” LINE cemented its position as a top-class car carrier company.


The *TOYOTA MARU* No. 10, Japan’s first pure car carrier

Special Feature 1: 100 Years of Exploration and Creation

1983

The *BISHU MARU*, Japan's First LNG Carrier

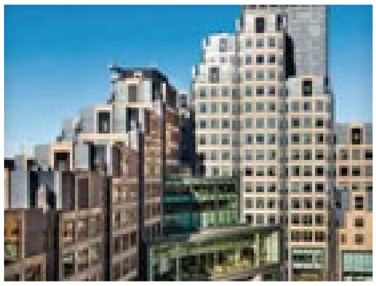
Surging demand for liquefied natural gas (LNG) presented increasing opportunities to realize LNG transportation on Japanese carriers, and a project was launched to use seven Japanese LNG carriers to transport LNG produced in the Arun and Badak gas fields of Indonesia to Japan. "K" LINE collaborated with other Japanese shipping companies to win the orders for three LNG carriers for the Badak portion of the project, and in 1983 completed building first of those three, the *BISHU MARU*, Japan's first LNG carrier. As a form of clean energy, demand for LNG is consistently increasing, and "K" LINE is expanding business by proactively involving itself in many LNG projects.

The *BISHU MARU*, Japan's first LNG carrier

1985

Reform for Prevailing in Global Competition

The environment of international marine transportation changed substantially at the end of the 1980s. Sluggish cargo movement due to soaring energy costs and a slowdown in global economic growth, a surplus of vessels, the emergence of marine transportation from developing countries, and other factors created strong headwinds. Additionally, the Plaza Accord of 1985 resulted in the rapid strengthening of the Japanese yen, which reduced the yen-converted incomes of Japanese international shipping companies, which derive majority of their income in US dollars. Amidst this turbulence in the business environment, "K" LINE thoroughly revised its businesses, reorganized shipping routes, transitioned overseas offices into local corporations, and undertook other efforts to reduce costs, which resulted in the creation of a corporate structure fully capable of competing on a global scale.



"K" LINE (Europe) Limited in London

2001

Creation of Business Outside Japan

The creation of demand in China, which experienced remarkable economic development, and other factors invigorated the global logistics industry. In order to respond to this growth in global logistics demand, "K" LINE decided to expand overseas offices in an effort to acquire new business. In 2001, we established "K" LINE Pte Ltd in Singapore to develop tanker and dry bulk business. In 2003, we established "K" LINE European Sea Highway Services GmbH in Germany to provide intra-European automobile shipping services independently. That same year, primarily to develop dry bulk transportation business, we established "K" LINE Bulk Shipping (UK) Limited in London, and in 2008 we established "K" LINE (India) Private Limited in India which had also experienced remarkable economic development. We have also expanded logistics business successively in Thailand, Indonesia, India, Vietnam and other countries in a proactive effort toward developing complete built-up car logistics business.

Land Transportation Business in Thailand

Cold Storage Warehouse in Vietnam

2010
Investment for the Future

Since 2015, we have introduced 13 next-generation pure car carriers with a capacity of 7,500 cars. *DRIVE GREEN HIGHWAY*, the PCC that typifies the new fleet, is our environmental flagship complete with an array of innovative environmental technologies. We have also introduced 10 containerships with highly competitive capacity of 14,000 TEU. The importance of energy resource transport continues to increase as worldwide energy demand expands. In addition to transporting crude oil, LNG, LPG and other energy resources by sea, "K" LINE is engaging in business development upstream and downstream in the energy value chain through participating in projects such as a drillship business off the coast of Brazil in 2009 and an FPSO* project in offshore Ghana in 2017.

*Floating Production Storage and Offloading System


The environmental flagship *DRIVE GREEN HIGHWAY*


The drillship *ETESCO TAKATSUGU J*

2010 2018 2019

2018
Start of Ocean Network Express (ONE)

Ocean Network Express (ONE) is a new entity that integrated the containership business and international container terminal business of Kawasaki Kisen, Mitsui O.S.K. Lines and Nippon Yusen. ONE operates over 250 vessels throughout the world and provides customers everywhere with high-quality services and safe, secure navigation and cargo operations founded on the long histories of its three constituent companies.


Containership of ONE

100th ANNIVERSARY

Start! New "K" LINE

2019
100th Anniversary and the Future for "K" LINE

The year 2019 marks the 100th year since the establishment of "K" LINE. The four visions of "K" LINE are "reliable and excellent services," "a fair way of business," "relentless efforts to achieve innovation" and "respecting humanity," and above all, "reliable and excellent services" form the basis of our continued existence. At the same time, we use ""K" LINE Environmental Vision 2050," our set of long-term environmental guidelines, to direct our efforts to continue pioneering in advance of the strengthening of environmental regulations in the future. As a world-class integrated shipping company, we intend to continue navigating the seas for the next 100 years.

"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.

Capital input

Financial capital
Equity capital
103.6 billion yen
Interest-bearing liabilities
550.2 billion yen

Equipment capital
Vessels in operation
520 vessels
Warehousing scale
136 locations in **12 countries**
(Japan 76/Overseas 60)
612,852m²

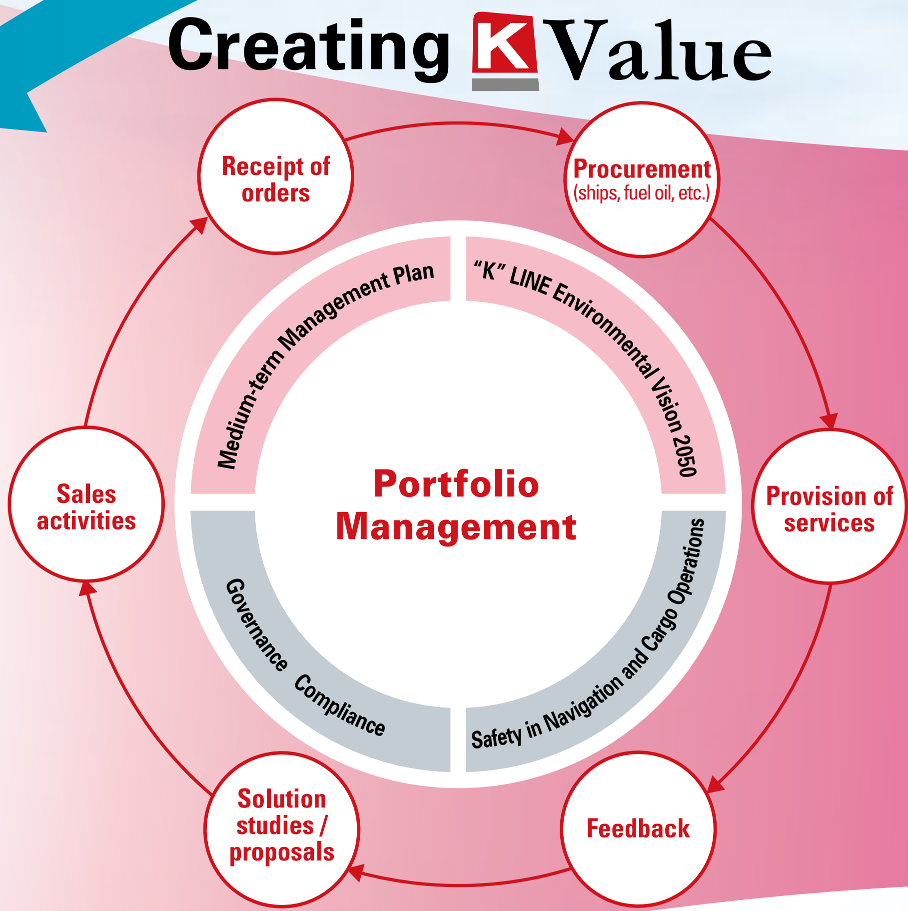
Human capital
Number of employees
Unconsolidated employees
756
Consolidated employees
6,022
Maritime personnel (including fixed-term temporary workers)
Approx. **2,930**
(340 Japanese, 1,210 Filipinos, 760 Europeans, 370 from India and Bangladesh plus 250 others)

Intellectual capital
Maritime, ship management and operational management know-how
Marine engineer training facilities
5 location in **5 countries**

Social / relationship capital
Consolidated subsidiaries
Japan: **23 companies**
Overseas: **269 companies**
Equity-method affiliates:
38 companies

Natural capital
Fuel consumption (2018)
3.82 million metric tons
*Including the portion purchased by ONE, to which all "K" Line containerships have been chartered out.

"K" LINE Group Business Model



Four Driving Forces

- High engineering skills
- Excellent shipping services
- Global network
- Human resource diversity

Customer base built on the strong relationships of trust across multiple industries

Increase in capital (stock)

Output

Dry Bulk

- Coal & Iron Ore Carrier Business/ Bulk Carrier Business

Energy Resource Transport

- Tanker Business
- Thermal Coal Carrier Business
- LNG Carrier Business, Liquefied Gas Business, Offshore Energy E&P Business

Product Logistics

- Car Carrier Business, Automotive Logistics Business
- Logistics Business
- Short Sea and Coastal Business
- Containership Business

Others

P16-29

Outcome

Financial outcomes

Consolidated ordinary income

Net income

ROE

Equity ratio

P8-9, 52-53

Social and environmental impacts

Environmental preservation

Safety in navigation and cargo operations

Human resource development

P30-44

Stakeholders to whom we provide value

- Customers
- Shareholders and investors
- Employees
- Local community and global society
- Environment

External factors affecting corporate value

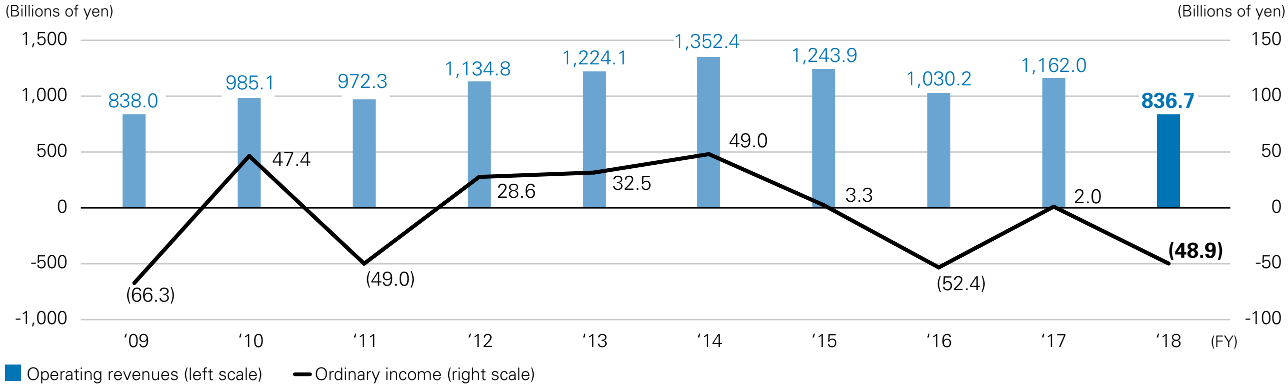
Short-term → Long-term

Exchange rate fluctuations / Resource price changes / Competitive environment / Geopolitical risk / Economy and economic trends / Strengthening of environmental regulations / Technological innovations and changing industrial structure

Financial and ESG Highlights*1

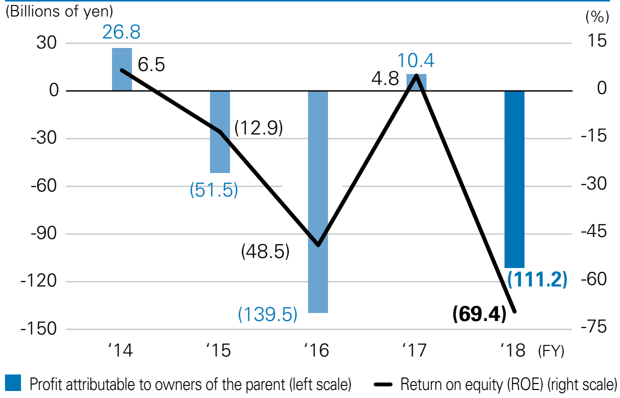
Kawasaki Kisen Kaisha, Ltd. and consolidated subsidiaries
Years ended March 31

Operating Revenues, Ordinary Income



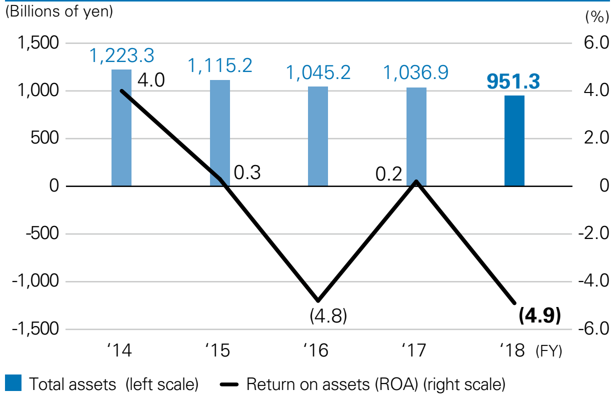
During the year, we integrated our containership business, one of our core businesses, into Ocean Network Express (ONE) through the business integration of three Japanese shipping companies, with ONE becoming an affiliated company accounted for by the equity-method, which was the main cause of a consolidated operating revenue decline of 28% compared to the previous fiscal year. In addition, ONE's loss due to decreasing cargo volumes, our reserve against losses from chartering vessels to ONE and other factors resulted in an ordinary loss of ¥48.9 billion.

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



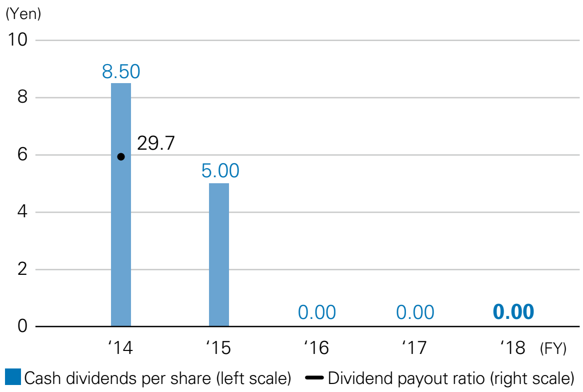
In an effort to radically improve our profit-making capacity in the next and subsequent periods, we recorded an extraordinary loss by canceling some chartered containerships and small and medium-sized dry bulk carriers; resulting in a ¥111.2 billion net loss attributable to owners of the parent for the year.

Total Assets, Return on Assets (ROA)*2



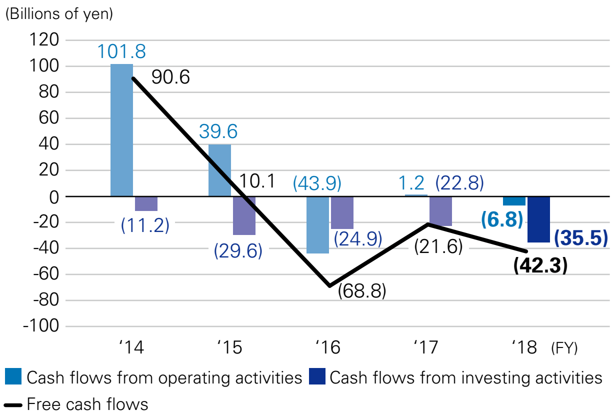
In fiscal 2018, deterioration of the profit attributable to owners of the parent resulted in a negative ROA.

Cash Dividends per Share, Dividend Payout Ratio



In fiscal 2018, 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.

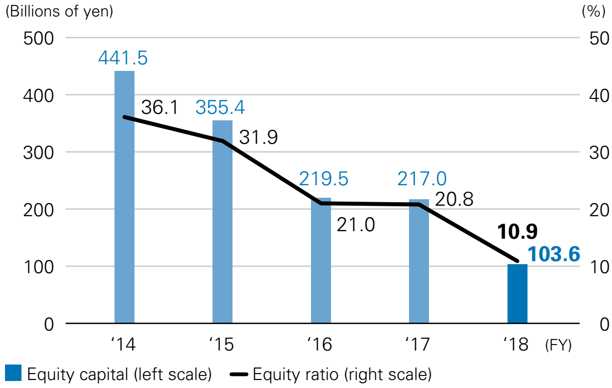
Cash Flows



In fiscal 2018, due to the loss before income taxes, a decrease in trade payables and the acquisition of ships, free cash flows were negative ¥42.3 billion.

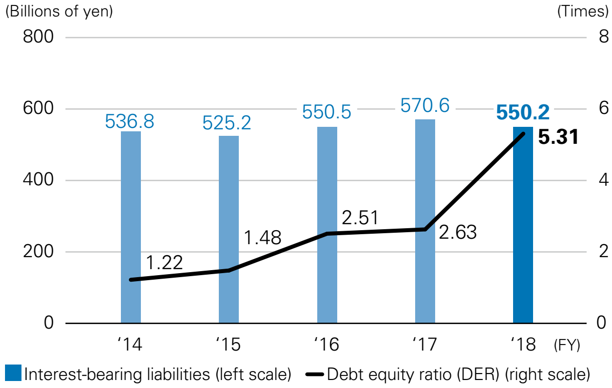
*1. Rounded to the nearest ¥0.1 billion yen. (except for cash dividends per share/dividend payout ratios)
*2. "Partial Amendments to the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, issued on February 16, 2018), etc. has been applied from the beginning of fiscal 2018, and applied retroactively to the total assets and return on assets for fiscal 2017 for recalculation.

Equity Capital, Equity Ratio



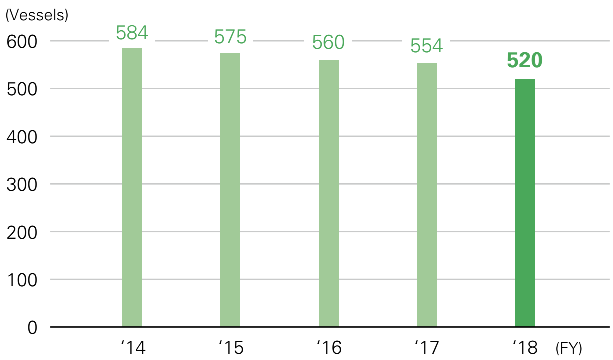
In fiscal 2018, equity ratio fell to 10.9% due to an extraordinary loss recorded as a result of implementation of radical structural reforms. We will use various measures to strengthen equity capital with the aim of recovering the equity ratio as soon as possible.

Interest-bearing Liabilities, Debt Equity Ratio (DER)



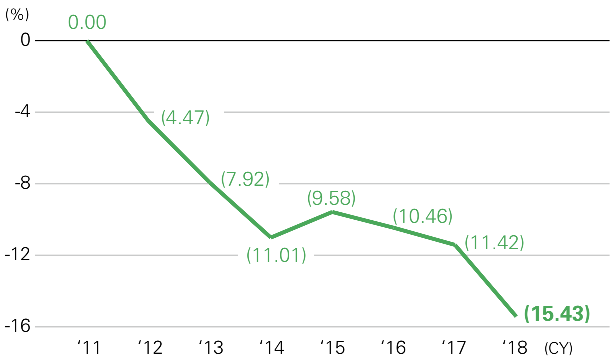
In fiscal 2018, interest-bearing liabilities decreased by ¥20.4 billion to ¥550.2 billion. However, due to impaired equity capital, DER climbed by 2.68 points.

Number of Vessels in Operation (consolidated)



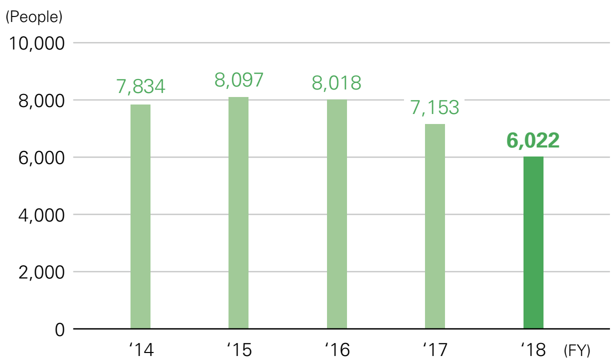
Of the vessels in operation, we disposed of highly costly uneconomic vessels in our core fleet, excluding short-term charters and other vessels, to maintain resiliency to market fluctuations.

Improvement rate of CO_2 emissions reduction base for 2011



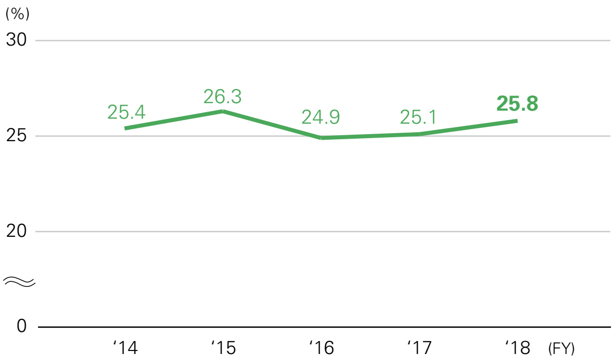
We are reducing CO_2 emissions by introducing environmentally-friendly vessels while enhancing fleet operational efficiency. In 2018, we reduced CO_2 emissions by 15.43% compared to 2011.

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.

Please view this information in conjunction with the important financial data for the past 10 years on pages 52 and 53.

Message from the President

President and CEO
Yukikazu Myochin

Performance Review

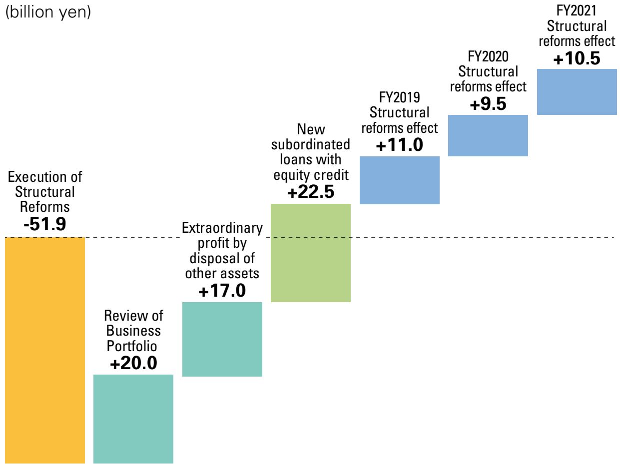
ONE struggled but implemented structural reforms which bring sustained earnings improvement

Fiscal 2018 consolidated operating revenue decreased ¥325.2 billion year-on-year to ¥836.7 billion owing to transfer of containership business. We booked an operating loss of ¥24.7 billion (vs ¥7.2 billion operating income in fiscal 2017), ordinary loss of ¥48.9 billion (vs ¥2.0 billion ordinary income) and net loss attributable to owners of the parent of ¥111.2 billion (vs ¥10.4 billion net profit).

By segment, performance in the Dry Bulk and Energy Resource Transport segments were solid but results in the Product Logistics segment fell well short of our initial forecast. Market conditions in the Dry Bulk segment took a sharp turn for the worse in the second half of the year owing to the dam break in Brazil, but we achieved a return to profitability in this segment thanks to efforts to reduce operational costs and effective vessel allocation. Buoyed by medium- and long-term contracts, the Energy Resource Transport segment held steady overall with both revenue and profit increase chiefly due to initiatives to down-size market-exposed businesses. In the Product Logistics segment, however, Ocean Network Express (ONE)—established through integration of the containership businesses of three Japanese shipping companies—recorded a loss of nearly $600 million after bearing the brunt of a sharp drop in cargo volume stemming from disorganized services immediately after it commenced operations in April 2018. As a result, we booked an equity-method loss of ¥20.1 billion. In addition, containership business overall booked a loss of ¥48.8 billion, reflecting a one-off loss in the Company's own containership business and provisioning of charter contract losses for chartered vessels for fiscal 2019. Also in this segment, car carrier business suffered an ordinary loss owing to higher fuel costs and deterioration of vessel operations.

Implementation of Measures to Strengthen Capital Base (FY2018-2019)

(billion yen)



Learning from our past, flexible mindsets unshackled from conventional thinking, an enterprising spirit and teamwork— these are the attributes we must draw on to realize Revival for Greater Strides.

In April 2019 I was appointed president of "K" LINE. Since starting out as a shipping company with a fleet of 11 ships 100 years ago, we have weathered the storms of numerous challenges, thanks to the support of our customers and many other stakeholders and grown as a company by turning adversity into opportunity. In this last fiscal year of our medium-term management plan Revival for Greater Strides, all officers and employees are pulling together to tackle the key challenges that await us as we take the first steps towards another 100 years.

Meanwhile, having spent ¥51.9 billion on structural reforms, reducing the number of high-cost ships, net loss for the period came to ¥111.2 billion. Following careful preparation and consideration, we carried out these structural reforms because we believe they will bring long-lasting benefits and deliver the Company profitability from fiscal 2019 onwards. We have continued to work on regaining cost competitiveness in our fleets by promptly terminating charter contracts and reducing number of high-cost ships that we ordered prior to the global financial crisis.

As a result, our equity ratio temporarily dropped to 11% from 21% at end of the previous fiscal year but has already nominally recovered to 16% following our business portfolio review conducted over fiscal 2018-19 and arrangement for subordinated loans implemented at the start of fiscal 2019. We expect structural reforms carried out in fiscal 2018 will boost earnings by ¥11.0 billion in fiscal 2019, by ¥9.5 billion in 2020 and by ¥10.5 billion in 2021. Moreover, we aim to realize recovery and growth in our impaired equity capital as soon as possible by ensuring that we return to profitability from fiscal 2019.

Performance Forecast for Fiscal 2019

Targeting Profitability in all Segments

Our fiscal 2019 consolidated earnings forecasts are operating revenue of ¥760 billion, operating income of ¥6 billion, ordinary income of ¥5 billion and net income attributable to owners of the parent of ¥11 billion. We are targeting profitability in all segments by restoring cost competitiveness in our fleets on the back of structural reforms carried out last year, implementing measures to improve income and expenditures for car carriers and profit improvement in the containership business.

In the Dry Bulk segment, structural reforms are bringing profit improvement in small- and medium-sized vessels. We are also working to enhance medium- and long-term contracts by cape-size carriers including transportation of bauxite to the Middle East. We forecast a year-on-year profit decline

Consolidated Forecasts for FY2019 (billion yen)

	FY2019			vs FY2108	
	1H Forecast	2H Forecast	Total (a)	Total (b)	(a)-(b)
Operating Revenues	378.0	382.0	760.0	836.7	(76.7)
Operating Income	8.0	(2.0)	6.0	(24.7)	30.7
Ordinary Income	10.0	(5.0)	5.0	(48.9)	53.9
Net Income Attributable to Owners of Parent	6.0	5.0	11.0	(111.2)	122.2
Exchange Rate (¥ / $)	¥109.17	¥108.00	¥108.58	¥110.67	(¥2.09)
Bunker Price ($/MT)	$491	$677	$584	$450	$134

for the segment in first half of the fiscal year due to the lingering impact of the market downturn at the end of fiscal 2018 and in the second half of the fiscal year due to docking of some vessels to install SOx (sulfur oxide) scrubbers.

For the Energy Resource Transport segment, we anticipate a strong year-on-year earnings improvement. Three newly-built LNG carriers for UK-based BP and Australia's Ichthys LNG Project, which commenced operations last year, should deliver full-year earnings contributions in the LNG carrier business, and we aim to chalk up stable earnings in the thermal coal carrier business by way of medium- and long-term contracts with the addition of eight new ships, including replacements, built over the last two years. Meanwhile, in the oil tanker business, we withdrew from the petroleum product tanker business in the first quarter. By thoroughly managing risk and selecting and concentrating our assets, we continue to shift to an earnings structure that is less susceptible to the impact of market volatility.

In the Product Logistics segment, even though we forecast profit of ¥2.8 billion (under equity method) at ONE driven by improved earnings, we anticipate an overall ¥11.0 billion loss in containership business after factoring in fiscal 2020 provisions for charter contract losses. We expect the streamlining of unprofitable shipping routes, business reorganization and a recovery in freight rates to boost earnings by ¥5.5 billion in car carrier business, which booked a loss last fiscal year. We will return to our roots and conduct business in line with our capabilities with an emphasis on profitability rather than scale. We expect to pull in stable earnings in both logistics business and short sea and coastal business.

We still see shareholder returns as a key issue, but for the time being we will give top priority to improving our financial condition and stabilizing our business platform, which is why at this juncture we have yet to announce any dividend plans. We deeply apologize to all of our shareholders and investors and kindly ask for their understanding at this time.

Consolidated Forecasts for FY2019 by Segment

(billion yen)

Business Segment (upper row=Operating Revenue) (lower row=Ordinary Income)	FY2019			vs FY2018	
	1H Forecast	2H Forecast	Total	Full-year Results	Change
Dry Bulk	118.0	111.0	229.0	273.8	(44.8)
	0.5	3.5	4.0	4.4	(0.4)
Energy Resource Transport	43.0	49.0	92.0	88.7	3.3
	3.5	3.5	7.0	2.5	4.5
Product Logistics	201.0	206.0	407.0	441.0	(34.0)
	8.0	(11.0)	(3.0)	(49.2)	46.2
Containership	54.2	57.0	111.3	135.8	(24.5)
	4.0	(15.0)	(11.0)	(48.8)	37.8
ONE as Equity-Method Company	4.1	(1.3)	2.8	(20.1)	23.0
Others	16.0	16.0	32.0	33.2	(1.2)
	0.5	1.0	1.5	1.1	0.4
Adjustment	—	—	—	—	—
	(2.5)	(2.0)	(4.5)	(7.8)	3.3
Total	378.0	382.0	760.0	836.7	(76.7)
	10.0	(5.0)	5.0	(48.9)	53.9

Progress on Medium-Term Management Plan

Focus Still on Key Issues

Fiscal 2019 is the final year of our medium-term management plan Revival for Greater Strides. In order to boost our earnings capabilities and lay the foundations for strong management, the plan focuses on three priority initiatives: (1) rebuilding portfolio strategy; (2) advanced business management and enhancement of function-specific strategies; and (3) ESG initiatives. On top of this, the plan called for the following financial targets: (1) three consecutive years of sustained profit; (2) ROA of 6% in businesses with stable earnings; (3) ordinary income from stable business of ¥30 billion; (4) an increase in shareholders' equity ratio to mid-20% level and (5) early resumption of dividend payments. At the end of second year of the plan, our progress was more or less on target for ROA (5.7%) and stable earnings (¥27 billion), but due to the structural reforms implemented with the aim of an earnings recovery from fiscal 2019, we failed to achieve the key initiatives of sustained profit, equity ratio increase and dividend resumption.

Re-building Portfolio Strategy

For the first key initiative, rebuilding portfolio strategy, based on our clear vision we have continued to push ahead with a process of selection and concentration in order to fully maximize the strengths of the Group.

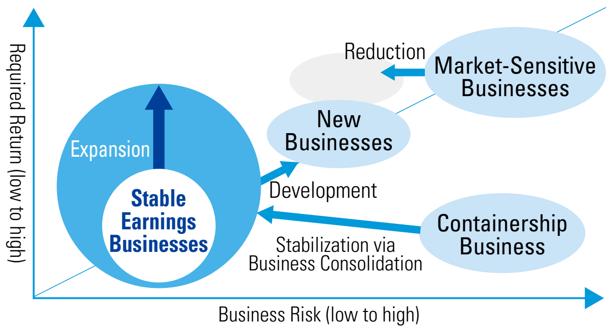
Specifically, the integration of our containership business was a major decision to make. This business is strikingly different to other businesses in that it has a high external procurement cost ratio, requires a broad-ranging network and can easily leverage economies of scale. Given that market share of three Japanese lines is limited, we determined that a business integration between the three would be the best solution.

In fiscal 2018, operations kicked off at ONE and we disposed of high-cost ships by terminating charter contracts for several container vessels and dry bulk carriers. At the same time, we took steps to sell off non-core assets, including real estate and cross-shareholdings. Moreover, we are

collaborating with harbor logistics company Kamigumi in the harbor transportation business in an effort to bring in external sources of capital and leverage their expert knowledge.

Following spin-off of the containership business, we have been working to strengthen our stable earnings base at the Company through a process of concentrating and redistributing managerial resources across our four earnings pillars: dry bulk, energy resource transport, car carriers and logistics business. In order to properly hold stable earnings of ¥27 billion we generated in fiscal 2018, we will continue to scale down market-sensitive businesses through the process of selection and concentration and steadily accumulate stable earnings through medium- and long-term contracts.

Business Portfolio Rebuilding



Advanced Business Management and Enhancement of Function-Specific Strategies

For the second key initiative, advanced business management and enhancement of function-specific strategies, we are working on establishing a new risk management system based on a review of our excessive investments in the past. We aim to periodically manage aggregate risk amounts on a group-wide and individual unit level in an effort to maximize returns on investment comparable to risk. This will enable us to pursue an optimal business portfolio in which we can expand business fields that deliver greater earnings commensurate to risk, but when we are unable to do so, we can allocate our resources to other fields.

As for the enhancement of function-specific strategies, we established an AI/Digitalization Promotion Division and a Corporate Marketing Strategy Division in order to anticipate in advance the needs of our customers and provide them with new value (see Special Feature 2 on page 15 for details). For example, we continue to equip our ships with K-IMS, a big data-driven vessel operation management system. This system provides optimal navigational support by monitoring the ship's status in real time and relaying up to 2,000 items of big data, including information related to operations and engine plants, between ship and shore at 30-minute intervals. By combining new technologies with conventional maritime knowledge, we hope to deliver safe and reliable shipping services, improve fuel consumption through optimum operations, enhance service quality, including measures for preventing accidents and engine trouble, and provide new added value to customers. The vast amount of knowledge and data related to vessel operations is a valuable asset of the "K" LINE Group and we believe we can create new value by combining it with the latest ICT technology.

Pursuing ESG Initiatives

The significance of our Company's existence is defined in our corporate principle of helping to enrich people's lives instead of simply seeking profit, we aim to contribute to the sustainable development of society through our business activities. The focus of pursuing ESG initiatives, the third key component in our medium-term management plan, is on the implementation of our corporate principle from the perspectives of environment (E), social (S) and governance (G).

As a shipping company, the roots of our business are intertwined with the environment, which means we must protect the bounties of the sea, our field of business. We take an active approach to environmental preservation based on our own targets in line with "K" LINE Environmental Vision 2050, our long-term environmental policy formulated in 2015. As a result, our efforts have been recognized externally, highlighted by our selection in the CDP A List for action on climate change for the third year running. We also stress the use of cutting-edge technology as a useful tool for implementing environmental measures—the K-IMS is one example of this.

In terms of the social element, the Group considers safety in navigation and cargo operations and the development of human resources to be key components. Safe operation of our ships forms the basis of our business. To this end, our business continuity depends on the securing of human resources, particularly maritime technical personnel, including foreign seafarers, as well as the enhancement of training courses and facilities.

And lastly, governance is indispensable to fulfilling our corporate social responsibility and operating our businesses in an appropriate manner, including how we address environmental and social initiatives. In addition to establishing a corporate governance structure, we have continued to strengthen our risk management system by drawing up guidelines based on Japan's Corporate Governance Code, creating a Nominating Advisory Committee and Remuneration Advisory Committee, increasing the number of outside directors to reinforce oversight, and adopting a unit supervisory system to enhance business execution. This fiscal year we will further beef up our governance framework by raising the number of auditors and outside directors.

Toward Another 100 Years

Concerted Group-Wide Efforts to Enhance Corporate Value

The Company celebrated its 100th anniversary in April 2019. We are extremely grateful to the ongoing support we have hitherto received from all our stakeholders, including customers, shareholders, investors, business partners, regional communities and employees.

The founding organization of the Company, Kawasaki Dockyard (now Kawasaki Heavy Industries), was established through the investment in kind of surplus stock boats (ships built in anticipation of demand) following the end of World War I. The story of how the unfavorable situation of having excess stock boats was turned into an opportunity in anticipation of future growth in global trade is considered the source of our enterprising spirit, broad-mindedness and independence and autonomy-collectively, the "K" LINE spirit.

Driven by the "K" LINE spirit inherited since the time of the Company's founding, the Group has overcome numerous challenges to continually provide new value.

In 1970 we built Japan's first pure car carrier, the Toyota Maru No. 10, which enabled us to stabilize then-problematic scheduling and dramatically improve loading efficiency and safety. Accordingly, we were able to provide an unprecedented level of value to our customers. Even after that we delivered a number of industry firsts, such as the Bishu Maru—Japan's first LNG carrier—to meet growing demand for oil alternatives, our Corona series of wide-beam, shallow-draft ships that became the industry standard for thermal coal transportation, and the first double-stack rail transport service by a Japanese shipping company in North America.

All these initiatives were achieved by listening to customer feedback, harnessing our enterprising "K" LINE spirit and leveraging teamwork, one of the Company's strengths. As a Company that strives to be first in the industry, we have embraced new challenges as "WARESAKI KISEN" by learning from our past and adopting flexible mindsets unshackled from conventional thinking. Without losing sight of this indomitable spirit, we must remain a professional organization that our customers can depend upon the most and that can earnestly respond to their needs.

Fiscal 2019 will be a key milestone year in which we wrap up our Revival for Greater Strides medium-term management plan and move into the next stage of medium-term planning. All officers and employees will be making concerted efforts to expand our financial foundation, build a structure that can generate steady earnings growth and enhance corporate value. I look forward to the continued support and understanding of all our stakeholders.

President and CEO

Special Feature 2: Emphasizing Function-Specific Strategies

Launching specialized organizations to improve customer service capacity and build a new business model

The "K" LINE Group has indicated the Emphasizing of Function-Specific Strategies as a priority initiative in its Medium-Term Management Plan, and is making efforts toward technological and business model transformation and strengthening customer relationship management. To offer even higher value from the service foundation we have built that is trusted by our customers, we are using new technologies to create services, strengthening strategic initiatives and working to build a new business model on the strength of collaboration with our customers, external organizations, and others. We have newly founded two specialized organizations to take these initiatives forward and serve as pivots for growth strategies for "K" LINE Group business.

AI/Digitalization Promotion Division

Managing Executive Officer
Responsible for AI/Digitalization Promotion Unit
Shuzo Kawano

This division is the engine for promoting the introduction of solutions and advanced technology, starting with AI and IoT, which are evolving daily. We work to further improve the quality of existing service based on safety in navigation and cargo operations, and to provide high value-added total logistics services that can be converted into value for our customers and broadly in society.

We are working to organically integrate and further develop the various technologies and services cultivated across all divisions to date, to move forward not only internally, but also through proactive cooperation with universities and other external research institutes, to enable us to produce results more effectively and with a greater sense of speed. Specifically, we are pressing forward toward the actualization of various ideas that surpass conventional frameworks, including analyzing the data gathered from vessels in operation in order to streamline ship operations and strengthen the functions of systems that strive to predict accidents before they occur, and conducting proving tests for hull inspections using drone technology. In addition, we believe that these initiatives will lead to the creation of a new business model. We also have our sights set on reforming our internal operating style and are promoting business process reengineering (BPR) geared toward improving productivity in an effort to be an organization that supports the Group's AI and digitalization.

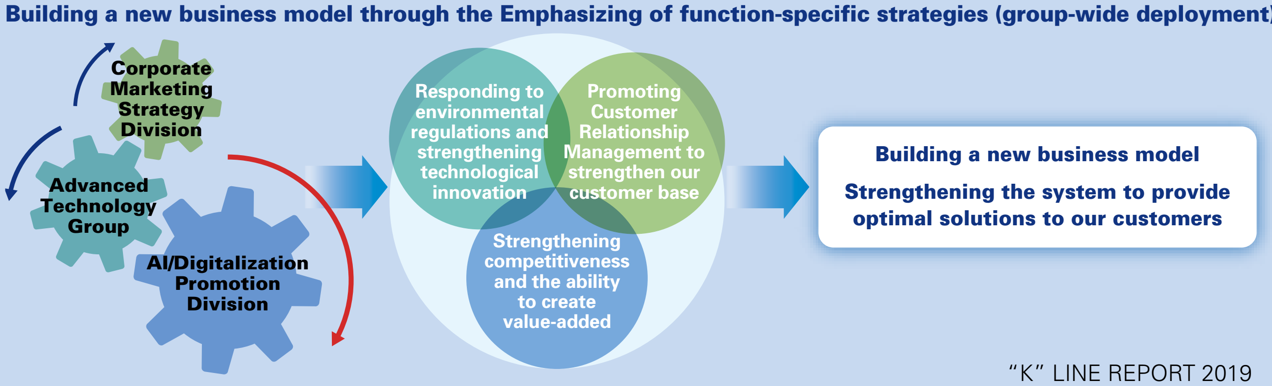
Corporate Marketing Strategy Division

Managing Executive Officer
In charge of Corporate Marketing Strategy
Daisuke Arai

We will devote full-time personnel to the strategic marketing that each of our business divisions has worked on individually to date, and we will actualize a system that enables the provision of optimal solutions to our customers as we strive to strengthen customer response capacity across the "K" LINE Group toward the creation of a new, comprehensive business model pivoting on customer relationship management.

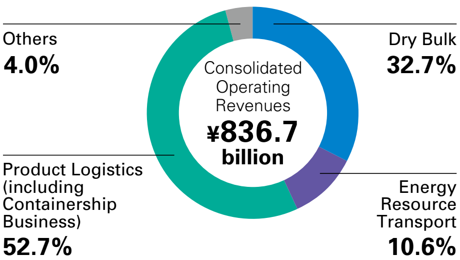
As it becomes increasingly difficult to use services to differentiate ourselves in the marine transportation and logistics sectors, we will continue our efforts to strengthen relationships with existing customers starting with initiatives for project transportation, fully understand our customers' needs, and use our safe transportation system to provide more convenient, higher-quality services as solutions to the logistics infrastructure demand of our customers with a focus on emerging economies. In addition, we are coordinating multiple businesses and projects, and promoting the building of a new, comprehensive business model that creates value-added in cooperation with customers, external organizations and others, while working together with our Advanced Technology Group and the AI/Digitalization Promotion Division to incorporate new technologies and mechanisms.

Building a new business model through the Emphasizing of function-specific strategies (group-wide deployment)

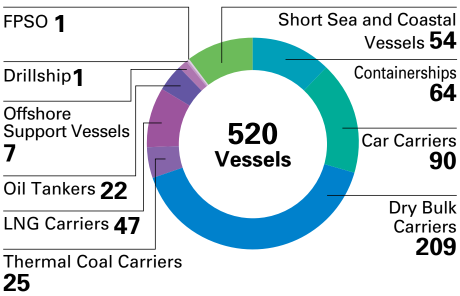


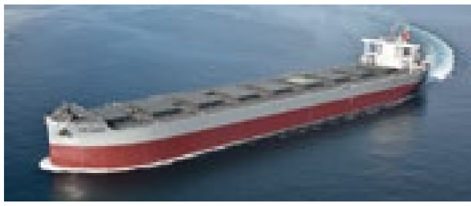
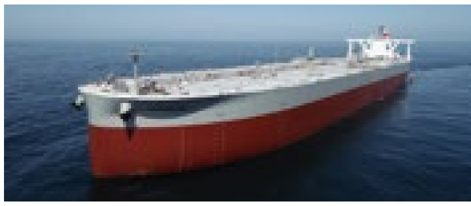
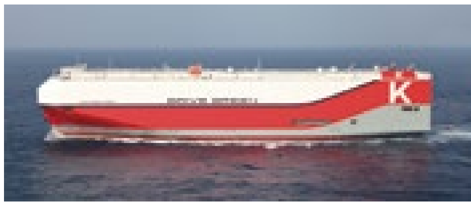
At a Glance

"K" LINE Group Operating Revenues by Segment
(FY2018)



"K" LINE Group Vessels in Operation
(as of March 31, 2019)



Segment	Business	
Dry Bulk	Coal & Iron Ore Carrier Business/Bulk Carrier Business	
Energy Resource Transport	Tanker Business	
	Thermal Coal Carrier Business	
	LNG Carrier Business, Liquefied Gas Business, Offshore Energy E&P Business	
Product Logistics	Car Carrier Business, Automotive Logistics Business	
	Logistics Business	
	Short Sea and Coastal Business	
	Containership Business	
Others		

Business Overview

Each year, we transport a large volume of dry bulk cargoes including iron ore, woodchip and pulp, grain 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.

We engage in marine transportation of crude oil and liquefied petroleum gas (LPG). Since delivering our first large crude tanker in 1935 and our first LPG carrier in 1974, we have developed a global business for customers both in Japan and overseas, accumulating expertise in Marine technical and safety operation.

This business involves transportation of coal, which is used as fuel for thermal power plants. Our "Corona Series" of wide-beam, shallow-draft coal carriers, developed in-house in accordance with port restrictions of Japan's thermal power plants, provide safe, reliable transportation of coal, mainly from Australia and Indonesia, to power companies in Japan and Taiwan.

We have been transporting liquefied natural gas (LNG), regarded as a clean energy source, for many years and expect global demand to increase in the future. In the Liquefied Gas Business, we mainly aim to increase our small-scale transportation services and LNG Bunkering Business in the Asian region. In the Offshore Energy E&P Business, we have an offshore support vessel business in the North Sea. We also participate in an ownership consortium of a drillship as well as an FPSO engaged in offshore operations in Brazil and Ghana.

Since 1970, when "K" LINE deployed Japan's first pure car carrier (PCC) 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 working to improve transportation quality and reinforce high and heavy cargo transportation, such as rail cars and construction machinery. In addition, we are working to strengthen our Total Logistics Services that connect plants in automobile production countries and customers in end-user market countries.

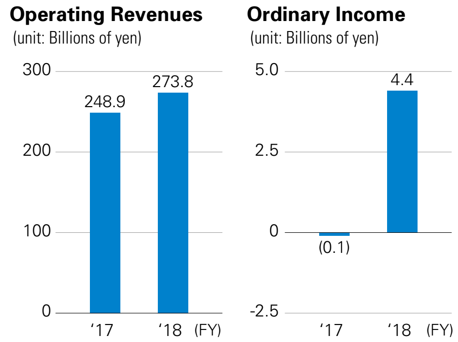
By combining the expertise and service networks of the entire "K" LINE Group, we provide comprehensive logistics services not only for ocean cargo transportation but also air and land transportation, warehousing and buyers consolidation businesses to meet customer needs.

Kawasaki Kinkai Kisen Kaisha, Ltd. provides domestic marine transportation and ferry services. It operates passenger ferries, RORO cargo ships, dedicated carriers for limestone used in steel and cement production, dedicated thermal coal carriers for electric power production and also 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.

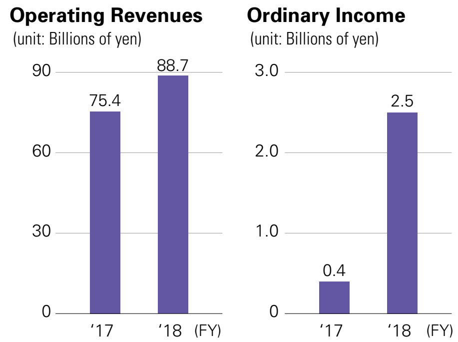
The containership business in April 2018 integrated the containership businesses of three Japanese shipping companies to form a new company, called Ocean Network Express (ONE). Drawing on its enhanced route network, it provides stable, reliable, high-quality and competitive services and is capable of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

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

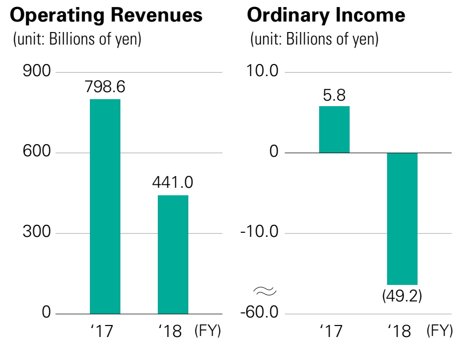
Dry Bulk



Energy Resource Transport



Product Logistics



Effective fiscal 2018, we reorganized our business segments—previously "Containership," "Bulk Shipping," "Offshore Energy E&P Support and Heavy Lifter" and "Other"—into four new segments: "Dry Bulk," "Energy Resource Transport," "Product Logistics" and "Others." This is due to the integration of the containership business into Ocean Network Express as well as a reorganization of the Group's business portfolio aimed at building a new business model with close ties to its customer base.

Dry Bulk

Coal & Iron Ore Carrier Business/Bulk Carrier Business

Executive Officer
Takahiko Tsurukawa
In charge of Bulk Carrier Business, Dry Bulk Planning

Woodchip Carrier

We aim to provide world leading quality and environmentally-friendly transport services in order to expand our stable profit base.

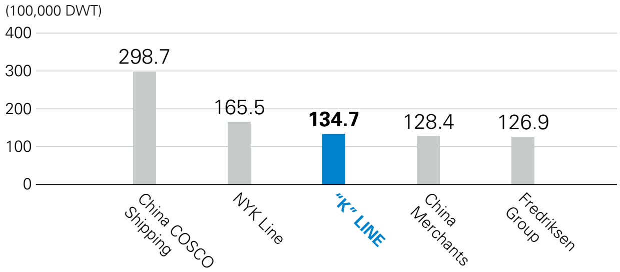
Basic Strategies

- Expand the ratio of medium- and long-term contracts through cape-size and woodchip vessels
- Enhance resilience to market volatility of small- and medium-sized vessel sectors
- Enhance allocation efficiency and ensure economically- optimal operation of vessels
- Address the need to reduce environmental impact
- Deploy digital technologies to sustain and advance our competitive advantages for the next generation

Strengths

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

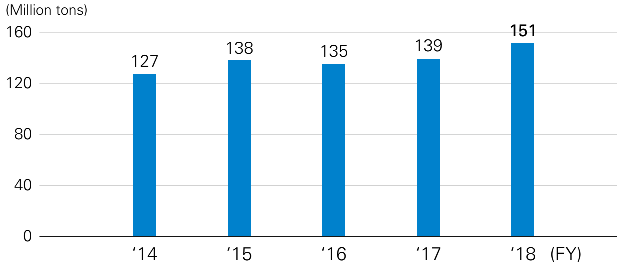
Dry Bulk (all types) Fleet (as of May 2019)



*Owned vessels and a part of chartered vessels

Source: Clarksons

"K" LINE Cargo Tonnage Carried by Dry Bulk Carriers



*All figures exclude thermal coal carriers.

Overview of Fiscal 2018

In fiscal 2018, the bulk carrier market showed a recovery trend with a year-on-year improvement in the supply-demand balance. In the second half of the year, however, cargo movements stagnated, and the market came under pressure, reflecting the over-supply pressure stemming from delivery of very large ore carriers and the supply disruptions at loading ports. Our cape-size fleet actively engaged in new trades with a specific focus on medium- and long-term contracts and achieved a new annual record for cargo volume, which strengthened our dry bulk business further. For small- and medium-sized vessels, we sought to optimize our fleet composition to match the portfolio of cargo contracts and enhance resilience to market volatility, while working to ensure efficient vessel allocation. The woodchip fleet was fully covered by contracts throughout the year and contributed to the stable earnings of the dry bulk business. The "K" LINE Group took ongoing measures to reduce expenditures, including implementation of cost reduction plans and enhancement of ship allocation efficiency, combined with structural reforms aimed at strengthening competitiveness. These efforts enabled us to achieve year-on-year increases in revenue and income while mitigating the negative effects of rising fuel oil prices and the like.

Cape-size Bulk Carrier

Executive Officer
Masatoshi Taguchi
In charge of Coal and Iron Ore Carrier Business

Promoting digital innovation in the dry bulk business

TOPICS

Amid rapid advancements in digitalization and AI technologies, the world of marine transportation has started embracing new technologies. Our dry bulk business actively deploys digital innovation, such as using technology to automate routine work and improve work efficiency. We are also developing a database containing large volumes of information about our ships and cargoes. We will use this database to develop systems to enhance our sales and business activities. In addition, we are introducing an external AI market forecasting service on a trial basis while conducting research to apply this to our sales strategy. We will unite in our quest to address changing business conditions and create new value, and will continue working incessantly to meet the needs of customers.

Fiscal 2019 Business Policies

Although a certain level of newbuilding deliveries is scheduled for fiscal 2019, we expect demand for maritime transportation to increase moderately and the supply-demand balance to improve further. There are concerns that prolonged U.S.-China trade friction, iron ore supply instability, and other elements of uncertainty will cause major market volatility. With the implementation of sulfur oxide (SOx) emission rules covering all marine waters in 2020, fleet owners will install scrubbers and convert to new fuels from the latter half of 2019. This will lead to declines in ship capacity utilization and encourage operators to scrap ageing vessels, which represent favorable market conditions for the dry bulk business.

In cape-size carrier sector, we will strengthen our competitiveness by providing high-quality transport services and increase medium- and long-term cargo transport contracts, with the aim of expanding our stable profit base.

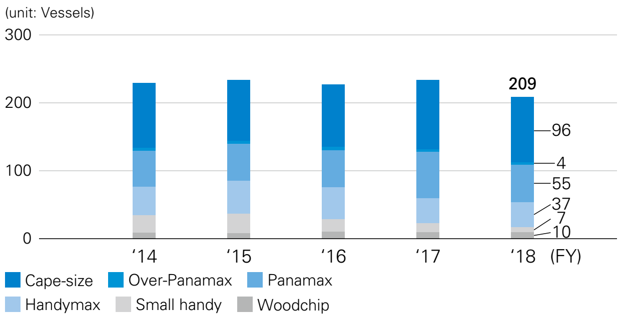
In small and medium-sized vessel sector, we will continue strengthening our market resilience by optimizing our fleet composition. At the same time, we will enhance profitability by handling multiple types of cargo and increasing ship allocation efficiency.

As for woodchip and pulp carriers, we will aim to operate a stable business by replacing ageing vessels owned by long-term charter partners.

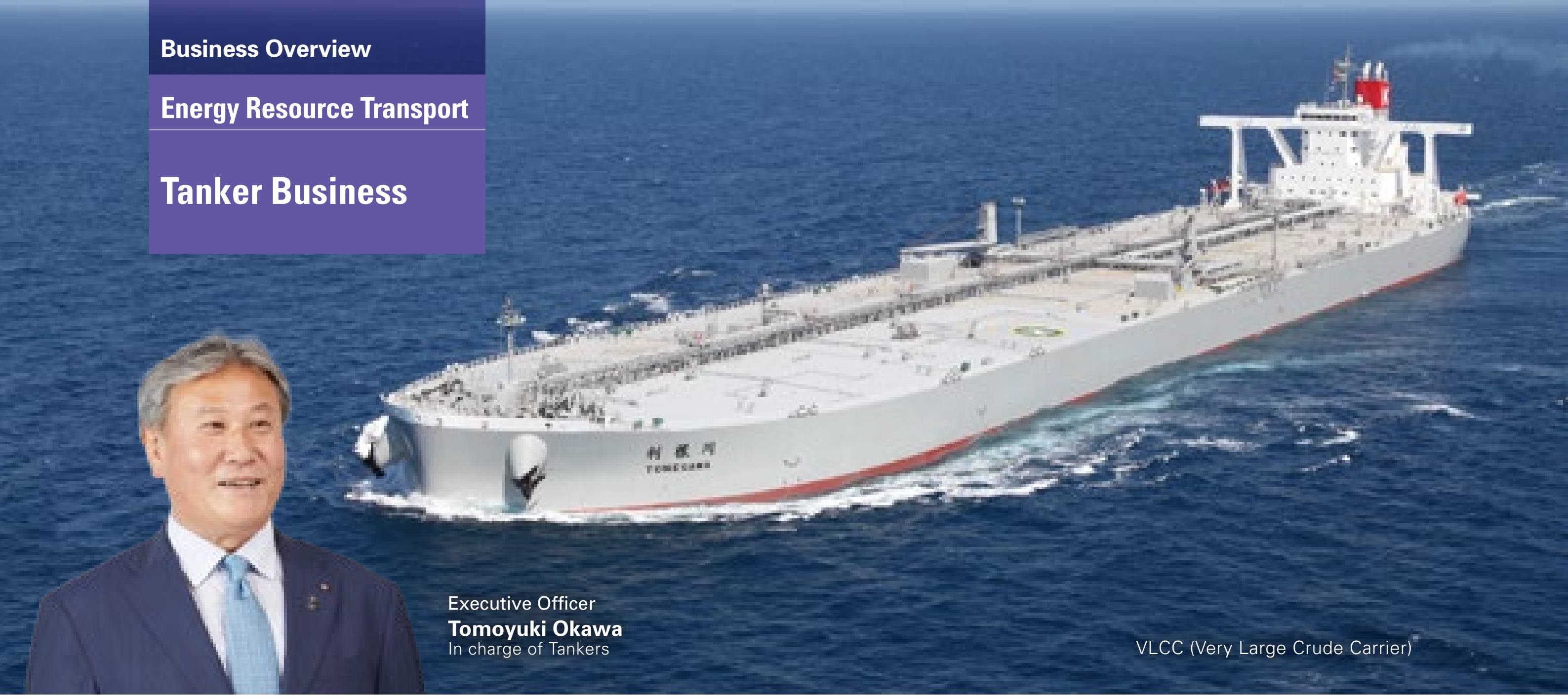
BDI (Baltic Dry Index)

*Freight rate index for ocean-going bulk carriers, as issued by the Baltic Exchange in London. (January 4, 1985 =1,000)

Dry Bulk Carrier Fleet



Tanker Business



Executive Officer
Tomoyuki Okawa
In charge of Tankers

VLCC (Very Large Crude Carrier)

We provide safe, high-quality transportation services playing role of one element of the entire energy value chain.

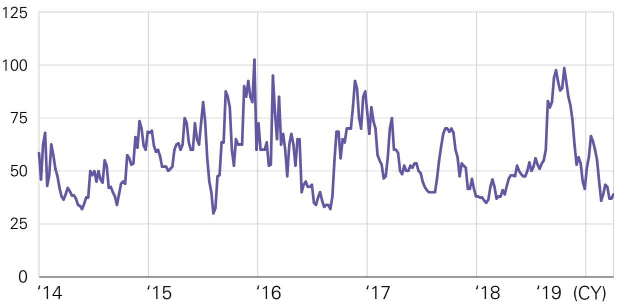
Basic Strategies

- Expand medium- and long-term contracts by replacing existing vessels
- Downsize market-exposure
- Correspond to environmental regulations and protection needs

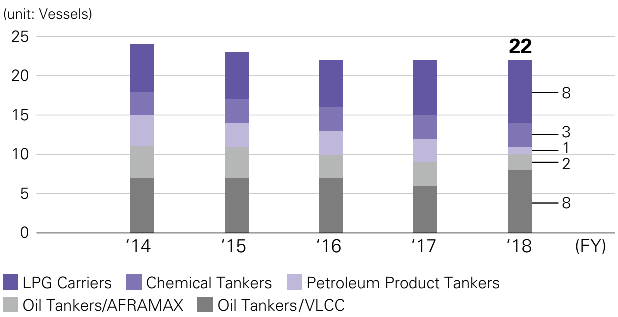
Strengths

- Safe navigation and cargo operational expertise 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

Tanker Freight Index (WS: World Scale)



Tanker Fleet



Overview of Fiscal 2018

VLCCs (Very Large Crude Carriers) and VLGCs (Very Large Liquefied Petroleum Gas Carrier) contributed to our earnings under medium- and long-term charter contracts.

During the year, we completed delivery of two VLCCs and one VLGC and made progress in replacing earlier-generation vessels.

To strengthen market resilience, we adopted a selection and concentration strategy in restructuring our fleet of LPG Carriers and petroleum product tankers withdrewing from that segment.

Fiscal 2019 Business Policies

We expect market for both VLCCs and VLGCs to improve based on an increase in ton-miles due to steady export growth from the United States. However, full-scale market recovery will take some time due to pressure from expected new built delivery in the first half of the year.

In the second half, by contrast, a substantial decrease is forecasted in supply as vessels undergo scrubber retrofits to meet fuel SOx global cap regulations of the International Maritime Organization (IMO), effective January 2020, which will further tighten the supply-demand balance. Through our fleets of VLCCs and VLGCs, we will continue providing high-quality services based on medium- and long-term contracts.

Thermal Coal Carrier Business

Thermal coal carrier (Corona Series)

Executive Officer
Michitomo Iwashita
In charge of Thermal Coal Carrier Business

We will contribute to stable transportation to meet strong demand for thermal coal by our high-quality dedicated thermal coal carriers.

Basic Strategies

- Expand fleet of dedicated thermal coal carriers (Corona Series)
- Provide flexible vessel deployment adapting to fluctuations in coal demand
- Increase the number of medium- and long-term transportation contracts, which contribute to earnings stability
- Ensure efficient vessel allocation and economical operation
- Meet customer needs related to environmental responsibilities and transportation quality control

Strengths

- Long-term relationships of trust with electric power companies
- High-quality transportation service built on dedicated thermal coal carrier fleet and good ship management
- Diverse knowledge of thermal coal transportation accumulated over many years

Overview of Fiscal 2018

During the year, we launched three newly-built vessels and operated existing fleets smoothly under medium- and long-term transportation contracts. Although demand for coal is strongly affected by seasonal factors, we sought to efficiently deploy vessels throughout the year, and we also benefited from improvements in the dry bulk carrier market. Accordingly, both revenue and profit increased year on year.

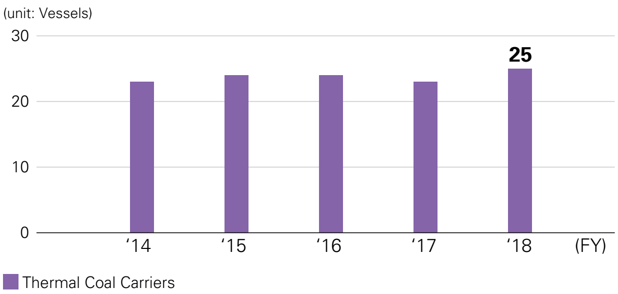
Fiscal 2019 Business Policies

Despite increasing deployment of renewable energy, coal-fired power remains an important source of electricity. Under such circumstances, the Group plans to launch five new ships with enhanced fuel efficiency and deploy the scale of the Corona Series of dedicated thermal coal carriers to provide flexible services in response to customers' transportation needs. We will use these strengths to further expand our medium- and long-term transportation contracts and broaden our stable earnings foundation.

TOPICS
Maintain dedicated fleets for coal-fired power plants that are essential for the safety of Japan's energy requirements

Coal-fired power generation is a stable and economical means of power supply and a highly important fuel source in light of Japan's geographical limitations. Although coal-fired power generation emits more CO_2 than LNG-based power, Japan's coal-fired power stations deliver high combustion efficiency and world-class environmental performance. Based on the long-term energy supply and demand outlook of Japan's Agency for Natural Resources and Energy, coal-fired power generation is expected to account for 26% of domestic electricity needs in 2030. To effectively meet demand for thermal coal transportation, we will proceed with maintenance of our dedicated thermal coal fleets while reducing environmental impacts.

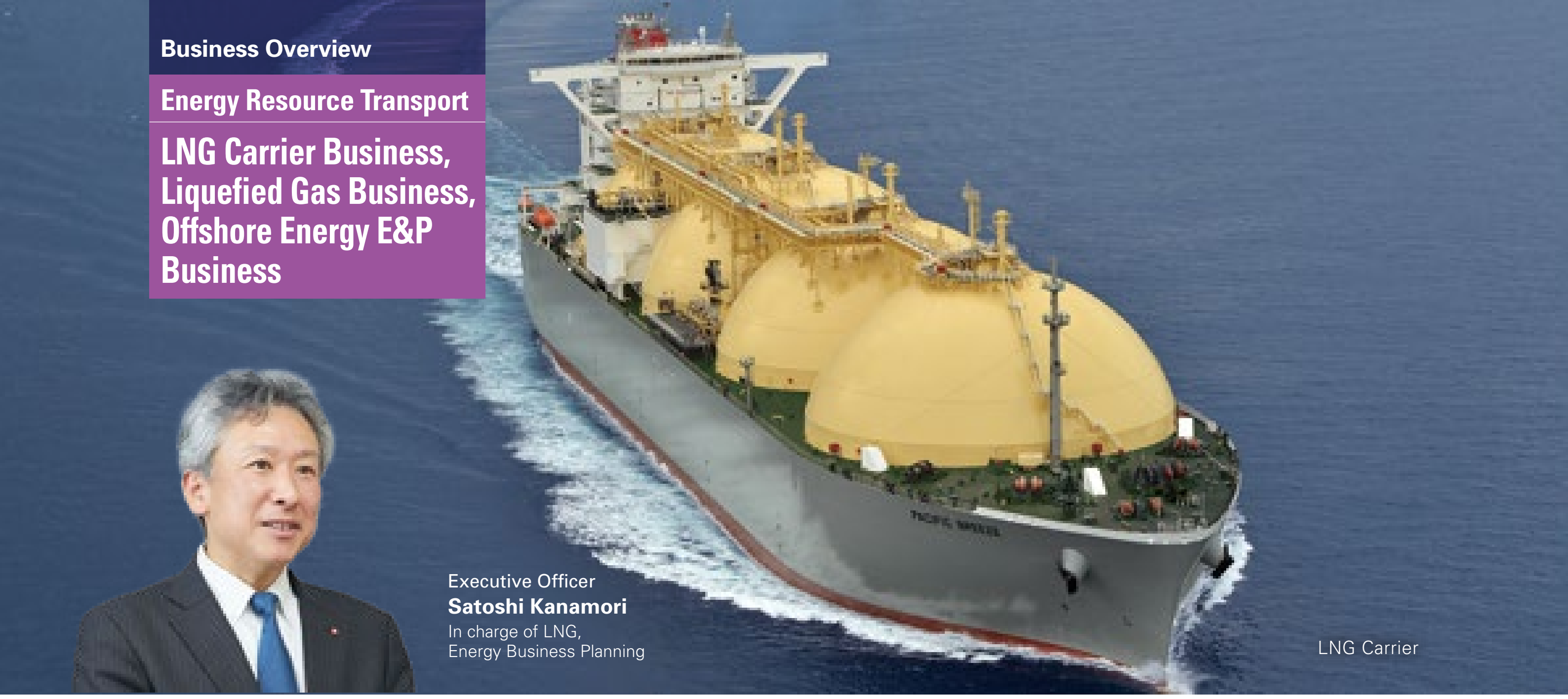
Thermal Coal Carrier Fleet



Business Overview

Energy Resource Transport

LNG Carrier Business, Liquefied Gas Business, Offshore Energy E&P Business



Executive Officer
Satoshi Kanamori
In charge of LNG,
Energy Business Planning

LNG Carrier

We will target to secure projects with stable profit and meet increasing LNG demand.

Basic Strategies

LNG Carrier Business

- Expand fleet of stable-earning vessels with medium- and long-term contracts
- Respond flexibly to diversified customer needs, including shorter-term contracts

Liquefied Gas Business

- Promote use of LNG fuel to reduce environmental impact
- Respond to market needs of the LNG value chain

Offshore Energy E&P Business

- Stabilize profits of existing businesses and expand stable earnings through new businesses

Strengths

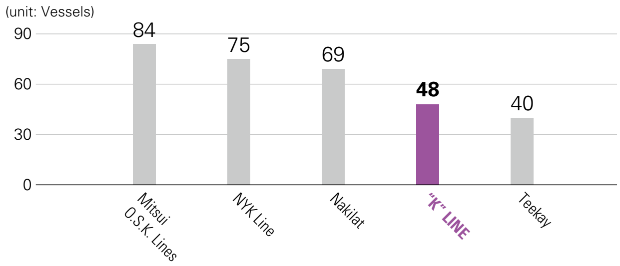
LNG Carrier Business, Liquefied Gas Business

- Safe operation and high-quality ship management based on 35-plus years of experience in LNG transportation
- Stable customer base built on long-term relationships of trust with both domestic and overseas customers

Offshore Energy E&P Business

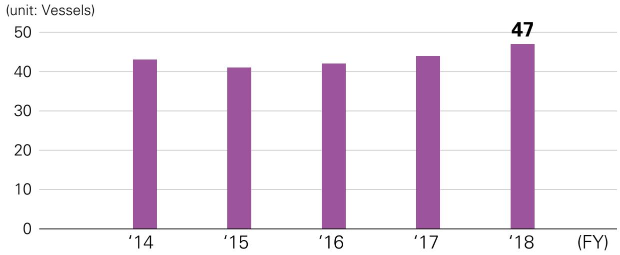
- Maintaining world-class quality of operation with partners
- Stable revenue generated from long-term charter contracts
- High-value-added services provided by high-spec vessels

LNG Carrier Fleet Ranking (including co-owned) (as of May 2019)



Source: "K" LINE

LNG Carrier Fleet



Overview of Fiscal 2018

In LNG carrier business, our existing fleets operated smoothly and three newly-built vessels were delivered, contributing to earnings stability under medium- and long-term charter contracts. Although market conditions fluctuated, a number of large projects reached the final investment decision stage. Due to increasing medium- and long-term charter demand for LNG carriers, 60 new vessels were ordered in 2018.

In the liquefied gas business, 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 in Ise Bay. In July 2018, we placed order for a new LNG bunkering vessel with the aim of starting business in the second half of fiscal 2020.

In the drillship business and FPSO business, we maintained high uptime and secured stable profits through long-term charter contracts.

In the offshore support vessel business under operation in the North Sea, we reported a loss due to flagging spot rates stemming from weakness in offshore E&P development.

FPSO *John Agyekum Kufuor*
(Provided by Yinson Holdings Berhad)

TOPICS

Contributing to reliable transportation of energy in Japan

One new LNG carrier for JERA Co., Inc. named *ENSHUMARU* was delivered last year. The vessel will be engaged in LNG transportation for the Freeport LNG project in Texas, United States, and will contribute to energy transportation stability in Japan.

In Ise Bay, we established a joint venture following our decision to enter the LNG bunkering business targeting ships in Japan. We also concluded a shipbuilding contract with Kawasaki Heavy Industries, Ltd. for one bunkering vessel to supply LNG to ships. Scheduled for completion in September–December 2020, it will become the first LNG bunkering vessel in Japan.

The Company will continue working with our partners in various LNG-related businesses to address the growing needs of the energy value chain business.

Fiscal 2019 Business Policies

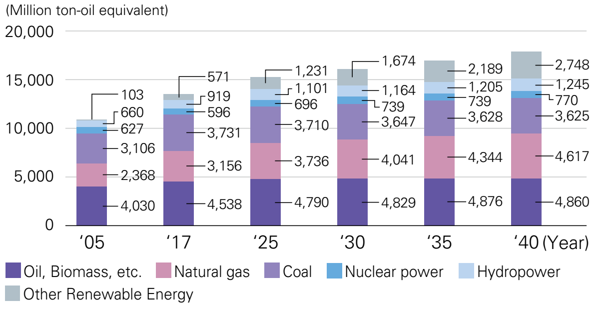
We expect demand for LNG, a clean energy source, to grow in the long-term. In line with this demand growth, we will expand our LNG fleet as well by acquiring long-term charter contracts which will increase stable earnings. We will also respond flexibly to diversified customer needs for short-and medium-term charter vessels and the like while carefully assessing risks.

In the liquefied gas business, we will adopt a rigorous risk management approach as we increase our involvement in the LNG bunkering business, where worldwide demand is expected to increase in the future, while also engaging in the small-volume transportation business where needs are increasing especially in Southeast Asia.

In the drillship and FPSO businesses, we continue to expect the achievement of stable earnings by maintaining a high uptime of drillship and FPSO under long-term charter contracts.

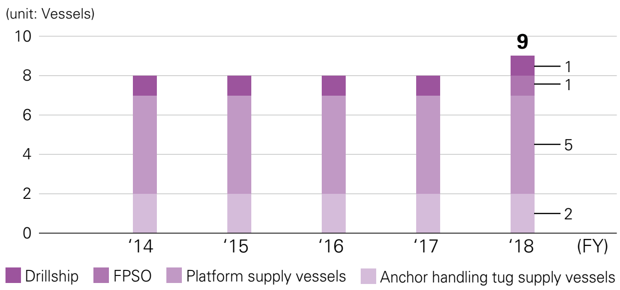
In the offshore support vessel business, we will pursue term contracts for each vessel in order to reduce market fluctuation risk and stabilize earnings.

Worldwide Demand for Primary Energy (as of February 2019)



Source: BP Energy Outlook 2019

Offshore Energy E&P Fleet



Business Overview

Product Logistics

Car Carrier Business, Automotive Logistics Business

Executive Officer
Nobuyuki Yokoyama
In charge of Car Carrier Planning & Development, Car Carrier Quality and Operations, Car Carrier Automotive Logistics Business

Car Carrier

We provide reliable transportation quality and total logistics services for complete built-up cars that meet customer needs.

Basic Strategies

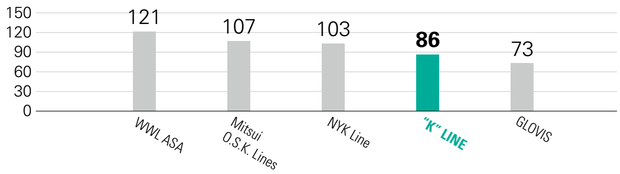
- Enhance customer segment and cargo segment portfolios
- Deploy service network to meet customer needs; provide cost-competitive services through ship optimal allocation and operation
- Develop IT and e-commerce technologies that benefit customer convenience
- Provide wide-ranging logistics services related to complete built-up cars, such as terminals, land transportation, pre-delivery inspection and special mountings
- Reorganize services to meet new customer needs with view to transforming the automotive industry structure (including vehicle electrification and computerization, autonomous driving, car sharing and mobility services)

Strengths

- Fleet including 13 large next-generation vessels capable of carrying wide variety of cargoes
- Global service coverage for flexible responses to customer needs, as well as flexible fleet size to accommodate various cargo volume
- Efficient operation thanks to integrated operational support system
- Strong commitment and new technology development in pursuit of world top-class operating quality aiming for zero accidents
- Deploying synergies with evolving car logistics business through strong relationships with customers and high-quality service cultivated through ocean transportation

Car Carrier Fleet Ranking

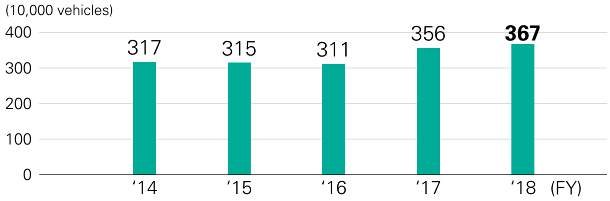
(unit: Vessels)



Source: Own-editing based on Clarksons' *PCTC Market Update 2019*, Fearnley's *PCTC Market Outlook 1Q2019* as of April 30, 2019 for "K" LINE, as of December 31, 2018 for other companies

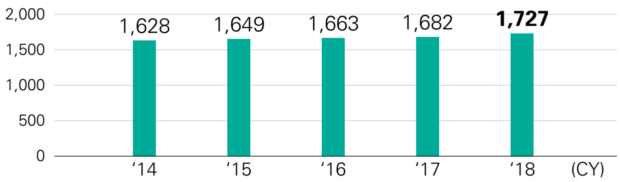
Cars and Trucks Transported by "K" LINE

(10,000 vehicles)



Worldwide Car Ocean Transportation Volume

(10,000 vehicles)



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

Overview of Fiscal 2018

The total volume of complete built-up cars exported from Japan rose around 2.5%, from 4.42 million units in the previous fiscal year to 4.53 million units, and the estimated global cargo movement rose 3.0%, to 17.3 million units. Despite delayed recovery of cargo movements to resource-rich countries in the Middle East and elsewhere, in addition to a decrease in production due to natural disasters in Japan, cargo movements to the United States and Europe remained steady, while cargo movements to South Africa, Russia and Brazil showed signs of recovery.

In fiscal 2018, the total volume of complete built-up cars shipped by the "K" LINE Group grew around 3.1%, from 3.56 million units in the previous fiscal year to 3.67 million units, owing to increased cargo bound for Europe and vice versa, and cargo in the Atlantic region. However, a decline in operating efficiency led to a decrease in earnings. For this reason, in the second half of the year we started rationalizing our vessel fleet, which included reorganizing and consolidating some services to improve earnings.

In Automotive Logistics Business, we engage in a wide range of automobile logistics services—including terminals, land transportation, pre-delivery inspection, installation and warehousing—mainly in Asian countries, Australia and Latin America. This business handled around 2.4 million units in fiscal 2018.

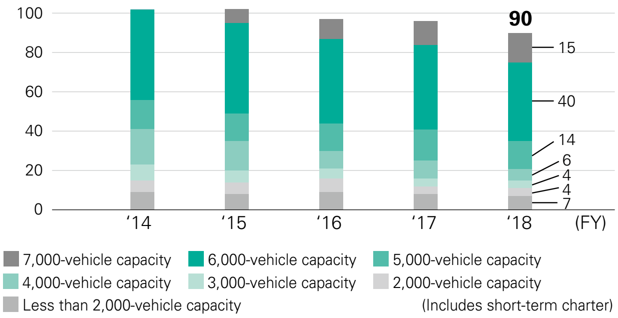
Vehicle depot business in Chile

TOPICS

We aim to improve our services as a logistics partner using IT and e-commerce technologies

Seeking to add new levels of value to our transportation services, we are actively developing IT and e-commerce technologies in line with customer needs.
For example, we launched a website that supports vessel schedules, cargo tracking and swift quotations. We are also customizing our system for data communication with customers and using robotic process automation (RPA) to enhance work efficiency. In addition, we are examining new fields of application. This includes a trial involving introduction of sensors and other IT-based technologies into our vessels to monitor cargo handling quality.

Car Carrier Fleet



(Includes short-term charter)

Fiscal 2019 Business Policies

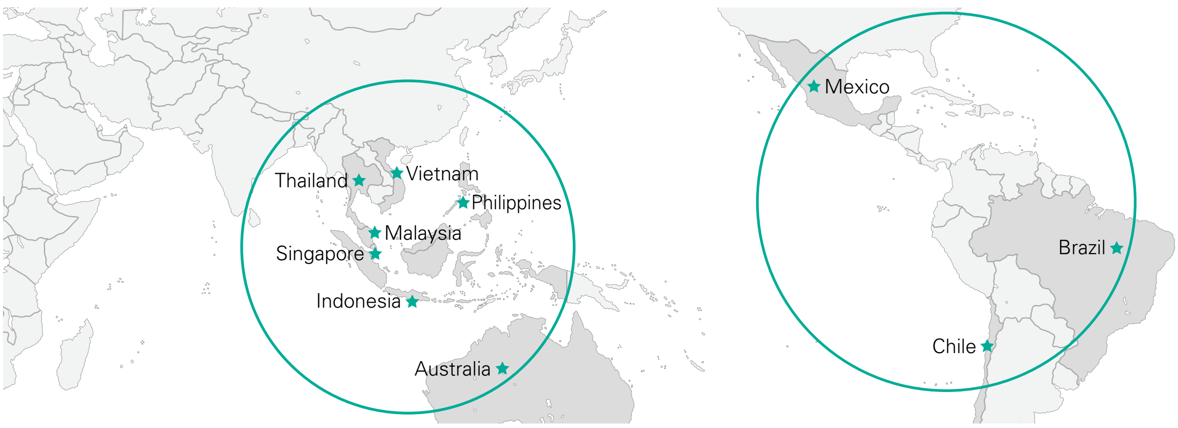
Targeting profitability improvement, we will thoroughly reassess our services bound for Europe and vice versa, and services other than to/from Japan to enhance the efficiency in vessel deployment. Accordingly, we forecast a 5.3% year-on-year decrease in complete built-up cars shipped by the "K" LINE Group, to 3.47 million units in fiscal 2019.

While shipments from Far East Asia to Europe and North America will remain firm, we expect recovery in cargo volumes to resource-rich countries in the Middle East, Africa and elsewhere to be limited. In addition, there is a risk of downturn in cargo volumes due to U.S. customs' issues, Brexit and the like, so we need to monitor the situation closely. We are making our vessel fleet flexible to adjust cargo volume, with the aim of minimizing the gap between supply and demand.

To address the changing and increasingly complex trade structure in a timely and flexible manner, we are working to reorganize our service network and strengthen our business base while properly emphasizing fleet management. Currently, we have 13 car carriers in service, each with a 7,500-vehicle capacity, and 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 with excellent fuel-efficient performance.

In Automotive logistics business, as well, we will closely monitor the needs of new customers around the world and develop our business accordingly.

"K" LINE Group's Automotive Logistics Business (10 countries)



Logistics Business

Managing Executive Officer
Daisuke Arai
In charge of Containerships, Port Business, Logistics, Affiliated Business Promotion, Corporate Marketing Strategy

Truck operated by Group company Bangkok Marine Enterprises Ltd. (Thailand)

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

Basic Strategies

- Expand logistics business spearheaded by "K" LINE LOGISTICS, LTD.
- Create and strengthen business models across Group companies
- Reorganize and expand global network
- Strengthen locally-oriented logistics services
- Develop project cargo freight service
- Enhance buyers consolidation*1 services

Strengths

- Use of the Company's 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

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

Overview of Fiscal 2018

In our domestic logistics business, we posted a temporary decline in capacity utilization due to natural disasters in the second quarter of the fiscal year. However, steady demand for logistics—centered on integrated transportation by sea and land, warehousing and towing—led to increases in net sales and profit. In the international logistics business, healthy semiconductor-related cargo movements via air freight transportation, as well as increased demand for e-commerce-related freight, contributed to earnings.

However, we posted an increase in costs associated with strengthening our logistics business after the containership business integration. For the overall logistics business, therefore, sales increased year on year, but profit declined.

Fiscal 2019 Business Policies

In fiscal 2019, we expect domestic logistics demand to remain steady, especially for integrated transportation by sea and land, warehousing and towing, allowing us to generate stable earnings. In international logistics, we forecast continued strength in semiconductor and e-commerce-related shipments, which will contribute to earnings.

We will strive to further expand the customer base of our NVOCC business,*2 spearheaded by "K" LINE LOGISTICS, LTD. Here, we will work together with other Group companies on various aspects, such as introduction of new systems and human resource support, in order to foster and strengthen our logistics business.

In addition, we will step up efforts to share regional information and know-how while adopting a selection and concentration approach to priority growth fields in order to enhance and functionally connect our various regional businesses. We will also harness our comprehensive Group-wide strengths to deliver one-stop logistics services to customers whose needs have not been met by existing services.

In the meantime, we will closely monitor the latest industry trends 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.

In April 2019, we launched a harbor transportation business in collaboration with Kamigumi Co., Ltd. We will work together with Kamigumi and utilize our respective strengths, including knowledge, technology and management resources, to maximize synergies in the joint business.

Going forward, we will target diversification of services and business expansion with the aim of becoming a strategic business partner in logistics that customers can trust.

*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.

Cold storage facility operated by
CLK COLD STORAGE COMPANY LIMITED (Vietnam)

TOPICS

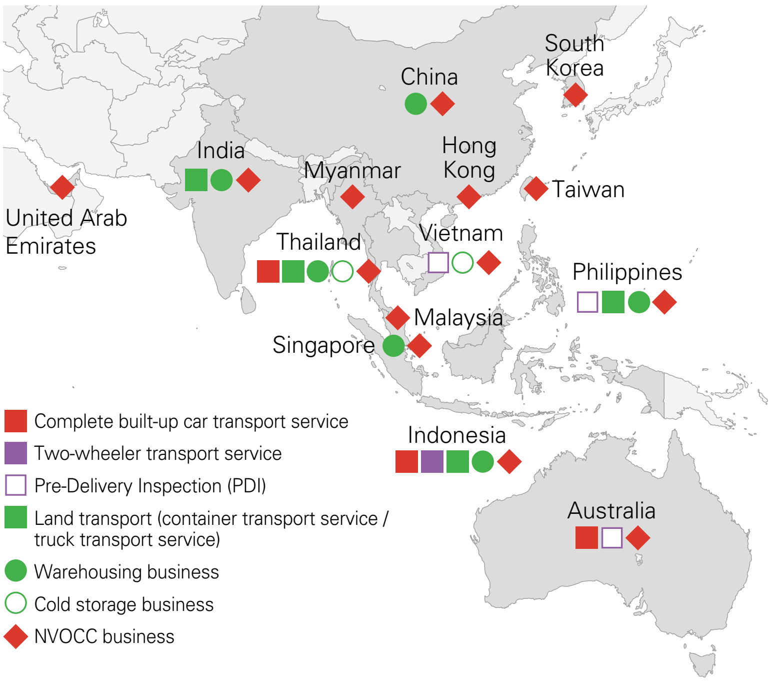
Building a high-quality, high-value-added cold chain

In 1989, we entered the cold storage business with the establishment of Bangkok Cold Storage Service, Ltd. in Bangkok, Thailand. In the 30 years since then, we have built a track record by providing a wide range of services, including delivery, customs clearance and distribution processing.

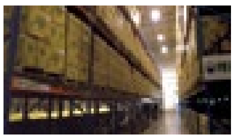
Using knowledge cultivated in Thailand, in 2015 we established CLK COLD STORAGE COMPANY LIMITED in Vietnam as a joint venture between three companies: "K" LINE, Cool Japan Fund Inc. and Japan Logistic Systems Corp. The joint venture operates Vietnam's first four-temperature-zone warehouse (for frozen, refrigerated, chilled and constant-temperature goods) with various cargo damage prevention and energy saving features.

Leveraging our maritime and air transportation networks, we will build a high-quality, high-value-added cold chain that contributes to economic development in Vietnam and Thailand and helps improve the quality of their citizens' lives. We will also promote the spread of Japanese food products and cooking ingredients in those countries where demand is expected to increase.

The Group's Locally-Oriented Comprehensive Logistics Services in Asia




India: Land transport, warehousing business, NVOCC business

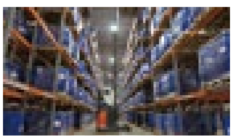

China: Warehousing business, NVOCC business


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, land transport, warehousing business, NVOCC business


Vietnam: PDI, cold storage business, NVOCC business


Singapore: Bonded warehousing business (for chemicals), NVOCC business

Short Sea and Coastal Business

Managing Executive Officer
Daisuke Arai
In charge of Containerships, Port Business, Logistics, Affiliated Business Promotion, Corporate Marketing Strategy

RORO vessel operated by KAWASAKI KINKAI KISEN KAISHA, LTD.

We will promote modal shift in our Coastal Business, improve the profitability of our Short Sea Business, and enhance our OSV* Business.

Basic Strategies

- Improve profitability of Coastal Business by promoting modal shift
- Stabilize long-term profitability of Short Sea Business by capturing market conditions and customer needs
- Increase profitability of OSV Business by improving business efficiency and strengthening sales capability

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

* OSV: Offshore support vessel

Overview of Fiscal 2018

Our Short Sea business benefited from recovery in freight rates and an increase in shipments of mainstay Russian coal and biomass fuel cargo, resulting in improved profitability. In Coastal Business, we reported an increase in cargo volume thanks to the regular Shimizu–Oita RORO route, which is now a daily service, as well as the opening of the Miyako–Muroran ferry route. In OSV Business, meanwhile, we provided support for seafloor seismic surveys of Nankai Trough and participated in VLCC rescue work. These activities led to an increase in net sales of Short Sea and Coastal Business. However, profit declined due to increased expenses stemming from expansion of ferry services.

Fiscal 2019 Business Policies

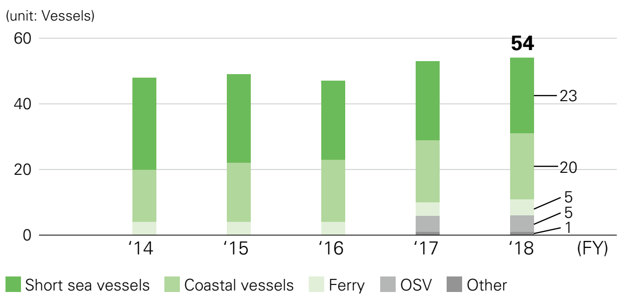
In Short Sea business, we will continue upgrading our fleet, including new vessels, to further improve earnings, maintain and expand our commercial rights, and stabilize balance. In Coastal Business, which faces shortage of truck drivers as a social issue, we will provide reliable RORO and Ferry services aimed at tapping new demand for maritime transport. In OSV Business, we will engage in businesses related to the national government's Basic Plan on Ocean Policy, which includes installation of offshore wind power generation equipment, while working to attract new customers.

TOPICS

Opening of Miyako–Muroran Ferry route connecting Hokkaido and Tohoku regions

In June 2018, we opened a new passenger ferry route connecting Miyako Port in Iwate Prefecture and Muroran Port in Hokkaido—a 10-hour, one-way trip. The service leaves and returns once each day. Within fiscal 2020, most segments of the 359km Reconstruction Road linking Sendai City in Miyagi Prefecture with Hachinohe City in Aomori Prefecture along the Sanriku Coast will be open, making the daily Miyako–Muroran round-trip ferry service more accessible.

Short Sea and Coastal Business Fleet



Containership Business

Containership

Managing Executive Officer
Daisuke Arai
In charge of Containerships, Port Business, Logistics, Affiliated Business Promotion, Corporate Marketing Strategy

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

Overview of Fiscal 2018

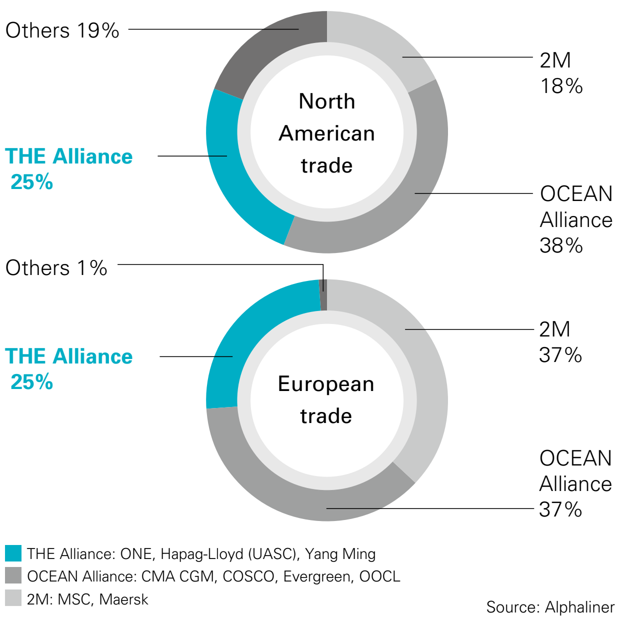
In April 2018, our Containership business was integrated into Ocean Network Express (ONE), a new company formed by three Japanese companies.

Containerships operated by "K" LINE prior to the business integration have since been chartered by ONE and allocated to ONE services. Initially, ONE's cargo volume did not reach its target due to service disruptions, but that issue has since been resolved and the volume has recovered.

Moreover, we are starting to see the anticipated synergistic benefits of the integration, including cost reductions for inland rail costs and terminal costs, rationalization of routes and saving fuel costs. ONE is also improving services for profitability improvement by clarifying issues and steadily implementing its action plan. For entire fiscal 2019, we forecast increased year-on-year sales and profit from this business.

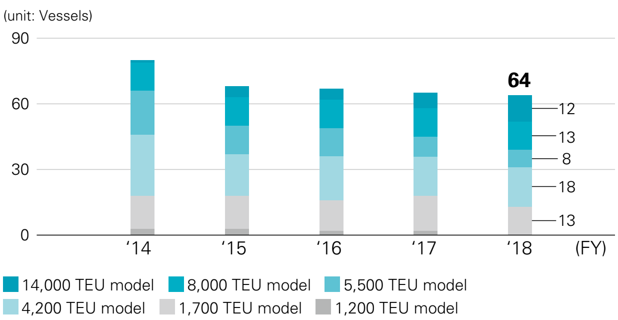
In Port Business, where we aim to operate high-standard, high-quality terminals, we continue to upgrade our cargo handling equipment and terminal facilities to accommodate larger containerships.

Trade Capacity Share by Alliance (as of May 2019)

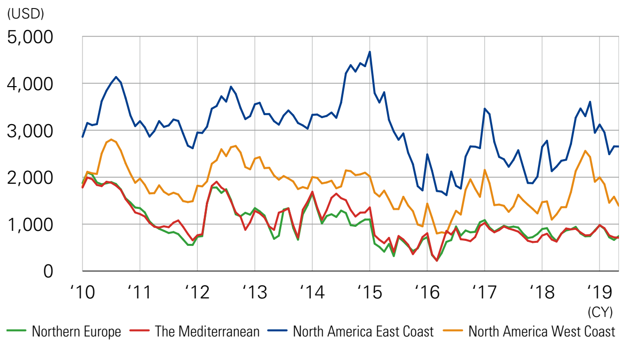


Source: Alphaliner

Containership Fleet



Transition of SCFI (Shanghai Containerized Freight Index)



(MED/ N.EUR $ /TEU, USWC/ USEC $ /FEU)
SCFI-Shanghai Containerized Freight Index

Source: Shanghai Shipping Exchange

ESG Initiatives

“K” LINE Group’s CSR

As an integrated logistics company grown from the shipping business, the “K” LINE Group’s corporate principle is to contribute to society so that people live well and prosperously. Under this principle, we recognize our corporate social responsibility (CSR) in the following two large frameworks, namely “managing the impact of our business activities” and “creating new values,” and aim to “build a management structure that emphasizes social responsibility” based on these frameworks. We will contribute to build a sustainable society by recognizing and addressing material issues within these frameworks.

In particular, we identify “environmental preservation,” “safety in navigation and cargo operations,” and “human resource development” as most important issues in fulfilling our social mission.

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

Process to Identify Materiality

STEP 1 Specifying Themes Related to “K” LINE Group’s Business Activities

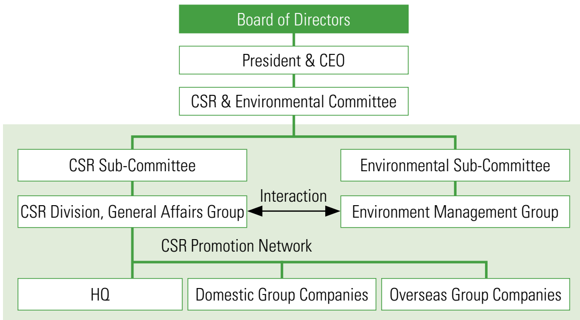
Referring to frameworks such as OECD Guidelines for Multinational Enterprises, ISO26000, GRI Guidelines, etc., the “K” LINE Group has identified themes that the Group may affect or contribute to the environment and the society through its business activities, and specified them through dialogues with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

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, with two sub-committees, the CSR Sub-Committee and the Environmental Sub-Committee, formulates policies for the CSR initiatives for the entire Group and also takes operational responsibility for the Environmental Management System, formulated in line with the "K" LINE Group's Environmental Policy. In addition, "K" Line and the group company have launched a CSR promotion network to implement group-wide CSR initiatives.



Most Important Issues: Risks and Opportunities

	Risks	Opportunities
Environmental Preservation	• Marine pollution caused by serious accidents and oil spills • Ecosystem destruction by marine organisms brought 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**	• Marine safety improvement • Maintaining the beautiful blue and fertile oceans • Further energy efficient operations • Introducing new marine fuels and advanced technologies **Engineering innovation / entering new business fields / differentiation**
Safety in Navigation and Cargo Operations	• 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	• Providing ongoing safe navigation and high-quality services to improve social trust and seize business opportunities • Deploying 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
Human Resource Development (Maritime Technical Personnel)	• Increase in seafarers 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	• Improving workplace environments to retain deep talent pool of maritime technical personnel • Securing exceptional and diverse maritime technical personnel • Using accumulated knowledge and technologies to create new value • Ensuring continuation of safety in navigation and cargo operations and high-quality transportation
Human Resource Development (Onshore Employees)	• Outflow of human resources • Decline in growth potential and competitiveness caused by insufficient career development • Sense of stagnation due to a decline in motivation	• Secure exceptional human resources • Deploying systematic human resource development program to strengthen individual power and increase overall company competitiveness • Fostering a culture of learning through friendly competition

E
Environment
Environmental Preservation
P32-35

S
Social
Safety in Navigation and Cargo Operations
P36-37

Social
Human Resource Development
Maritime Technical Personnel, Onshore Employees
P38-39

G
Governance
Corporate Governance
P45-49

STEP 3 Formulating 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 SDGs

The "K" LINE Group has matched its 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

The "K" LINE Group reviews the progress of 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.

Environmental Preservation

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

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

Environmental Measures and History of the Shipping Industry

In the shipping industry, initiatives for safety and the environment began to be addressed internationally around 100 years ago, the same time as “K” LINE’s founding. The International Convention for the Safety of Life at Sea (SOLAS) was enacted in response to safety concerns following the Titanic accident which occurred in 1912. However, environmental concerns were dealt with mainly at the regional level until around 1950, and it was not until after the International Maritime Organization (IMO) was established in 1958 that the initiatives for global environment began to be addressed. Larger ships were then being developed with the rising volume of marine transportation, and various types carriers were introduced as well. The 1970’s oil crises became driving forces for the energy saving movement. Maritime Environment Protection Committee (MEPC) under IMO was launched in 1973, after which the shipping sectors started to tackle international environment in earnest. Subsequently, large-scale oil spill accidents by large tankers occurred in succession, and IMO took measures, such as double hull. In the 1990s, United Nations treaties were enacted on issues concerning the lives of all the world’s people, including the Basel Convention that restricts the transboundary movement of hazardous waste and the Framework Convention on Climate Change for countering global warming. At IMO, discussions on environmental concerns have increased rapidly, and issues and measures have been raised, such as the impact of ballast water on the ecosystem that is still being dealt with, and reduction of SOx, NOx, and other contents from the emission gases of ships. In response to the establishment of the Paris Agreement in 2015, it was decided that international shipping would aim for zero GHG emissions by the second half of the 21st century.

“K” LINE Environmental Vision 2050: Securing Blue Seas for Tomorrow

In 2015, amid increasing interest in the preservation of the global environment, we reviewed the importance of the environmental impact of “K” LINE’s businesses from both the perspectives of our stakeholders and the Company. We identified four issues, namely, “marine pollution and the ecosystem,” “energy resources,” “global warming,” and “air pollution.” With a view toward sustainable growth together with society, and toward passing on a blue and beautiful ocean to the next generation, we formulated the **“K” LINE Environmental Vision 2050**, which sets forth our long-term goals for 2050. The year 2019 marks an interim milestones of this Vision.

“K” LINE’s Goals

Navigating for Sustainability Leading to a Brighter Future

We will continue our voyage with a view towards achieving our goals for 2050 set in consideration of the future circumstances surrounding our business and various issues in the area of the global environment. To further confirm our navigation track toward these goals for 2050, we have also set a milestone to be reached by 2019, the year marking the 100th anniversary of our foundation.

We, “K” LINE, will continue to take various actions towards our Goals with a view to maintaining this blue and beautiful ocean through 2050 and for children further in the future and to make contributions that provide well-being and prosperous lives to people around the world.

“K” LINE Environmental Vision 2050 is available for download in a full set

HOME > CSR > Environment > “K” LINE Environmental Vision
https://www.kline.co.jp/en/csr/environment/vision.html

Review of 2019 Interim Milestones (Mid-Term Targets)

Item	Status
Continuing to avoid causing serious marine accidents	Ongoing.
Introducing LNG-fueled carriers	Decided to conduct LNG bunkering business with Chubu Electric Power, Toyota Tsusho, and Nippon Yusen. Having ongoing discussions on development of LNG-fueled carriers.
Building and implementing environmental flagships	Completed car carrier DRIVE GREEN HIGHWAY, received "Ship of the Year 2016" award. Ongoing collection of actual navigation data, including hybrid SOx Scrubber.
Reducing CO_2 emissions by 10% from 2011 level	Achieved in FY2015. Set new targets (below) for 2030.
Setting a new CO_2 emission reduction target of 25% for 2030 against 2011 level (SBT*[1] certification obtained)	Ongoing. On track to achieving EEOI 10.81g-CO_2/ton-mile in 2018.

In 2019, we plan to formulate new interim milestones for 2030 based on the targets achieved as well as permanent targets.

An Outlook on Future Society (According to an Outsider's Analysis) and Issues in the Environmental Sector

When we formulated our Environmental Vision 2050, we conducted scenario analyses to forecast the environmental outlook, including future climate change issues 90% of all CO_2 emissions arising from our business activities are directly emitted from vessels under our operation. Therefore, we carried out the analyses based on CO_2 emission projections for international shipping by 2050 per an IMO GHG Study published by IMO. This study expects that the population will increase due to economic growth in emerging economies and increasing demand in marine transportation volume and that CO_2 emissions from international shipping will increase by 50% to 250% by 2050 from 2012 levels. With regard to physical risks from climate change, we referenced IPCC scenarios and also took into account Japan's 2030 energy policy, and hull life. As a result, we reaffirmed that demand for environmentally-friendly marine transportation services will increase and that reducing the environmental impact is a challenge.

Future Circumstances Surrounding Our Business

Growing global population

7.2 billion → 9.0 billion mainly in emerging economies

Economic growth and demand hikes chiefly in emerging economies

The global economy will grow to nearly four times its current size*[2]

As a result, demand will also increase for energy and many other resources.

Increase in marine transportation volume

More than double the current level*[3]

Issues in the Environmental Sector

Mounting needs for environmental actions

New conditions for competition, including tougher regulations, will be introduced to suppress the impact, resulting from the growth in marine transportation volume and the massive consumption of energy resources, on the atmosphere and the ocean.

Energy diversification

Global warming, shortage of resources and other issues will swiftly lead to diversified energy sources.

Actualizing global warming

Without a considerable reduction of worldwide CO_2 emissions, global warming will have a more serious adverse impact on the foundations of people's lives.There is also concern about its impact on port and harbor facilities, as it may damage them, and on the safety of operations.

*1. SBT (Science Based Target): Target scientifically consistent with the level achieving "2°C goal" of the Paris Agreement
*2 OECD (2012): OECD Environmental Outlook to 2050 published in 2012
*3 Estimation of Global Insight Corporation with "K" LINE's forecast

Environmental Preservation

Support for TCFD Recommendations

The key issues include marine pollution and disruption of the ecosystem caused by oil pollution accidents, energy consumption indispensable to ship navigation and resulting problems concerning carbon dioxide and air pollution. We have set our goals toward 2050 for priority environmental issues to turn the risks against them into opportunities.

Priority Issues	Risks	Opportunities	Long-Term Goals for 2050
Marine pollution and the ecosystem	•Oil pollution accidents have serious impacts on the ecosystem. •Loss of confidence in safety means a loss of confidence in us as a business operator.	•Continuing to avoid causing serious accidents will help increase customers' confidence in us. •By fulfilling our duty as a marine business operator, we can hand down the ocean to the next generation by keeping it clean.	Continue avoiding serious marine accidents and be the industry's leader in protection of the ecosystem
Energy resources	•Exhaustion of resources and a fuel price surge would affect business profitability. •Delay in action for stable energy procurement and for diversification means a loss of competitiveness.	•Ensures stable business continuity and increases our reliability as a business operator. •Will enable us to take opportunities to enter new business fields including resources exploitation.	Replace majority of energy currently consumed with new energy sources
Global warming	•Frequent disasters caused by unsettled weather conditions undermine safety in ship operations. •Sea level rise will lead to the destruction of port and harbor facilities and coastal districts.	•Stabilization of weather conditions leads to safety and efficiency in operation. •Generate new transportation demand, such as the transportation of hydrogen.	Reduce CO_2 emissions by half (from 2011 level)
Air pollution	•Regulations on exhaust gas from ships, containing SOx, NOx, PM and other pollutants regarded as hampering growth of humans, animals and plants, will be stricter and the cost incurred for compliance will soar.	•By taking the lead in introducing equipment that complies with tough regulations, we will gain trust as a business operator and advanced competitiveness.	Aim for zero emissions

Governance	Risk Management (See page 49 for Risk Management)
The Environmental Sub-Committee under the CSR & Environmental Committee (chaired by the President & CEO) is led by an executive officer in charge of ship technical and environmental affairs and is comprised of employees in charge of environmental affairs from internal divisions and Group companies. The Sub-Committee develops an environment management system for identifying the environmental impacts of our businesses and making improvements to minimize them, also implements the PDCA cycle to promote continuous improvements. The content of its discussions is reported at the Officers' Meeting. (See page 31 for a chart of the CSR Promotion System.)	We have established a system for managing crises and risks in order to recognize diverse management risks, including responses to climate change, and to prepare for them. Specifically, we have established four committees for responding to four different types of risks: risks in ship operations, risks of disasters, risks concerning compliance, and other risks related to management. (Risks concerning the environment are handled by the Management Risk Committee.) We have also set up the Crisis Management Committee as an organization to unify the four committees and facilitate overall risk management. Furthermore, important business strategies and investment plans related to environmental preservation are discussed at committees concerning our medium-term management plan and investment and reported to the monthly Board of Directors' meeting. (See page 36 for the system related to Safety in Navigation and Cargo Operations.)

Based on such analyses and our experience with environmental information disclosure, **we expressed our support to the recommendations of the TCFD in October 2018.**

October 30, 2018 News Release
"K" LINE Supports TCFD (Task Force on Climate-related Financial Disclosures)

HOME > News Release > CSR News
https://www.kline.co.jp/en/news/csr.html

Our targets under our environmental management system and costs required for environmental preservation initiatives have been included in our environmental accounting and disclosed on our website. The TCFD recommendations demand further information disclosure that links business plans and strategies with climate change efforts. In this regard, our task will be to develop more transparent and useful disclosure methods for our stakeholders. (We disclose risk and opportunity analyses for our main businesses through our responses regarding the key ESG indicators, including CDP.)

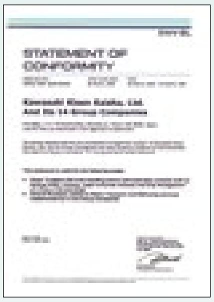
DRIVE GREEN NETWORK (DGN)

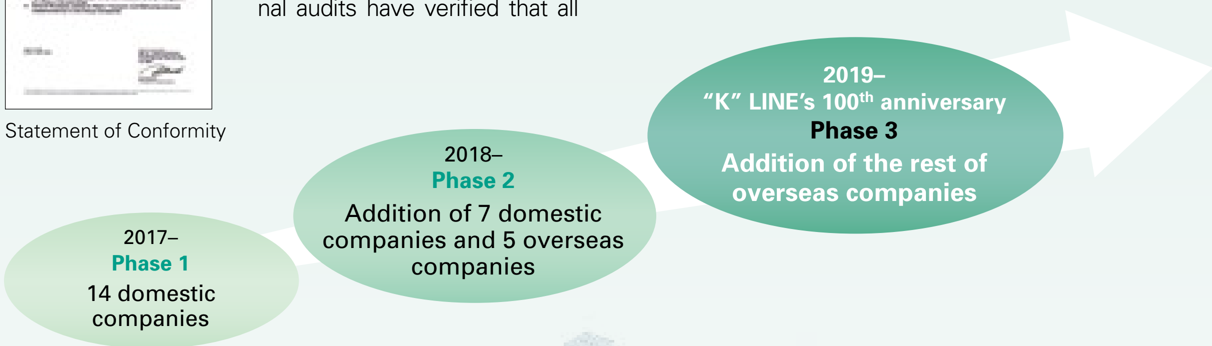
Group-Wide Promotion of Environmental Management

Preserving the environment is one of “K” LINE’s management priorities. In 2017, we launched “DRIVE GREEN NETWORK,” a system for promoting environmental management by the entire “K” LINE Group.

The name, “DRIVE GREEN NETWORK,” embodies our desire of inheriting the spirit put into the construction of DRIVE GREEN HIGHWAY, our next-generation eco-friendly flagship which was completed in 2016 under the concept of “getting one step ahead for the future”.

Through internal audits, we centrally manages our environmental policies and target settings that Group companies reflected in their respective businesses as well as the efforts toward their achievement (through the PDCA cycle), to promote environmental preservation activities while ensuring environmental compliance throughout the entire Group. In Phase 1, the network started with 14 domestic companies that were ready for environmental management system. We also obtained the Statement of Conformity from a third-party entity stating that external audits have verified that all applicable companies’ activities are being implemented in accordance with Drive Green Network management standards. The Statement is effective for marine transportation services (including onshore administration work such as general affairs, accounting, legal, and PR) and ship management of a fleet of owned ships, as well as for shipping and logistics businesses conducted by “K” LINE Group companies. From 2018, we have scaled up the project to include companies in other countries and aim to establish a network of all Group companies in 2019, which marks the 100th Anniversary of “K” LINE. In 2015, we founded the “K” LINE Group Environmental Awards to recognize and share exceptional environmental preservation and contribution activities of domestic and overseas Group companies. Every year, the recipients are selected by taking into account such standpoints as “originality,” “challenge level,” “degree of contribution,” “continuity” and “potential for pervasiveness” and are awarded by our President & CEO. The maritime and onshore units will continue to collectively execute our businesses while always being conscious of environmental preservation.


Statement of Conformity



7,500-unit car carrier
“DRIVE GREEN HIGHWAY”

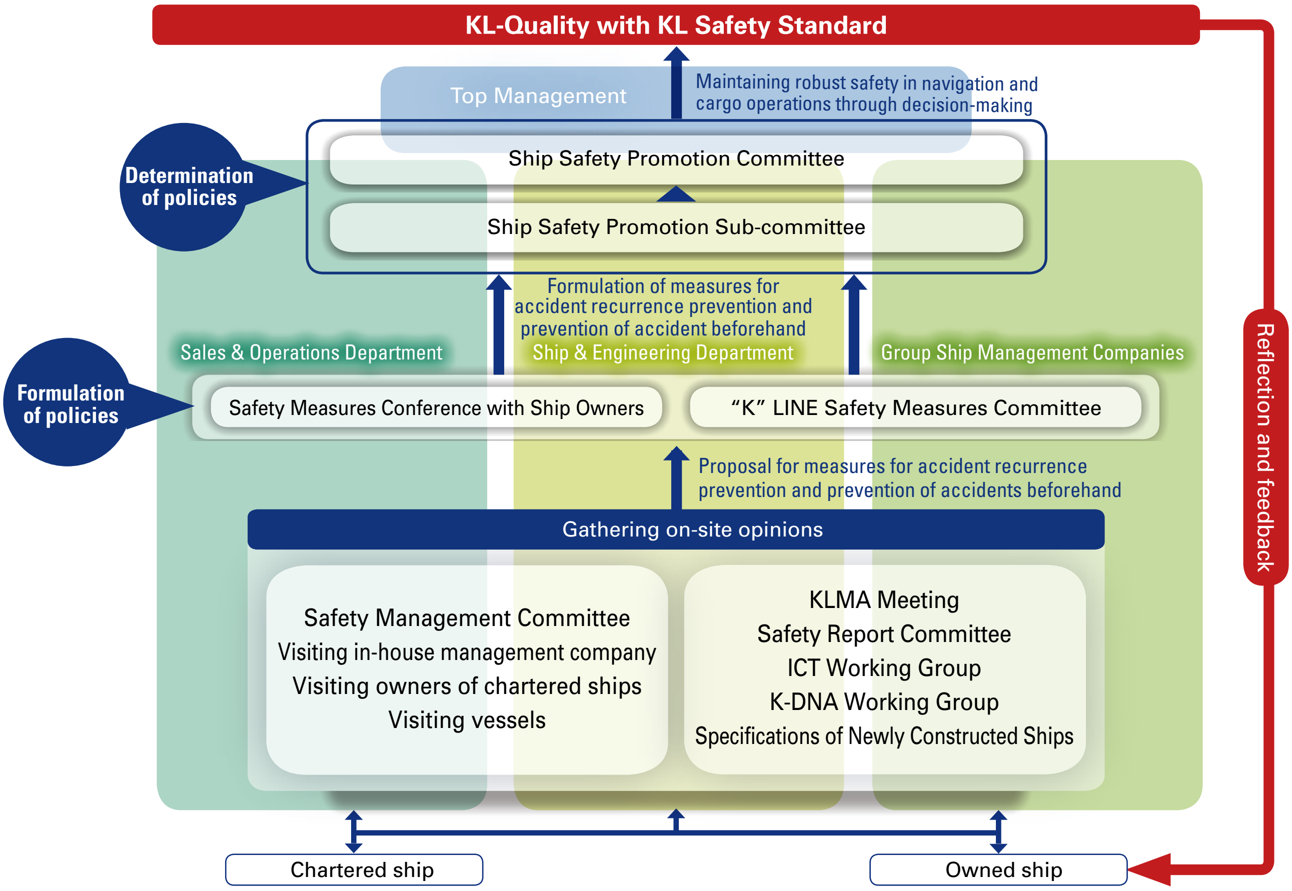
Safety in Navigation and Cargo Operations

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.

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.



Initiatives

Pre-embarkation Briefing	Sharing our basic safety policy and the latest specific information
"KL-QUALITY"	Our own quality guidelines and standards for our ship supervisions
Safety Report System	Reporting system of near-miss on ship FOCUS
Accident Information Management System (AIMS)	System analyzing accident information and trends
"K" Line-Drive to No Accident (K-DNA)	Our unique safety equipment installation guidelines FOCUS
Safety Campaign	Annual Company-wide safety awareness-raising activities under the theme of "safety in navigation and cargo operations" and "environmental preservation"
Trouble News	Newsletters for all operating vessels, such as on preventing the recurrence of accidents
Emergency Response Drill	Establish accident response headquarters and conduct accident readiness drills FOCUS

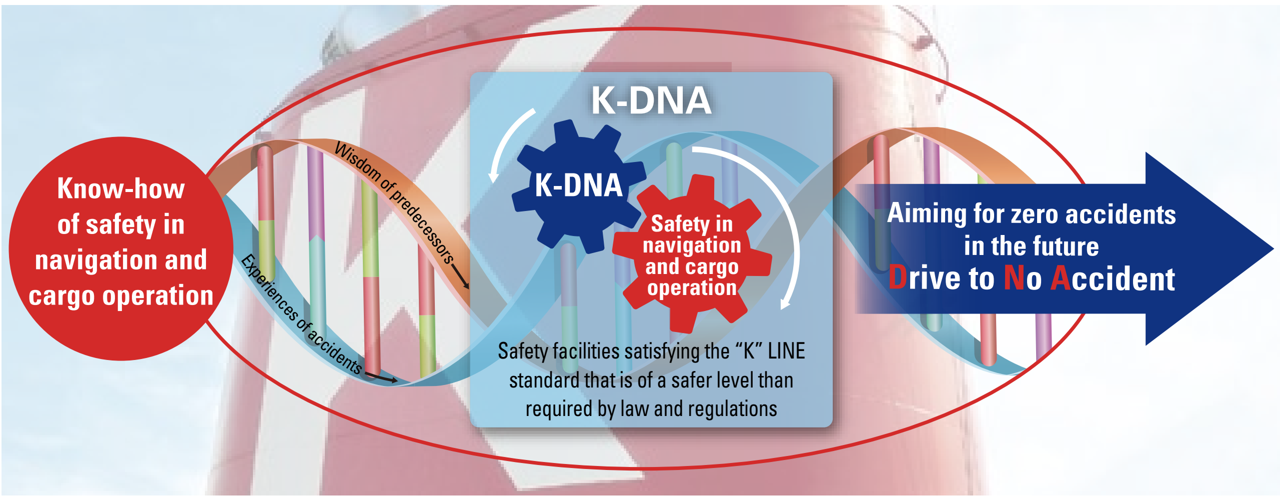
FOCUS

Safety Report System

Our Safety Report System encourages boarding crew members to report on near-miss incidents, such as unsafe behavior and unsafe conditions on a vessel. Such reports are received and carefully analyzed by experienced technical personnel on shore duty, and the results are fed back to similar-type vessels with easy-to-understand illustrations. By entrenching a non-blaming culture, where the responsibility of near-miss parties is not called into question, we receive thousands of reports annually, which helps safety awareness to take root on the front lines.

“K” Line-Drive to No Accident (K-DNA): Safety Equipment Installation Guidelines

K-DNA is our unique safety equipment installation guidelines that reflect know-how accumulated in the field and lessons learned from past accidents. K-DNA consists of installation standards, such as for navigation equipment, institutional equipment, safety protection, and anti-piracy measures. The K-DNA Working Group continuously improves the guidelines by pooling insight from various angles and works to enhance the safety of all operating vessels from the hardware perspective. K-DNA is essentially the DNA that succeeds the Company’s history of safe navigation.



Emergency Response Drill

Once a year, we regularly conduct an Emergency Response Drill based on a scenario of a major accident occurred on our ships. Following the “Emergency Response Manual,” we work on practical exercises such as mock press conferences in order for all the staff to perform “swift” and “accurate” responses to accidents not only on the sea but also on shore in an emergency. After the drills, we also receive multiple evaluations from ship management companies, the MLIT, lawyers, consultants and insurance companies to identify problems and improve the procedures in the manual.

Human Resource Development [Maritime Technical Personnel]

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.

Securing and Training Maritime Technical Personnel

It is a priority issue in international shipping to secure and train Japanese maritime technical personnel, who are expected to become leaders in charge of foreign seafarers both onboard and onshore. In order to train exceptional maritime technical personnel at the Company, in 2013 we established an in-house training course and started recruiting students from non-maritime universities, in addition to students from seafarer educational institutions.

In the training perspective, we enhance the careers of each personnel through both onboard and onshore work, including onshore training at the KLMA (Machida) Training Center and programs onboard. We have also introduced training not only to enhance the knowledge and technical skills of individuals but also to raise their teamwork skills, and are training a group of world-class maritime technical personnel.

Occupational Health and Safety

At "K" LINE, safety supervisors make active ship visits to raise awareness about preventing work-related accidents and illnesses. In addition, they meet with personnel one-on-one to exchange views and provide advices in order to mitigate any concerns and/or dissatisfaction, as part of our mental healthcare efforts. Furthermore, newsletters from safety supervisors are issued every month containing proposals for improving human relations and communication in the ship, approaches to work, and accident prevention information. At the seminar for Japanese maritime technical personnel onshore and on leave held twice a year, we hold mental health lectures and safety training not only for new but also for seasoned employees. We also plan to offer such lectures and training to foreign seafarers.

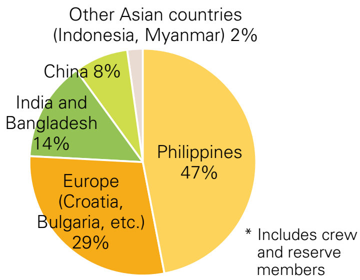
Voice **Shutaro Uto** Marine Safety Team, Marine Safety Administration Group

My wish to pursue a seafaring career dates back to when I was job hunting in university. After joining the Company, I studied for about two years at Marine Technical College in Kobe. When I held my certificate of competency for the first time, I was overcome with a sense of responsibility that I would be supporting global logistics as a "K" LINE Deck officer. I was then onboard for approximately three years, and since 2019 I have been with the Marine Safety Administration Group onshore. Drawing on the knowledge and experience I gained on ships, I intend to take advantage of my position as a junior employee to bring a breath of fresh air into "K" LINE's culture of safety in navigation and cargo operations.

"K" Line Maritime Academy Philippines

The ships managed by the "K" LINE Group are navigated not only by Japanese seafarers but also by seafarers of a variety of nationalities, including the Philippines, Bulgaria, China, and India. As a principle, we secure and train the seafarers (see pie chart). Filipino seafarers make up half of this group, and therefore, KLMA (Philippines) forms the core of "securing and training seafarers" for the "K" LINE Group. We have expanded our training facilities by constructing a new building in the Philippines in March 2018, and completing repairs of the existing building in July 2018. At the HQ office, we are also currently providing on-the-job training to Filipino seafarers, which is same as the training provided to Japanese seafarers, to be able to support technical personnel from shore.

Proportion of ship employees of foreign nationality



Voice **Stephen Ian Espinosa** Seafarers Policy Team, Marine Human Resource Group

By gaining practical experience at the HQ office as part of my career development, I can get a deeper understanding of the Company's operations from a wider perspective. In this way, I can acquire not only onboard skills but also fundamental knowledge related to onshore work.
"K" Line Scholar - MAAP* (2010 Graduate)

*Maritime Academy of Asia and the Pacific

Human Resource Development [Onshore Employees]

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.

Human Resource Development

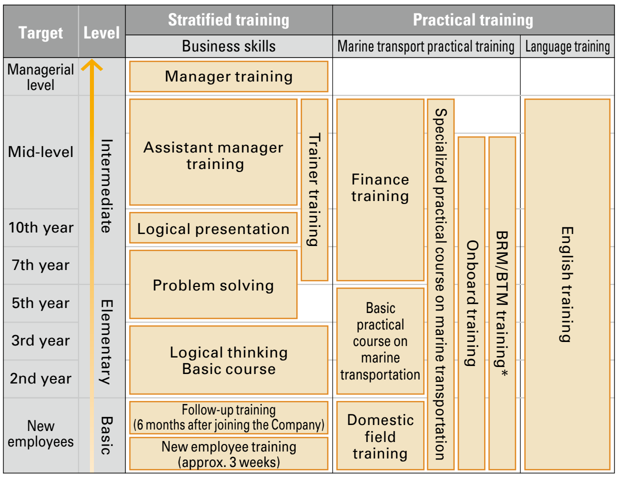
"K" LINE offers a training program (figure on the right) comprised of two parts: annual stratified training and practical training.

Introduction of Assistant Manager System

In 2018, "K" LINE established the assistant manager system, with the aim that employees will gain management experience early, not only to enhance their management skills but also to strengthen the organization's operational capabilities and develop an efficient structure for business execution.

Trainer-Trainee System

"K" LINE has a trainer-trainee system to enable new employees to engage in actual work shortly after joining the Company. Trainers (employees in their seventh year or later) conduct follow-ups of trainees (new employees) with the aim of giving them a secure step up as business professionals.



* BRM (Bridge Resource Management) / BTM (Bridge Team Management) training: Onshore employees observe the training conducted by maritime technical personnel using ship-handling simulators, and learn about the Company's achievement of safety in navigation and cargo operations, teamwork, and so on.

Health Management

Based on the recognition that the health of employees is the source of their individual happiness and is essential for achieving the principles of the Company, "K" LINE supports employee health by holding seminars on eating habits and projects for improved physical wellbeing, among other activities. Simultaneously, "K" LINE carries out work-style reforms not only to adapt to laws and regulations but also to promote reduction of overtime work and employees' acquisition of paid leave.

FY	Scheduled avg. overtime hours*1 (hours)	Avg. amount of paid leave taken*2 (days)
2014	36.0	15.1
2015	29.7	15.3
2016	29.0	16.9
2017	28.8	16.8
2018	31.3	16.4

*1. The Company has adopted a 7-hour workday system. Comparing the figures shown above against those under the system of 8-hour workday (statutory working hours), our actual working hours can be further reduced by an average of 20.4 hours per month.
*2. A total number of annual paid leave and our special paid leave of 7 days.

Diverse Work Styles

Introduction of Telecommuting System

"K" LINE introduced the telecommuting system in FY2018. Reduction in commuting time has led to better work-life balance. Furthermore, employees are able to remain concentrated on their work due to the decreased burden of commuting, which contributes to greater work efficiency.

Leave System for Spouse's Work Relocation

This system enables employees of "K" LINE to take up to two years of leave if their spouse is assigned to a position overseas or elsewhere in Japan. Nine employees have used this system in the past five years.

Voice **Mayumi Kawase** Raw Material Team, Bulk Carrier Group

By taking advantage of the telecommuting system and working at home, I can better focus on my work than at the office and get work done, such as preparing materials and compiling data. It relieves the stress of commuting by train and frees up the time spent commuting to and back from the office. As a result, I have more time and mental energy to spend on my daily housework and with my family. Another great point is that this system can be combined with half-day leave.

ESG Interview

Kazunori Nakatsuka
QUICK ESG Research Center
Research Head

×

Yukikazu Myochin
President and CEO

Toward sustainable growth of the "K" LINE Group

We strive to be first in addressing ESG issues and aim to generate sustainable growth in order to gain a high level of trust from all our stakeholders.

"K" LINE Spirit—born of a progressive approach

Nakatsuka Congratulations on your 100th Anniversary. When reading about the 100-year history of the "K" LINE Group, I was impressed by its many innovative achievements, such as Japan's first Pure Car Carrier. How did this kind of corporate culture come about?

Myochin We celebrated our 100th Anniversary on April 5, 2019, but the very founding of the Company is owed to the enterprising spirit of turning adversity into opportunity after ending up with too many stock boats. While there were many ups and downs in our history after that, we drew strength from "K" LINE's enterprising spirit, broad-mindedness, independence and autonomy to overcome every challenge we faced. In particular, our enterprising spirit for finding solutions to customer needs by thinking outside of the box is a strength that differentiates us from other carriers, and I think the process of honing this attribute gave rise to our identity of always striving to be first.

Sustainable management now required more than ever

Nakatsuka When you talk about sustainability of "K" LINE Group, I get the feeling that you really want to leave a better global environment for future generations, not just the present, and contribute to a sustainable society and economy.

Myochin We feel proud to have been partially responsible for the infrastructure that underpinned economic growth and people's livelihoods when the movement of goods gained increasing momentum during Japan's recovery after World War II through our environmentally-friendly marine transportation services. Japan, in particular, is a country that achieved economic growth by importing raw materials and energy resources and processing them into end products for export. Even now the shipping industry handles 99.6% of imports and exports, so you could say that shipping is an indispensable "lifeline" to the people of Japan. The world's population has risen 50% over the last 30 years from 5.1 billion to 7.5 billion, while the volume in ocean cargo movement has increased three-fold from 4.0 billion tons to 12.3 billion tons during the same period.

In other words, the pace of increase in cargo movement is twice that of population growth. It is said that the population of the world will gain another 1.0 billion people by 2030. I think shipping business, with its infrastructure, will continue to play an even greater role as demand further escalates on the back of economic growth in emerging markets, improved standards of living and advancements in horizontal international specialization.

In order to maintain this infrastructure and keep supporting people's livelihoods, I believe we must be much more considerate of the impact our business has on the global and marine environments and engage in sustainable business operations that take into account our relationship with society. The Sustainable Development Goals (SDGs) were adopted at a United Nations summit in 2015 with 17 goals referred to. In these goals, "affordable and clean energy," "climate action," and "life below water" relate directly to conservation of the world's oceans, namely our field of business, and we should place particular emphasis on these categories.

Named on CDP's "Climate Change A List" for third year running

Nakatsuka For the third year in a row "K" LINE has made the Climate Change A List, the highest rating awarded by CDP, the most influential environmental management assessment agency. This serves as an example to other firms and also means we are focusing on your company's leadership.

Myochin As a result of actively disclosing our environmental data and promoting Group-wide environmental management, we are now often assessed by external organizations. In terms of greenhouse gas (GHG) emissions, the CDP evaluated the counter-measures of corporations and recognized 126 global companies in its A List at the CDP 2018 Japan Report Launch. There were 20 Japanese companies on the list, but only seven, including us, were awarded an A rating for the third straight year. Furthermore, in 2017 our Group's CO_2 reduction target was recognized as a science-based target (SBT) with the aim of keeping global warming to below 2 degrees compared to pre-industrial levels, as ratified in the Paris Agreement. We were the third Japanese company to be accredited by the global SBT initiative.

In October last year we became the first Japanese shipping company to support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD is led by global central banks and financial regulators and encourages companies to disclose climate change-related financial information regarding business impact and risk. By showing our support, I think we become more motivated to implement initiatives from the viewpoint of investors in line with a global consensus rather than just environmental measures from the Group's perspective. And I believe it also provides added momentum to our initiatives.

Society needs to shoulder the environmental costs

Nakatsuka In what way are global and marine environments affected by marine transportation?

Myochin It is said that CO_2 and other GHGs in exhaust gas emitted from ships cause global warming, rise in sea levels and abnormal weather events such as torrential rain. Sulphur oxides (SOx) and nitrogen oxides (NOx) in ship emissions can bring on acid rain that destroys ecosystems and are also a major cause of air pollution. Moreover, fuel oil spills from a ship after an accident not only pollutes the ocean and threatens marine life, it can also lead to the destruction of marine ecosystems and potentially cause long-lasting damage. In addition, the discharge of ballast water induces non-native or invasive organisms to other regions and is the main reason behind the collapse of unique ecosystems.

Nakatsuka Just how much GHG is emitted by the marine transportation sector?

Myochin Compared to other transportation methods, the per-unit environmental impact of shipping is low. As an example, it is estimated that just under three tons of CO_2 is generated when transporting one ton of ocean cargo over a distance of one kilometer, which equates to 3.33% of the volume emitted by truck transportation for the same distance, and 0.67% by airplane. That said, the impact of the total amount in the industry is substantial; CO_2 emissions from global shipping equate to just over 2% of the entire world, almost the same as what all of Germany generates, so finding a way to reduce this impact is a major challenge.

Kazunori Nakatsuka Profile

Joined QUICK in 1992 and engaged in planning, developing and researching services for institutional investors. At the ESG Research Center, main duties include quantitative analysis leveraging ESG data and providing ESG advisory services. Also gives lectures and writes articles mainly for pension funds and asset management firms. Serves as project manager for GPIF-commissioned ESG-related research.

The entire financial industry is firmly steering corporations toward ESG, and the movement of "sustainable finance for all" is gaining traction.

Nakatsuka From January 2020 new SOx emission regulations of the International Maritime Organization (IMO) will come into force, lowering the limit on sulfur content in fuel from 3.5% to 0.5%. Global warming has reached the point where there's no time to waste in implementing such measures. What are your thoughts on this?

Myochin It is said the 58,000 ships around the world subject to the SOx regulations use 285 million tons of fuel oil. Given that the global shipping industry will be addressing the regulations en masse, the global impact will surely be significant. There are probably three ways to address the regulations: (1) use low-sulfur fuel oil; (2) install SOx scrubbers; or (3) use an alternative fuel like LNG or LPG. The prevailing view is that more than 90% of ships will comply with the regulations by using a low-sulfur fuel oil when the regulations take effect. Subsequently, fuel costs are expected to rise sharply—IMO estimates global annual cost of fuel will rise from $30 billion (¥3.3trn) to as high as $60 billion (¥6.6trn).

Nakatsuka Considering that you also need to separately address GHG emissions, total costs are likely to skyrocket. I think society at large should bear the burden of this cost.

Myochin In April 2018 IMO's Marine Environment Protection Committee (MEPC) adopted a strategy for reducing GHG emissions. The strategy aims to improve fuel efficiency by 40% overall in the shipping industry by 2030, halve GHG emissions by 2050 (both compared to 2008 levels), and also includes the ambitious target of net zero emissions as early as possible in this century. Concrete measures are to be fleshed out up ahead, but if the attainment of these targets requires slower navigation in addition to the introduction of new technology, transportation will likely take more time and we will have to cut back on the frequency of vessel allocations. Measures such as purchasing carbon emission credits or adopting new technology will also cost more money. These problems are already too big for us to solve under our own steam. I believe it is our responsibility to gain the understanding of our customers and other stakeholders with respect to the fact that the social cost of addressing environmental issues should be reasonably borne by society as a whole, as well as the likelihood that changes in distribution, such as longer transit time, could eventuate.

Addressing ESG issues with *sanpo-yoshi*

Nakatsuka ESG investments have grown since 2006 when the United Nations proposed the Principles for Responsible Investment (PRI) to encourage the incorporation of ESG issues into the investment process. In Japan too, ESG investing is spreading rapidly owing to the signing of the Principles by the Government Pension Investment Fund (GPIF). While the phrase "sustainable finance for all" has been widely adopted recently, ESG is even penetrating the world of indirect finance and the finance industry as a whole is firmly steering companies toward ESG activities.

In this environment, alongside typical financial analysis, investors are focusing on both the positive and negative impacts that a corporation's environmental (E) and social (S) contributions have on the world. As such, they are increasingly incorporating ESG assessments into their investment decision-making as a method for evaluating intrinsic value. It would be reasonable to say that the ESG evaluation factor draws together the perspectives of various stakeholders, not just those of investors. Accordingly, this means that companies rated highly for their ESG initiatives gain the overall trust of stakeholders, which is something investors like to quantify and evaluate. As a result, we are beginning to see more capital flow into companies that are making a positive impact on the world in terms of global sustainability, as demonstrated by the SDGs, for example.

Myochin Japan has a set of time-honored business principles called *sanpo-yoshi*, which in English translates to "three-way satisfaction," meaning that benefits are enjoyed by the buyer, seller and society. You could probably say that sustainable management is the materialization of benefits for society. It is impossible to expect a business to be sustainable if it causes environmental destruction and is harmful to society because it only seeks to make a profit. At the same time, a company may disappear altogether unless it earns a modest profit, reinvests its earnings and is able to meet the expectations of investors and other stakeholders. I think the keys to successful business are corporate behavior that strikes the right balance between seeking profit and contributing to society, as well as co-existence and co-prosperity with the global environment and society.

This is why ESG initiatives are a key issue in the Group's medium-term management plan. Particularly with regard to environmental issues, we continue to carry out initiatives in line with "K" LINE Environmental Vision 2050, which is our long-term policy that we formulated in 2015. With respect to social issues, it goes without saying that safety in navigation and cargo operations is at the core of our business, but in addition to this, human resource development is a major topic. And we believe governance instills discipline in our business management and helps to find the right balance between social contributions and company earnings.

Clear roadmap provided by "K" LINE Environmental Vision 2050

Nakatsuka It is quite progressive to formulate a clear environmental vision in 2015 with a view to 2050 and implement it as a management strategy. I would even say that "K" LINE is at the forefront of environmental management.

Myochin In formulating our environmental vision, we first analyzed and extracted what the key issues are for the shipping business. There are four issues: (1) marine pollution & ecosystems; (2) energy resources; (3) global warming; and (4) air pollution. The level of materiality to the Group was plotted horizontally, while materiality from a societal standpoint was assigned on the vertical axis. For these issues and in line with the kind of company we aim to become, we set interim targets for 2019 and final targets for 2050. As an example, to address the key issue of global warming, we aim to achieve a 25% reduction in CO_2 emissions by 2030 versus 2011 levels and then cut our emissions by 50% by the year 2050.

Nakatsuka From an investor's standpoint on ESG issues, I think it is vital that board members first recognize the risks and opportunities that the key issues present and accordingly incorporate them into business strategies so each department in the organization can take action in accordance with those strategies, instead of letting each department do their own thing. In this sense, I think "K" LINE's environmental vision is really effective. What kind of results have you achieved in the four years since its formulation?

Myochin To begin with, having a clear roadmap to follow thanks to the formulation of this policy was a major achievement in itself. More specifically, we were able to identify the aforementioned four key issues that need to be addressed. Although we set interim targets for each category to be achieved in 2019, we still aim to maintain our goal of zero accidents at sea. We are also pushing ahead with plans to introduce LNG-powered vessels. As we achieved our most important initial interim target of reducing GHG emissions (10% reduction vs 2011 levels) ahead of schedule, we are working towards achieving our new interim reduction target of 25% by 2030. And by mere coincidence, our 2030 interim target almost matches the 2030 target set out in the IMO's GHG reduction strategy last year.

One of our interim goals is the building of environmentally-friendly flagships and in 2016 we completed construction of the Drive Green Highway, a car carrier fully equipped with environmental technology. Compared to the Group's existing vessels, it is capable of reducing CO_2 emissions by more than 25%, NOx by more than 50% and SOx by more than 90% per vehicle carried. The vessel was also awarded Ship of the Year 2016. Furthermore, in recognition of our environmental initiatives, including this ship, "K" LINE received the Panama Green Shipping Award in 2019.

We were able to efficiently take action by appropriately identifying and prioritizing environmental issues.

The introduction of advanced environmentally-friendly technology illustrates without doubt the Group's "always-first" mentality

Nakatsuka Where did the idea for such a ground-breaking ship come from?

Myochin This ship too was born of the Group's enterprising spirit. When planning the construction of our next-generation 7,500-unit car carrier series, some of our young employees saw an opportunity to develop one of the vessels into a new-age, environmentally-friendly flagship. Once Japanese shipyard and ship equipment manufacturers threw their support behind our idea to deck out the ship with state-of-the-art environmentally-friendly technology, we were able to bring the innovative concept to life. Without doubt, this project demonstrated our ambition of always striving to be first.

Nakatsuka Keidanren (Japan Business Federation) is currently proposing the Society 5.0 for SDGs, a concept that envisions economic development and solutions to social challenges by fully maximizing innovative technology to achieve the SDGs. In addition to the Ship of the Year 2016, I hear "K" LINE is utilizing other cutting-edge technology for the purpose of attaining the SDGs.

Myochin One example would be the installation of K-IMS, our IoT-powered management system, for 166 vessels in operation. This system monitors various information in real time such as the ship's status and engine plant data by relaying up to 2,000 items of big data between ship and shore at 30-minute intervals. The use of this data enables navigation via optimal shipping routes, supports onboard equipment maintenance, helps reduce fuel consumption and contributes to safe operations. Furthermore, because the use of leading edge technology can enhance customer convenience and improve internal business processes, in January 2019 we established an AI/Digitalization Promotion Division and a Corporate Marketing Strategy Division.

Enhancing training environment for foreign seafarers

Nakatsuka Please also tell me about the Group's human resource development in which you stress importance from a social angle.

Myochin While on one hand we focus on enhancing our training system for onshore employees, we also put a lot of effort into securing and nurturing maritime technical personnel in order to ensure safety in navigation and cargo operations, the bedrock of our Group's business. The Group operates around 500 ships in total, of which just under 200 are operated by ourselves. We have more than 300 Japanese seafarers and approximately 2,400 from other countries. This is why we naturally focus on the cultivation and training of both foreign and Japanese seafarers as a critical measure for business continuity and development.

Nakatsuka Job satisfaction for foreign seafarers and contributing to progress in regional communities eventually materializes in the form of earnings for the company, I think.

Myochin The large majority of the Group's foreign seafarers hail from the Philippines and we have a training facility for maritime technical personnel in Manila. Last year the facility underwent large-scale renovations and expansion. Every year 55 instructors run more than 50 courses, while the training system is capable of accepting up to 10,000 trainees. However, instead of being content focusing only on our own crew, we also need to be watchful of others, including the various people that we indirectly interact with. Accordingly, in 2016 we developed our CSR Guidelines for Supply Chains in both Japanese and English, which sets forth rules on fair and transparent transactions and basic human rights. It is important to establish policies that we can use to gauge and demonstrate externally whether the Group's activities are being executed appropriately.

Rigorously implementing the PDCA cycle

Nakatsuka And lastly, please tell me about the initiatives you have implemented to ensure that your Board of Directors and employees understand the company's stance on ESG issues.

Myochin By steadily pushing ahead with ESG initiatives under our medium-term management plan, our departments examine strategies and measures on a quarterly basis. On top of this, our CSR Sub-Committee examines issues in light of their relevance to the SDGs. At the same time, we actively keep all our stakeholders informed so they have an understanding of the initiatives that aim to achieve sustainable growth for the "K" LINE Group.

Nakatsuka From what I have heard so far, it seems that the "K" LINE Group is soundly incorporating ESG into its management strategy. In my opinion, addressing ESG issues is akin to a company's commitment to the next generation. Investors too want to see companies where top management is always aware of ESG as management issues and subsequently integrates them into corporate strategies, thus spreading awareness of ESG throughout the company.

Myochin A movement like ESG that anybody can identify with will soon take off once it starts to gain traction. Even if we mean to stay ahead of the pack, at times we may lose sight of the essence of ESG when routine work takes over. At the same time, environmental regulations and the like continue to be tightened, so I think it is important that we rigorously implement the PDCA cycle and tackle the issues that demand our attention straight away.

We thoroughly review our actions at each juncture and immediately address the issues that demand our attention.

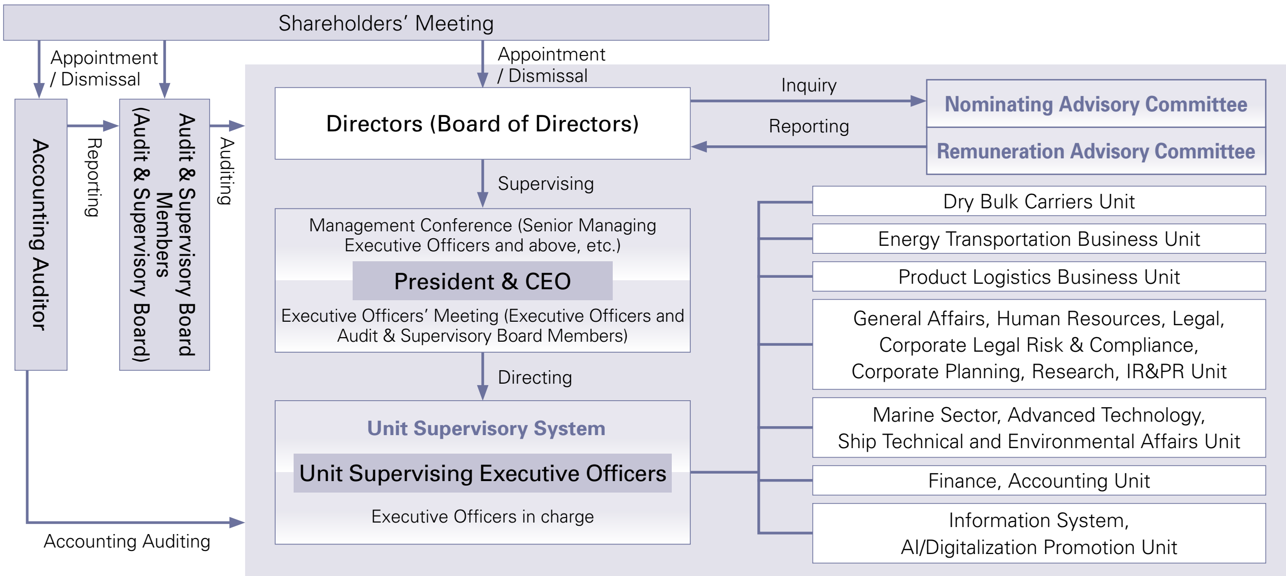
Corporate Governance

"K" LINE is developing and strengthening its corporate governance and risk management structures in order to fulfill its social responsibility, respond to the mandate given 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 Structure

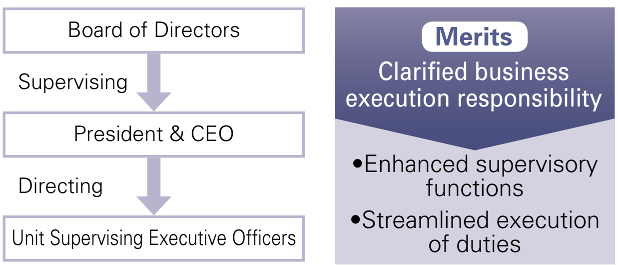
Our corporate governance structure is established, managed and monitored by the Board of Directors and the Audit & Supervisory Board and is also reviewed and revised by a number of committees and other organs.



(As of July 1, 2019)

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.



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 composed of all independent Outside Directors, the Chairman and President & CEO, and the Chair is appointed by mutual vote of the Outside Directors residing on the Committees.

Appointment of Outside Directors

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

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

Corporate Governance

Outside Directors / Audit & Supervisory Board Members

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 economies, mainly in Asia. He then went on to become director at TOYOTA MOTOR CORPORATION 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 FY2018
13 / 14 meetings

Seiichi Tanaka

Profile Former Representative Director, 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 experience in corporate management in his capacity as Representative Director at MITSUI & CO., LTD. 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 FY2018
14 / 14 meetings

Keiji Yamada Newly appointed

Profile Former Governor of Kyoto Prefecture, Former President of the National Governors' Association, current Vice-President and Professor Department of Interdisciplinary Studies in Law and Policy, Faculty of Law, Kyoto Sangyo University

Reason for Appointment Mr. Keiji Yamada has a wide range of experience/personal networks and insight from his long-term experience as a head of administrative organs. He was appointed so that this will contribute in promoting the Group's corporate governance and in making precise suggestions to the Company's management and supervising the execution of business.

Ryuhei Uchida Newly appointed

Profile Current Director of Effissimo Capital Management Pte Ltd

Reason for Appointment Mr. Ryuhei Uchida has abundant experience and insight in corporate value enhancement. He was appointed so that his precise suggestions and supervision of its management and the execution of business, from the perspectives of our shareholders, will promote the Company's medium- to long-term corporate value, and will meet the expectations of all stakeholders, including general shareholders.

Outside Audit & Supervisory Board Members

Kozue Shiga

Profile Current Of Counsel of Shiraishi Sogo Law Office, current Outside Director of RICOH LEASING COMPANY, LTD., former Outside Audit & Supervisory Board Member of Shinsei Bank, Limited, among other roles.

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 FY2018
13 / 14 meetings

Attendance at Meetings of the Audit & Supervisory Board in FY2018
14 / 14 meetings

Atsumi Harasawa Newly appointed

Profile Formerly of Japan Airlines Co., Ltd., current Partner at Igarashi, Watanabe, Esaka Law Office, and current Outside Auditor for Lawson Bank, Inc.

Reason for Appointment Ms. Atsumi Harasawa, as a lawyer, possesses extensive expert knowledge and experience, and also has knowledge and experience in the transportation sector, being certified as a first-class aircraft maintenance technician at Japan Airlines Co. Ltd. She was appointed so that her presentation will enhance the diversity of its Board member structure, and will provide effective audits from an independent and external perspective as an Outside Audit & Supervisory Board Member.

Pick up Dialogue with Shareholders and Investors

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 FY2018, we have started to hold a new online company briefing by webcasting for individual investors to attract interest from more investors and stakeholders, etc. We also provide wide-ranging information about our Company and marine transportation on our IR website, in our efforts toward proactive disclosure. As a result of initiatives like these, we have been selected for "Commendation Award" in the Internet IR Award 2018 by Daiwa Investor Relations Co. Ltd.

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

IR Activities in FY2018

Domestic IR/ SR activities	Overseas IR/ SR activities	Small meetings	Business briefings/ site tours	IR activities for individual investors (Including online briefings and briefings for sales representatives from securities companies)
Number of companies 184	Number of companies 36	Number of companies 37	Number of companies 7	
Number of participants 240	Number of participants 38	Number of participants 37	Number of participants 7	Number of occasions 4

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 motivation to strengthen 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 deliberates and resolves the design of the remuneration system and levels etc. and reports back to the Board of Directors. The Board of Directors is responsible for determining system and levels of remuneration based on this report.

Design of Remuneration System

In addition to monthly remuneration and bonuses based on consolidated performance, remuneration paid to Directors is composed of a Performance-based Share Remuneration Plan (BBT = Board Benefit Trust) approved by the Ordinary General Meeting of Shareholders held in June 2016. BBT is linked to the Company's total shareholders return (TSR) to raise the motivation of Directors to make contributions toward improving the Company's medium- to long-term performance and increasing its 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
	Bonuses based on consolidated performance*	Variable remuneration	Linked to the degree of achievement of consolidated performance targets in single fiscal years	
	Performance-based share remuneration (BBT)*		Linked to the Company's medium- to long-term total shareholders return (TSR) TSR = The rate of increase of the Company's shares over a fixed period + The dividend rate over the fixed period (Total dividend ÷ Initial share price)	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 points awarded to Directors in any 1 FY: 620,000 points (equivalent to 62,000 shares)
Audit & Supervisory Board Member	Monthly remuneration only	Fixed remuneration	Determined following deliberation among Audit & Supervisory Board Members	Within 12 million yen / month

*Limited to Executive Directors

Remuneration Paid to Officers in FY2018

Classification	Number of people	Amount paid
Directors (Outside)	11 (3)	299 million yen (32 million yen)
Audit & Supervisory Board Members (Outside)	3 (2)	49 million yen (14 million yen)
Total	14 (5)	348 million yen (46 million yen)

*Rounded down to nearest million yen
*The chart to the left includes remuneration for two Directors who retired from their positions due to the expiration of their terms of office upon the conclusion of the Ordinary General Meeting of Shareholders held on June 21, 2018.

Training for Officers

Attending Officers	Timing of implementation	Content
Newly appointed Officers	Within 3 months of taking office	Providing opportunities to attend seminars on legal responsibilities pertaining to the Companies Act and the Financial Instruments and Exchange Act, etc.
All Officers	Yearly	Training related to compliance in such areas as competition law, insider trading regulations, and anti-bribery
Outside Directors/Outside Audit & Supervisory Board Members	Upon appointment	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

Corporate Governance

Regarding Our Board Evaluation

The Company stipulates in Article 22 of "Kawasaki Kisen Kaisha, Ltd. CORPORATE GOVERNANCE GUIDELINES" as follows: "Each Director shall perform self-evaluation on the validity of the Board of Directors, his/her performance as a Director, etc. on an annual basis, and submit the results to the Board of Directors. Each year the Board of Directors shall, based on self-evaluation of each Director, analyze and evaluate the effectiveness of the Board of Directors as a whole, and shall disclose a summary of the results in a timely and proper manner."

Fiscal year (Evaluation method)	Item
2015 (Interview) Third-party evaluation	• The Board's Understanding of and Response to Strategy and Risk • Composition and Structure of the Board • Board Operations and Administration of the Board • Supervisory Function of the Board • The Board's Decision-Making Culture • Dialogue with Shareholders
2016 (Questionnaire)	• The Board's Understanding of Strategy and Risk • **Quality of Discussion of the Board** • Composition of the Board • Board Operations and Administration of the Board • **Effectiveness of Nominating and Remuneration Advisory Committees for Directors and Senior Management Members** • The Board's Decision-Making Culture • **Engagement with Shareholders and Other Stakeholders**
2017 (Questionnaire)	• The Board's Understanding of Strategy and Risk • Quality of Discussion of the Board • Composition of the Board • Board Operations and Administration of the Board • Effectiveness of Nominating and Remuneration Advisory Committees for Directors and Senior Management Members • The Board's Decision-Making Culture • **Group Governance** • Engagement with Shareholders and Other Stakeholders
2018 (Interview) Third-party evaluation	• The Board's Understanding of Strategy and Risks • Quality of Discussion of the Board • Composition of the Board • Board Operations and Administration of the Board • Effectiveness of Nominating and Remuneration Advisory Committees for Directors and Senior Management Members • The Board's Decision-Making Culture • Group Governance • Engagement with Shareholders and Other Stakeholders

*Bold items are newly added items.

FY2018 Evaluation

- Strives to continuously reform and improve governance
- A cooperative atmosphere due to the leadership of the Chairman
- Quick and appropriate decision-making process when executing duties
- Appropriate monitoring by diverse Outside Directors
- Proactive discussions about capital efficiency including the review of asset portfolio

Issues Going Forward

Improve discussions regarding the medium- to long-term management policy and plan

In order to create more time for discussions at Board meetings, we need to re-examine the standards for creating the agenda and to redefine the roles of the Board and the Management Conference. This will further accelerate and streamline the decision-making process, and promote more in-depth discussions of the medium- to long-term strategy.

Strengthen Group Governance

As a shareholder, we will strengthen the timely and appropriate monitoring system for the governance of Ocean Network Express (ONE), and ensure that monitoring by the Board, to the extent possible, is not limited to only the causes and consequences of changes to our results.

Risk Management after Project Execution

We need to verify the risks and apply the Advanced Business Management after we begin to execute projects. We will create a list of investment projects and carry out progress reports at the board level and establish a risk management PDCA cycle.

Improve Board Diversity

We believe that the diversity of our board is one of our strengths, however, there is room for further improvement in terms of gender diversity, specifically the absence of a female Director, and we will continue to work to improve the diversity of our Board.

HOME > CSR > Governance > Corporate Governance > Regarding Our Board Evaluation
https://www.kline.co.jp/en/csr/governance/corporate_governance/main/02/teaserItems1/017/linkList/0/link/20190426_2E.pdf

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 FY2018

The Internal Audit Group is responsible for formulating annual audit plans and implementing the audits. Primary audit activities for FY2018 include the following.

- Work process audits for all divisions of the Company (20 processes)
- General IT control audits of all primary IT systems of the Company (24 systems)
- Company-wide internal control audits of major Group companies (28 companies)
- Overseas Group companies audits (9 companies)
- Joint audits with internal audit divisions of the Group companies (1 company)

Risk Management

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.

Crisis Management Committee	Control and Facilitate Overall Risk Management
Ship Safety Promotion Committee	Crises/risks related to vessel operations
Disaster Response Committee	Crises/risks related to disasters
Compliance Committee	Crises/risks related to compliance
Management Risk Committee	Crises/risks related to management

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.

The risks described above do not include all the risks the "K" LINE Group is exposed to. 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

Compliance

Strengthening Our Group Compliance System

The "K" Line Group Global Compliance Policy (including Individual Policies of Competition Law and Anti-Corruption Law) (hereinafter, the Global Policy) which was established in January 2017 is to strengthen our Group compliance system on a global level. We oblige all executives and employees in "K" Line and our group companies to comply with the Global Policy. Through holding seminars by dedicated department, distributing Guidebook and activities of dedicated committee, we put much effort into having the Global Policy be the guideline on our daily business for all executives and employees in "K" Line and our group companies.

Furthermore, in order to quickly find information related to our management risks at our overseas companies and to manage them uniformly, we established a Global Hotline System in October 2018.

Compliance Promotion System and Our Efforts to Raise Compliance Awareness

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.

Furthermore, 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 and when we also hold compliance seminars.

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

Directors, Audit & Supervisory Board Members and Executive

Director, Chairman
Eizo Murakami

Representative Director
President & CEO
Yukikazu Myochin

Representative Director
Senior Managing
Executive Officer
Harusato Nihei

Representative Director
Senior Managing
Executive Officer
Atsuo Asano

Representative Director
Senior Managing
Executive Officer
Yukio Toriyama

Director
Senior Managing
Executive Officer
Kazuhiko Harigai

Senior Managing
Executive Officer
Kenji Sakamoto

Outside Director
Akira Okabe

Outside Director
Seiichi Tanaka

Outside Director
Keiji Yamada

Outside Director
Ryuhei Uchida

Audit & Supervisory
Board Member
Tsuyoshi Yamauchi

Audit & Supervisory
Board Member
Kunihiko Arai

Outside Audit &
Supervisory Board Member
Kozue Shiga

Directors

Director, Chairman
Eizo Murakami

Representative Director
Yukikazu Myochin

Representative Director
Harusato Nihei

Representative Director
Atsuo Asano

Representative Director
Yukio Toriyama

Director
Kazuhiko Harigai

Outside Director
Akira Okabe

Outside Director
Seiichi Tanaka

Outside Director
Keiji Yamada

Outside Director
Ryuhei Uchida

Audit & Supervisory Board Members

Audit & Supervisory Board Member
Tsuyoshi Yamauchi

Audit & Supervisory Board Member
Kunihiko Arai

Outside Audit & Supervisory Board Member
Kozue Shiga

Outside Audit & Supervisory Board Member
Atsumi Harasawa

Executive Officers

President & CEO
Yukikazu Myochin

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

Senior Managing Executive Officer
Atsuo Asano
Responsible for Dry Bulk Carriers Unit, Marine Sector, Advanced Technology, Ship Technical and Environmental Affairs Unit

Senior Managing Executive Officer
Kenji Sakamoto
President of "K" LINE AMERICA, INC.

Senior Managing Executive Officer
Kazuhiko Harigai
Responsible for Energy Transportation Business Unit

Senior Managing Executive Officer
Yukio Toriyama
Responsible for General Affairs, Human Resources, Legal, Corporate Legal Risk & Compliance, Corporate Planning, Research, IR&PR Unit, Assistance to Internal Audit, CCO (Chief Compliance Officer)

Senior Managing Executive Officer
Yasunari Sonobe
Responsible for Product Logistics Business Unit (Car Carriers, Containerships, Port Business, Logistics, Affiliated Business Promotion, Corporate Marketing Strategy)

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 Director of "K" LINE BULK SHIPPING (UK) LIMITED

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

Managing Executive Officer
Daisuke Arai
In charge of Containerships, Port Business, Logistics, Affiliated Business Promotion, Corporate Marketing Strategy

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

Managing Executive Officer
Kiyotaka Aya
In charge of Marine Sector

Managing 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 Planning & Development, Car Carrier Quality and Operations, Car Carrier Automotive Logistics Business

Officers

Senior Managing
Executive Officer
Yasunari Sonobe

Outside Audit &
Supervisory Board Member
Atsumi Harasawa

(As of July 1, 2019)

Executive Officer
Tomoyuki Okawa
In charge of Tankers

Executive Officer
Yuji Asano
In charge of Corporate Planning, Research, IR&PR

Executive Officer
Takahiko Tsurukawa
In charge of Bulk Carrier Business, Drybulk Planning

Executive Officer
Yu Kurimoto
In charge of Accounting, Finance, General Manager of Finance Group

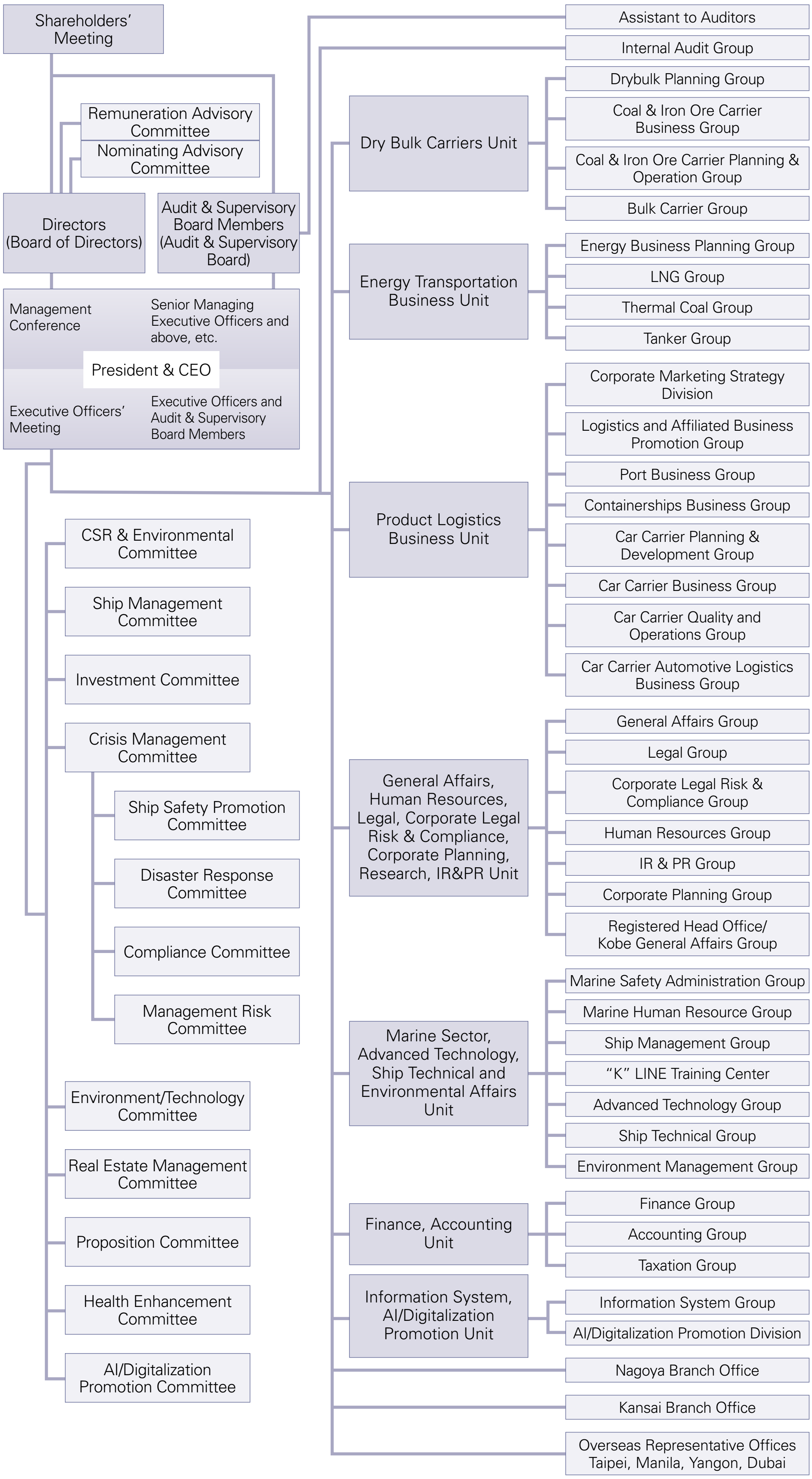
Executive Officer
Michitomo Iwashita
In charge of Thermal Coal, General Manager of Thermal Coal Group

Executive Officer
Takenori Igarashi
In charge of Car Carrier Business, General Manager of Car Carrier Business Group

Executive Officer
Satoshi Kanamori
In charge of LNG, Energy Business Planning, General Manager of Energy Business Planning Group

Executive Officer
Masatoshi Taguchi
In charge of Coal and Iron Ore Carrier Business, General Manager of Coal & Iron Ore Carrier Business Group

Organization (as of July 1, 2019)



10-Year Financial and ESG Data

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	
		FY2009	FY2010	FY2011	FY2012
Operating results (for the year)	Operating revenues	¥838,033	¥985,085	¥972,311	¥1,134,772
	Operating income	(52,075)	58,610	(40,563)	14,887
	Ordinary income*5	(66,272)	47,350	(48,956)	28,589
	Profit attributable to owners of the parent	(68,721)	30,603	(41,351)	10,669
Financial position (at year-end)	Total assets	1,043,885	1,032,505	1,066,649	1,180,434
	Net assets	331,865	314,986	259,935	361,975
	Equity capital*6	308,122	291,669	242,573	340,571
	Interest-bearing liabilities	516,001	483,363	592,523	629,864
	Capital expenditures	181,489	148,993	239,197	134,555
	Depreciation and amortization	45,281	44,722	50,044	59,668
	Cash flows from operating activities	(23,941)	84,902	(2,909)	59,756
	Cash flows from investing activities	(63,737)	(54,117)	(83,233)	(27,212)
	Free cash flows	(87,678)	30,785	(86,142)	32,544
	Cash flows from financing activities	109,411	(24,797)	86,307	26,364
Per share data	Profit attributable to owners of the parent (¥ or US$)	(106.24)	40.08	(54.14)	12.07
	Net assets (¥ or US$)	403.53	381.87	317.59	363.18
	Cash dividends applicable to the year (¥ or US$)	—	9.50	—	2.50
	Dividend payout ratio (%)	—	23.7	—	20.7
Management index	Return on equity (ROE)*7(%)	(21.4)	10.2	(15.5)	3.7
	Return on assets (ROA)*8(%)	(6.6)	4.6	(4.7)	2.5
	Debt equity ratio (DER)*9(Times)	1.67	1.66	2.44	1.85
	Equity ratio (%)	29.5	28.2	22.7	28.9
Average during the period	Exchange rate (¥ / US$)	93	86	79	82
	Fuel oil price (US$ / ton)	407	489	672	671
Consolidated business data	Vessels in operation*10	499	522	559	566
Human resource data	Consolidated employees	7,740	7,895	7,703	7,667
	Unconsolidated employees	623	623	664	659
	On land	433	437	486	481
	At sea	190	186	178	178
	Women (%)	18.5	18.9	22.9	22.8
	Persons with disabilities (%)	2.12	1.60	1.60	1.90
	Industrial accidents: On land	0	0	0	0
	Industrial accidents: At sea	1	0	0	1
Management*11	Directors	15	14	13	13
	Outside Directors	2	2	2	2
	Audit & Supervisory Board Members	5	5	5	5
	Outside Audit & Supervisory Board Members	3	3	3	3
Environmental data*12	Fuel oil (thousands of tons)	3,563	3,802	3,949	3,966
	CO_2 emissions (thousands of tons)	11,096	11,838	12,298	12,352
	SO_x emissions (thousands of tons)	197	208	214	209
	NO_x emissions (thousands of tons)	303	308	323	319

Notes: *1. Rounded to millions of yen
*2. The U.S. dollar amounts are converted from the yen amounts at ¥110.99 = US$1, the exchange rate prevailing on March 31, 2019.
*3. "Partial Amendments to the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, issued on February 16, 2018), etc. has been applied from the beginning of fiscal 2018, and applied retroactively to the total assets and return on assets for fiscal 2017 for recalculation.
*4. 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).
*5. Ordinary income consists of operating income and non-operating income / expenses.

Bridge to the Future		Value for our Next Century				
			– Action for Future –	Revival for Greater Strides		

FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2018
					(Millions of yen)*1	(Thousands of U.S. dollars)*2
¥1,224,126	¥1,352,421	¥1,243,932	¥1,030,191	¥1,162,025	**¥836,731**	**7,538,796**
28,854	47,988	9,428	(46,037)	7,220	**(24,737)**	**(222,876)**
32,455	48,981	3,339	(52,389)	1,963	**(48,934)**	**(440,887)**
16,642	26,818	(51,499)	(139,479)	10,384	**(111,188)**	**(1,001,784)**
1,254,742	1,223,328	1,115,224	1,045,210	1,036,887*3	**951,262**	**8,570,700**
410,690	467,440	379,914	245,482	243,094	**181,233**	**1,632,877**
388,837	441,532	355,376	219,485	217,011	**103,576**	**933,201**
643,795	536,847	525,152	550,512	570,585	**550,212**	**4,957,311**
93,378	89,502	116,593	68,048	101,105	**97,912**	**882,170**
52,244	53,527	48,303	47,421	43,411	**40,789**	**367,502**
88,228	101,826	39,636	(43,919)	1,167	**(6,809)**	**(61,348)**
(5,113)	(11,177)	(29,569)	(24,882)	(22,813)	**(35,494)**	**(319,795)**
83,115	90,648	10,066	(68,801)	(21,646)	**(42,303)**	**(381,143)**
(26,634)	(119,254)	(14,836)	26,436	22,240	**19,290**	**173,799**
						(U.S. dollars)
17.75	28.60	(54.95)	(1,488.23)*4	111.13*4	**(1,192.08)*4**	**(10.74)*4**
414.66	471.10	379.18	2,341.93*4	2,326.65*4	**1,110.48*4**	**10.01*4**
4.50	8.50	5.00	—	—	**—**	**—**
25.4	29.7	—	—	—	**—**	**—**
4.6	6.5	(12.9)	(48.5)	4.8	**(69.4)**	
2.7	4.0	0.3	(4.8)	0.2*3	**(4.9)**	
1.66	1.22	1.48	2.51	2.63	**5.31**	
31.0	36.1	31.9	21.0	20.8	**10.9**	
100	109	121	109	111	**111**	
626	541	295	265	349	**450**	
583	584	575	560	554	**520**	
7,703	7,834	8,097	8,018	7,153	**6,022**	
652	676	716	735	724	**756**	
478	504	541	552	531	**552**	
174	172	175	183	193	**204**	
24.4	25.4	26.3	24.9	25.1	**25.8**	
1.93	1.87	1.94	2.29	2.40	**2.05**	
0	0	0	1	2	**0**	
3	1	0	1	1	**1**	
13	10	9	9	9	**9**	
2	2	2	3	3	**3**	
4	4	4	4	3	**3**	
3	3	3	2	2	**2**	
3,651	3,646	3,942	3,872	4,102	**3,824**	
11,377	11,360	12,300	12,079	12,797	**11,932**	
190	182	190	183	195	**188**	
292	283	290	274	284	**262**	

*6. Equity capital: Net assets – (Non-controlling interests + Stock acquisition rights)
*7. Return on equity: Profit attributable to owners of the parent / Equity capital
*8. Return on assets: Ordinary income / Total assets
*9. Debt equity ratio: Interest-bearing liabilities / Equity capital
*10. Includes project-use vessels owned by special purpose companies (SPCs)
*11. For Kawasaki Kisen Kaisha, Ltd.
*12. 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 (including the portion purchased by ONE, to which all "K" LINE containerships have been chartered out). The figures are calculated on a calendar year basis.

Financial Analysis

Results of Operations

Operating revenues

In fiscal 2018, the year that ended March 31, 2019, the "K" LINE Group reported consolidated operating revenues of ¥836,731 million, down 28.0% from fiscal 2017. By business segment, operating revenues from dry bulk segment increased 10.0% year-on-year to ¥273,827 million on the strength of the large vessel market improvement in the first half. In the energy resource transport segment, energy resource transport business (LNG carrier, tanker and thermal coal carrier business) operated smoothly under mid- and long-term charter contracts. As for the offshore energy E&P support business (energy-related development business and offshore support vessel business), although the market remained weak in offshore support vessel business, energy-related development business operated smoothly. As a result, operating income increased 17.6% year-on-year to ¥88,701 million. In the product logistics segment, car carrier business experienced a decline in operating efficiency and other issues despite an increase in transportation volume. In the logistics business, strength of domestic logistics demand improved, and cargo volumes were robust for international logistics as well. In the short sea and coastal business, strength of short sea transportation volume improved, and in the coastal business, introduction of newly-built large vessels resulted in the expansion of loading capacity. However, operating revenue declined 44.8% year-on-year to ¥441,028 million due to transfer of containership business to OCEAN NETWORK EXPRESS PTE. LTD. (ONE). Operating revenues from the other segments declined 15.2%. It is worth noting that, because reporting segments were reclassified for the consolidated fiscal year, figures were rearranged from the same period last year into the reclassified segments for comparison.

Cost of sales and selling, general and administrative expenses

Cost of sales decreased ¥282,802 million, or 26.1%, from ¥1,083,299 million in the previous fiscal year to ¥800,497 million, as a result of factors such as decrease in ship operation expenses due to transfer of containership business to ONE. Cost of sales ratio increased 2.4 points, to 95.7%. Selling, general and administrative expenses declined ¥10,535 million, or 14.7%, to ¥60,971 million.

Operating income

Due to a decrease in gross profit, the Company reported a consolidated operating loss of ¥24,737 million, compared with operating income of ¥7,220 million in the previous year.

Other (non-operating) income (expenses)

The net balance of interest and dividend income and interest expense was negative ¥4,877 million versus negative ¥3,167 million in the previous year. This resulted from an increase in interest expense. The Company recorded an exchange gain of ¥950 million versus an exchange loss of ¥1,541 million in the previous fiscal year, and an equity in loss of subsidiaries and affiliates of ¥18,876 million compared with ¥4,601 million in fiscal 2017. As a result of these and other factors, other (non-operating) loss amounted to ¥24,197 million compared with a loss of ¥5,257 million in the previous fiscal year.

Profit before income taxes

Total extraordinary gains amounted to ¥10,095 million, due mainly to gain on sales of vessels, property and equipment. Extraordinary losses amounted to ¥60,584 million, due mainly to cancellation of chartered vessels and impairment loss. As a result, ¥99,423 million in loss before income taxes was recorded, compared with ¥17,188 million in profit before income taxes in fiscal 2017.

Income taxes

Income taxes increased ¥5,146 million from ¥4,213 million in the previous fiscal year to ¥9,360 million. This was due mainly to increases in the amount of deferred income taxes filed by companies.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests totaled ¥2,405 million versus ¥2,591 million in fiscal 2017. The decrease is partly attributable to a decrease in non-controlling interest in the income of International Transportation Service, Inc.

Profit attributable to owners of the parent

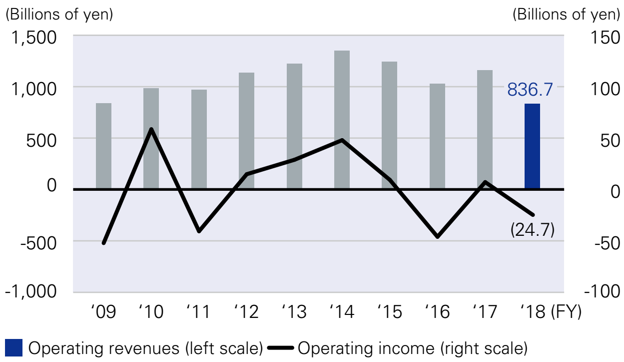
The loss attributable to owners of the parent was ¥111,188 million compared to the ¥10,384 million profit attributed to the owners of the parent in fiscal 2017. The loss attributable to owners of the parent per share was ¥1,192.08 versus a profit attributable to owners of the parent per share of ¥111.13 in the fiscal 2017.

Analysis of Sources of Capital and Liquidity

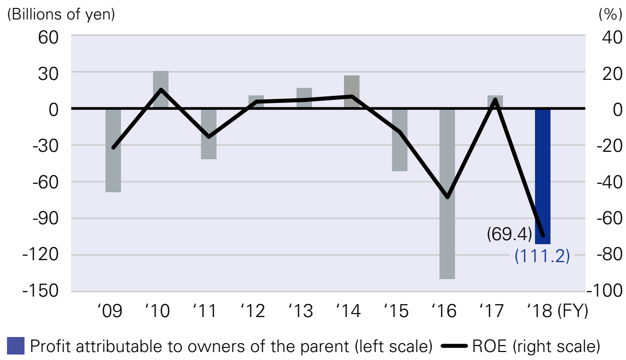
Cash flow

As of the end of the consolidated fiscal year, cash and cash equivalents stood at ¥138,040 million, down ¥20,032 million from a year earlier. The details of cash flow are as follows. Net cash provided by operating activities amounted to ¥6,809 million compared with net cash used in operating activities of ¥1,167 million in the previous consolidated fiscal year. Main factors were the net loss before income and taxes,

Operating Revenues / Operating Income



Profit Attributable to Owners of the Parent / ROE



and a decrease in trade accounts and notes payable. Net cash used in investing activities totaled ¥35,494 million versus ¥22,813 million in the previous consolidated fiscal year. This mainly reflected purchases of vessels. Net cash provided by financing activities was ¥19,290 million compared with net cash provided by financing activities of ¥22,240 million in the previous consolidated fiscal year. This change mainly reflected income from payments from non-controlling shareholders.

Funding requirements

The "K" LINE Group's major working capital requirement comes from shipping business expenses in connection with dry bulk business and car carrier business. 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 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. During the consolidated fiscal year, the "K" LINE Group made capital investments of ¥97,912 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, etc. 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, and the establishment of an ¥80.0 billion multi-year commitment line with financial institutions in Japan. The Company has been rated by one Japanese rating firm. As of June 21, 2019, the Company maintained a rating of BBB- from Japan Credit Rating Agency, Ltd. (JCR). The Company also has a short-term credit rating (commercial paper rating) of J-2 from JCR.

Financial Position

As of the end of the consolidated fiscal year, total assets amounted to ¥951,262 million, down ¥85,625 million from a year earlier. Current assets decreased ¥101,855 million year-on-year to ¥288,871 million, mainly due to reduced cash and deposits. Fixed assets increased ¥16,230 million to ¥662,390 million. Within this amount, vessels, property and equipment declined ¥34,322 million to ¥448,632 million, mainly due to a decrease in construction in progress. Investments and other assets increased ¥49,920 million to ¥209,381 million, mainly due primarily to a rise in investment in securities. Total liabilities as of the end of the consolidated fiscal year amounted to ¥770,028 million, down ¥23,765 million from a year earlier. Current liabilities amounted to ¥279,353 million and fixed liabilities amounted to ¥490,676 million, mainly as a result of a decline in allowance for trade accounts and notes payable, although other accounts payable, obligations under short-term loans and the like increased. Net assets as of the end of the consolidated fiscal year totaled ¥181,234 million, down ¥61,860 million from a year earlier. Within this amount, shareholders' equity was ¥91,152 million, mainly due to a ¥59,124 million decrease in capital surpluses, and a ¥50,414 million decrease in retained earnings. Accumulated other comprehensive income decreased ¥3,898 million to ¥12,424 million, mainly attributable to a ¥4,768 million decrease in deferred gain on hedges. It is worth noting that "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (ASBJ Statement No. 28, issued on February 16, 2018) has been applied from the beginning of the consolidated fiscal year, and that figures from the previous consolidated fiscal year have been retroactively processed for this comparison of financial conditions.

Dividend Policy

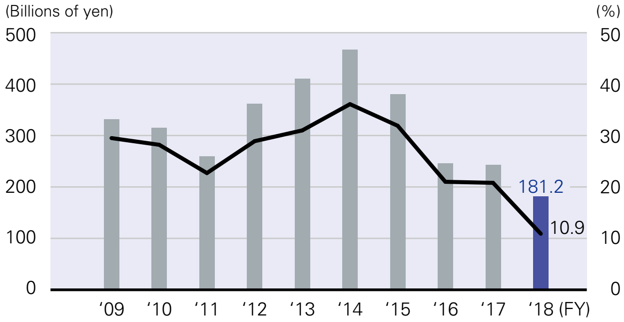
The Company regards maximization of returns to shareholders as an important priority. To this end, we endeavor to pay stable dividends, retaining necessary fund investments in plant and equipment and strengthening our financial position in order to achieve sustainable growth, which is a main priority 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, due to the loss attributable to owners of the parent this term, the Company has positioned the enhancement of financial strength and stability of business infrastructure as the highest priority. For this reason, as announced in October 2018, the Company will regrettably be unable to distribute a year-end dividend.

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.

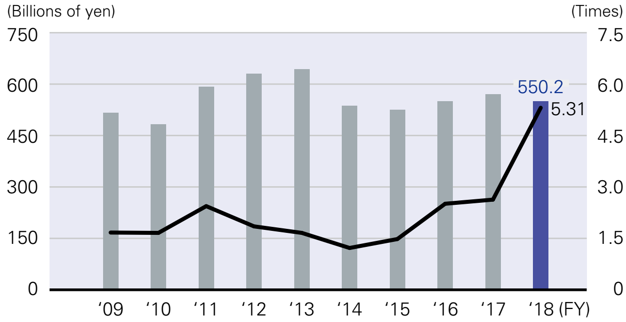
Net Assets / Equity Ratio



Net assets (left scale) — Equity ratio (right scale)

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

Interest-bearing Liabilities / DER



Interest-bearing liabilities (left scale) — DER (Debt Equity Ratio) (right scale)
DER: Interest-bearing liabilities / Equity capital

Consolidated Financial Statements

Consolidated Balance Sheet

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
Assets	**2019**	2018	**2019**
Current assets:			
Cash and deposits (Notes 7, 14 and 17)	**¥ 143,201**	¥ 200,606	**$ 1,290,215**
Accounts and notes receivable – trade (Note 14)	**62,722**	89,219	**565,114**
Allowance for doubtful receivables	**(1,268)**	(1,680)	**(11,424)**
Inventories (Note 5)	**26,419**	31,850	**238,030**
Prepaid expenses and deferred charges	**40,546**	43,880	**365,312**
Other current assets	**17,251**	26,851	**155,429**
Total current assets	**288,871**	390,726	**2,602,676**
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Notes 7, 14 and 19)	**147,754**	85,400	**1,331,237**
Investments in securities (Notes 4, 7 and 14)	**28,396**	35,321	**255,843**
Long-term loans receivable	**8,326**	10,136	**75,016**
Deferred tax assets (Notes 3 and 8)	**4,687**	3,819	**42,229**
Asset for retirement benefits (Note 10)	**673**	658	**6,064**
Other assets	**20,882**	25,062	**188,142**
Allowance for doubtful receivables	**(1,337)**	(935)	**(12,046)**
Total investments and other assets	**209,381**	159,461	**1,886,485**
Vessels, property and equipment:			
Vessels (Notes 2, 6 and 7)	**738,303**	730,320	**6,651,978**
Buildings, structures and equipment (Notes 6 and 7)	**86,816**	91,441	**782,197**
Accumulated depreciation (Note 2)	**(407,808)**	(395,052)	**(3,674,278)**
	417,311	426,709	**3,759,897**
Land (Notes 6, 7 and 12)	**18,398**	21,119	**165,763**
Construction in progress	**12,923**	35,126	**116,434**
Vessels, property and equipment, net (Note 19)	**448,632**	482,954	**4,042,094**
Intangible assets:			
Other intangible assets	**4,378**	3,746	**39,445**
Total intangible assets	**4,378**	3,746	**39,445**
Total assets (Note 19)	**¥ 951,262**	¥ 1,036,887	**$ 8,570,700**

Liabilities	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1(a)) 2019
Current liabilities:			
Short-term loans (Notes 7 and 14)	**¥ 42,744**	¥ 4,051	**$ 385,116**
Current portion of long-term debt (Notes 7 and 14)	**45,488**	88,110	**409,839**
Accounts and notes payable – trade (Note 14)	**57,837**	90,370	**521,101**
Accounts payable – other	**56,058**	5,088	**505,073**
Advances received	**20,729**	20,567	**186,765**
Current portion of obligations under finance leases	**11,364**	7,107	**102,388**
Accrued income taxes (Note 8)	**1,657**	2,929	**14,929**
Allowance for loss related to the Anti-Monopoly Act	**3,783**	1,672	**34,084**
Allowance for loss related to business restructuring	**—**	4,218	**—**
Allowance for loss on liquidation of subsidiaries and affiliates	**91**	88	**820**
Allowance for loss on chartering contracts	**15,136**	20,325	**136,373**
Other current liabilities	**24,466**	38,616	**220,432**
Total current liabilities	**279,353**	283,141	**2,516,920**
Long-term liabilities:			
Long-term debt, less current portion (Notes 7 and 14)	**415,706**	431,744	**3,745,437**
Obligations under finance leases, less current portion	**34,910**	39,572	**314,533**
Deferred tax liabilities on land revaluation (Notes 8 and 12)	**1,175**	1,784	**10,587**
Allowance for loss related to the Anti-Monopoly Act	**—**	2,450	**—**
Allowance for directors' and audit and supervisory board members' retirement benefits	**894**	1,843	**8,055**
Allowance for directors' stock benefits	**19**	11	**171**
Accrued expenses for overhaul of vessels	**12,252**	11,201	**110,388**
Liability for retirement benefits (Note 10)	**6,228**	6,579	**56,113**
Derivative liabilities	**6,209**	7,268	**55,942**
Deferred tax liabilities (Notes 3 and 8)	**9,633**	5,308	**86,792**
Other long-term liabilities	**3,650**	2,892	**32,885**
Total long-term liabilities	**490,676**	510,652	**4,420,903**
Commitments and contingent liabilities (Note 13)			
Net assets			
Shareholders' equity (Note 11):			
Common stock:			
Authorized – 200,000,000 shares in 2019 and 2018			
Issued – 93,938,229 shares in 2019 and 2018	**75,458**	75,458	**679,863**
Capital surplus	**1,383**	60,508	**12,461**
Retained earnings	**16,693**	67,107	**150,401**
Treasury stock – 666,319 shares in 2019 and 666,673 shares in 2018	**(2,382)**	(2,384)	**(21,462)**
Total shareholders' equity	**91,152**	200,689	**821,263**
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on investments in securities (Notes 4 and 8)	**4,415**	8,570	**39,778**
Deferred gain on hedges (Notes 8 and 15)	**3,000**	7,768	**27,029**
Revaluation reserve for land (Notes 8 and 12)	**4,655**	6,185	**41,941**
Translation adjustments	**4,064**	(3,539)	**36,616**
Retirement benefits liability adjustments (Notes 8 and 10)	**(3,710)**	(2,662)	**(33,426)**
Total accumulated other comprehensive income	**12,424**	16,322	**111,938**
Non-controlling interests	**77,657**	26,083	**699,676**
Total net assets	**181,233**	243,094	**1,632,877**
Total liabilities and net assets	**¥ 951,262**	¥ 1,036,887	**$ 8,570,700**

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, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2019	2018	2019
Marine transportation and other operating revenues (Note 19)	**¥ 836,731**	¥ 1,162,025	**$ 7,538,796**
Marine transportation and other operating costs and expenses	**800,497**	1,083,299	**7,212,334**
Gross profit	**36,234**	78,726	**326,462**
Selling, general and administrative expenses	**60,971**	71,506	**549,338**
Operating (loss) income (Note 2)	**(24,737)**	7,220	**(222,876)**
Other income (expenses):			
Interest and dividend income (Note 19)	**3,463**	3,802	**31,201**
Interest expenses (Note 19)	**(8,340)**	(6,970)	**(75,142)**
Equity in loss of subsidiaries and affiliates, net (Note 19)	**(18,876)**	(4,601)	**(170,069)**
Exchange gain (loss), net	**950**	(1,541)	**8,559**
Reversal of allowance for loss related to the Anti-Monopoly Act	**838**	3,551	**7,550**
Gain on sales of vessels, property and equipment, net	**6,568**	29,066	**59,177**
Loss on impairment of vessels, property and equipment (Notes 6 and 19)	**(9,002)**	(7,636)	**(81,106)**
Loss on cancellation of chartered vessels	**(49,326)**	(2,772)	**(444,418)**
Loss related to the Anti-Monopoly Act	**—**	(6,399)	**—**
Other, net (Notes 4 and 19)	**(961)**	3,468	**(8,659)**
	(74,686)	9,968	**(672,907)**
(Loss) profit before income taxes (Note 2)	**(99,423)**	17,188	**(895,783)**
Income taxes (Note 8):			
Current	**3,130**	5,750	**28,201**
Deferred	**6,230**	(1,537)	**56,131**
Total income taxes	**9,360**	4,213	**84,332**
(Loss) profit	**(108,783)**	12,975	**(980,115)**
Profit attributable to non-controlling interests	**2,405**	2,591	**21,669**
(Loss) profit attributable to owners of the parent	**¥ (111,188)**	¥ 10,384	**$ (1,001,784)**

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, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2019	2018	**2019**
(Loss) profit	**¥ (108,783)**	¥ 12,975	**$ (980,115)**
Other comprehensive loss (Note 16):			
Net unrealized holding loss on investments in securities	**(4,144)**	(272)	**(37,337)**
Deferred loss on hedges	**(5,545)**	(3,046)	**(49,959)**
Translation adjustments	**3,233**	(8,724)	**29,129**
Retirement benefits liability adjustments	**(1,010)**	178	**(9,100)**
Share of other comprehensive income (loss) of subsidiaries and affiliates accounted for by the equity method	**6,031**	(521)	**54,338**
Total other comprehensive loss	**(1,435)**	(12,385)	**(12,929)**
Comprehensive (loss) income	**¥ (110,218)**	¥ 590	**$ (993,044)**
(Breakdown)			
Comprehensive loss attributable to owners of the parent	**¥ (113,557)**	¥ (2,238)	**$ (1,023,128)**
Comprehensive income attributable to non-controlling interests	**3,339**	2,828	**30,084**

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, 2019

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, 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**
Changes in items during the years:														
Transfer to retained earnings from capital surplus	—	—	(59,003)	59,003	—	—	—	—	—	—	—	—	—	—
Loss attributable to owners of the parent	—	—	—	(111,188)	—	(111,188)	—	—	—	—	—	—	—	(111,188)
Purchases of treasury stock	—	—	—	—	(2)	(2)	—	—	—	—	—	—	—	(2)
Disposal of treasury stock	—	—	(1)	—	4	3	—	—	—	—	—	—	—	3
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	—	—	(121)	—	—	(121)	—	—	—	—	—	—	—	(121)
Reversal of revaluation reserve for land	—	—	—	1,529	—	1,529	—	—	—	—	—	—	—	1,529
Net change in retained earnings from changes in scope of consolidation or equity method	—	—	—	242	—	242	—	—	—	—	—	—	—	242
Net changes in items other than shareholders' equity	—	—	—	—	—	—	(4,155)	(4,768)	(1,530)	7,603	(1,048)	(3,898)	51,574	47,676
Net change during the year	—	—	(59,125)	(50,414)	2	(109,537)	(4,155)	(4,768)	(1,530)	7,603	(1,048)	(3,898)	51,574	(61,861)
Balance at March 31, 2019	**93,938**	**¥ 75,458**	**¥ 1,383**	**¥ 16,693**	**¥ (2,382)**	**¥ 91,152**	**¥ 4,415**	**¥ 3,000**	**¥ 4,655**	**¥ 4,064**	**¥ (3,710)**	**¥ 12,424**	**¥ 77,657**	**¥ 181,233**

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)													
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

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, 2018	**$ 679,863**	**$ 545,166**	**$604,622**	**$ (21,480)**	**$ 1,808,171**	**$ 77,214**	**$ 69,988**	**$55,726**	**$ (31,886)**	**$ (23,984)**	**$ 147,058**	**$ 235,004**	**$ 2,190,233**
Changes in items during the years:													
Transfer to retained earnings from capital surplus	—	(531,606)	531,606	—	—	—	—	—	—	—	—	—	—
Loss attributable to owners of the parent	—	—	(1,001,784)	—	(1,001,784)	—	—	—	—	—	—	—	(1,001,784)
Purchases of treasury stock	—	—	—	(18)	(18)	—	—	—	—	—	—	—	(18)
Disposal of treasury stock	—	(9)	—	36	27	—	—	—	—	—	—	—	27
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	—	(1,090)	—	—	(1,090)	—	—	—	—	—	—	—	(1,090)
Reversal of revaluation reserve for land	—	—	13,777	—	13,777	—	—	—	—	—	—	—	13,777
Net change in retained earnings from changes in scope of consolidation or equity method	—	—	2,180	—	2,180	—	—	—	—	—	—	—	2,180
Net changes in items other than shareholders' equity	—	—	—	—	—	(37,436)	(42,959)	(13,785)	68,502	(9,442)	(35,120)	464,672	429,552
Net change during the year	—	(532,705)	(454,221)	18	(986,908)	(37,436)	(42,959)	(13,785)	68,502	(9,442)	(35,120)	464,672	(557,356)
Balance at March 31, 2019	**$ 679,863**	**$ 12,461**	**$ 150,401**	**$ (21,462)**	**$ 821,263**	**$ 39,778**	**$ 27,029**	**$ 41,941**	**$ 36,616**	**$ (33,426)**	**$ 111,938**	**$ 699,676**	**$ 1,632,877**

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, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2019	2018	**2019**
Cash flows from operating activities:			
(Loss) profit before income taxes	**¥ (99,423)**	¥ 17,188	**$ (895,783)**
Depreciation and amortization	**40,789**	43,411	**367,502**
Decrease in liability for retirement benefits	**(386)**	(944)	**(3,478)**
Increase in asset for retirement benefits	**(16)**	(164)	**(144)**
(Decrease) increase in retirement benefits liability adjustments	**(928)**	317	**(8,361)**
Decrease in allowance for directors' and audit and supervisory board members' retirement benefits	**(949)**	(20)	**(8,550)**
Increase in accrued expenses for overhaul of vessels	**1,066**	447	**9,604**
Decrease in allowance for loss related to business restructuring	**(4,218)**	(7,230)	**(38,003)**
Decrease in allowance for loss related to the Anti-Monopoly Act	**(339)**	(1,101)	**(3,054)**
Decrease in allowance for loss on chartering contracts	**(5,189)**	(16,116)	**(46,752)**
Interest and dividend income	**(3,463)**	(3,802)	**(31,201)**
Interest expenses	**8,340**	6,970	**75,142**
Exchange gain, net	**(1,839)**	(79)	**(16,569)**
Loss on impairment of vessels, property and equipment	**9,002**	7,636	**81,106**
Equity in loss of subsidiaries and affiliates, net	**18,876**	4,601	**170,069**
Loss on cancellation of chartered vessels	**49,326**	2,772	**444,418**
Loss related to the Anti-Monopoly Act	**—**	6,399	**—**
Gain on sales of vessels, property and equipment, net	**(6,568)**	(29,066)	**(59,177)**
Gain on sales of marketable securities and investments in securities, net	**(1,623)**	(3,095)	**(14,623)**
Changes in operating assets and liabilities:			
Decrease (increase) in accounts and notes receivable – trade	**26,640**	(5,714)	**240,022**
Decrease (increase) in inventories	**5,502**	(2,873)	**49,572**
Decrease (increase) in other current assets	**9,517**	(9,022)	**85,746**
(Decrease) increase in accounts and notes payable – trade	**(32,446)**	671	**(292,333)**
Other, net	**(10,157)**	3,790	**(91,512)**
Subtotal	**1,514**	14,976	**13,641**
Interest and dividends received	**5,590**	4,460	**50,365**
Interest paid	**(7,243)**	(6,775)	**(65,258)**
Payments for cancellation of chartered vessels	**(1,450)**	(1,322)	**(13,064)**
Payments related to the Anti-Monopoly Act	**(834)**	(6,071)	**(7,514)**
Income taxes paid	**(4,386)**	(4,101)	**(39,518)**
Net cash (used in) provided by operating activities	**¥ (6,809)**	¥ 1,167	**$ (61,348)**

Consolidated Statement of Cash Flows (continued)

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2019	2018	**2019**
Cash flows from investing activities:			
Payments into time deposits	**¥ (7,229)**	¥ (126,112)	**$ (65,132)**
Proceeds from withdrawal of time deposits	**44,574**	126,591	**401,604**
Purchases of marketable securities and investments in securities	**(79,051)**	(32,978)	**(712,235)**
Proceeds from sales of marketable securities and investments in securities	**3,311**	4,368	**29,832**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	**—**	3,694	**—**
Purchases of vessels, property and equipment	**(95,893)**	(96,673)	**(863,979)**
Proceeds from sales of vessels, property and equipment	**98,179**	99,796	**884,575**
Purchases of intangible assets	**(1,399)**	(3,027)	**(12,605)**
Payments of long-term loans receivable	**(1,270)**	(838)	**(11,442)**
Collection of long-term loans receivable	**2,857**	1,144	**25,741**
Other, net	**427**	1,222	**3,846**
Net cash used in investing activities	**(35,494)**	(22,813)	**(319,795)**
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	**38,697**	(454)	**348,653**
Proceeds from long-term loans	**38,638**	76,265	**348,121**
Repayment of long-term loans and obligations under finance leases	**(56,524)**	(48,312)	**(509,271)**
Redemption of bonds	**(50,378)**	(378)	**(453,897)**
Cash dividends paid to non-controlling interests	**(916)**	(2,833)	**(8,253)**
Proceeds from share issuance to non-controlling interests	**50,000**	33	**450,491**
Purchases of shares of subsidiaries not resulting in change in scope of consolidation	**(265)**	(692)	**(2,388)**
Other, net	**38**	(1,389)	**343**
Net cash provided by financing activities	**19,290**	22,240	**173,799**
Effect of exchange rate changes on cash and cash equivalents	**2,981**	(759)	**26,859**
Net decrease in cash and cash equivalents	**(20,032)**	(165)	**(180,485)**
Cash and cash equivalents at beginning of year	**158,072**	156,792	**1,424,201**
Increase in cash and cash equivalents arising from initial consolidation of subsidiaries	**—**	1,446	**—**
Cash and cash equivalents at end of year (Note 17)	**¥ 138,040**	¥ 158,073	**$ 1,243,716**

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, 2019

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, 2018 to the 2019 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 ¥110.99=U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2019. 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 292 and 294 subsidiaries for the years ended March 31, 2019 and 2018, 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 282 consolidated subsidiaries have a March 31 year end, and the remaining 10 consolidated subsidiaries have a December 31 year end. For four 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 and other assets 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 and other assets in the following year which has been allocated to the current fiscal year.

(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 recognized.

(q) Allowance for loss related to business restructuring

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

(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 recognized.

(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 recognized 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) Allowance for loss on chartering contracts

In order to prepare for potential future loss under certain contracts where charter rates fall below hire rates, the probable and reasonably estimated amount of loss is recognized based on available information as of the end of the current fiscal year.

(u) 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 investments in the overseas subsidiaries, etc. and forecast transactions denominated in foreign currencies, interest rates, mainly on loan and lease transactions and market prices, mainly on bunker fuel.

The Group applies deferral hedge accounting method. 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.

(v) 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.

(w) Deferred assets

Bond issuance costs are charged to income as incurred.

(x) 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.

(y) 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.

(z) Consolidated taxation system

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

(aa) Accounting standards issued but not yet effective

(IFRS 16 Leases Applicable to Overseas Consolidated Subsidiaries)

(1) Overview

The accounting standard has been revised primarily so that lessees principally account for all leases on the balance sheet as assets and liabilities.

(2) Scheduled date of adoption

The Group expects to adopt the accounting standard from the beginning of the fiscal year ending March 31, 2020.

(3) Effect of the adoption of accounting standard

The Company is currently evaluating the effect of the adoption of the accounting standard on its consolidation financial statements.

(Accounting Standard and Implementation Guidance for Revenue Recognition)

(1) Overview

On March 30, 2018, the Accounting Standards Board of Japan (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 ("IASB") and the Financial Accounting Standards Board ("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 evaluating the effect of the adoption of the accounting standard and the implementation guidance on its consolidation financial statements.

2. Change in Accounting Estimate

(Change in Service Lives)

Taking the opportunity to review fleet planning following the changes in the business environment for car carriers, the Group reviewed its policies concerning vessel use during the current fiscal year in accordance with the actual service records and the outlook for vessel supply and demand.

As a result of this review, it became clear that a longer service life can be expected than that of the previous period, and therefore the service life of pure car carriers was changed from 20 years to 25 years.

As a result of this change in accounting estimate, operating loss and loss before income taxes for the current fiscal year decreased by ¥2,465 million ($22,209 thousand), respectively, compared to that under the previous method.

The effect of the change on each reporting segment is disclosed in Note 19. Segment Information.

3. Change in Presentation

(Applying "Partial Amendments to Accounting Standard for Tax Effect Accounting")

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 issued on February 16, 2018), etc. have been applied from the beginning of the current fiscal year. "Deferred tax assets" are now presented under "Investments and other assets" of the consolidated balance sheet, and "Deferred tax liabilities" are now presented under "Long-term liabilities."

In applying the revised standard, "Deferred tax assets" under "Current assets" decreased by ¥5,700 million and "Deferred tax assets" under "Investments and other assets" increased by ¥821 million as of the end of the previous fiscal year. "Deferred tax liabilities" under "Current liabilities" decreased by ¥2 million and "Deferred tax liabilities" under "Long-term liabilities" decreased by ¥4,878 million as of the end of the previous fiscal year.

In addition, "Deferred tax assets" and "Deferred tax liabilities" of the same taxable entity are offset, and total assets decreased by ¥4,879 million compared to previous method as of the end of the previous fiscal year.

Also, Note 8. Income Taxes stated in accordance with No.8 (except for total valuation allowance) and 9 of annotations on Interpretive Notes in Article 3 to 5 of the Partial Amendments to Accounting Standard for Tax Effect Accounting. However, comparative information for the previous fiscal year has not been disclosed in Note 8. Income Taxes in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments to Accounting Standard for Tax Effect Accounting.

4. Marketable Securities and Investments in Securities

At March 31, 2019 and 2018, marketable securities and investments in securities with quoted market prices classified as held-to-maturity debt securities are summarized as follows:

	Millions of yen		
	2019		
	Carrying value	Estimated fair value	Difference
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	**¥ 4**	**¥ 4**	**¥ 0**

	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

	Thousands of U.S. dollars		
	2019		
	Carrying value	Estimated fair value	Difference
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	**$ 36**	**$ 36**	**$ 0**

There are no securities whose estimated fair value does not exceed their carrying value at March 31, 2019 and 2018.

At March 31, 2019 and 2018 marketable securities and investments in securities with quoted market prices classified as other securities are summarized as follows:

	Millions of yen		
	2019		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**¥ 18,973**	**¥ 13,038**	**¥ 5,935**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**1,409**	**1,569**	**(160)**
Total	**¥ 20,382**	**¥ 14,607**	**¥ 5,775**

	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

	Thousands of U.S. dollars		
	2019		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**$ 170,943**	**$ 117,470**	**$ 53,473**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**12,695**	**14,136**	**(1,441)**
Total	**$ 183,638**	**$ 131,606**	**$ 52,032**

Proceeds from sales of investments in securities classified as other securities for the years ended March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Proceeds from sales	**¥ 3,130**	¥ 4,201	**$ 28,201**
Aggregate gain	**1,627**	3,096	**14,659**
Aggregate loss	**(2)**	—	**(18)**

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 ¥0 million ($0 thousand) and ¥9 million for the years ended March 31, 2019 and 2018, respectively. The Company has also recognized loss on devaluation of investments in unconsolidated subsidiaries and affiliates of ¥72 million ($649 thousand) and investment funds of ¥905 million ($8,154 thousand) for the year ended March 31, 2019. Loss on devaluation of investments in securities and unconsolidated subsidiaries and affiliates included in other, net is disclosed in the consolidated statement of operations.

5. Inventories

Inventories as of March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Raw materials and supplies	**¥ 26,258**	¥ 31,760	**$ 236,580**
Others	**161**	90	**1,450**
Total	**¥ 26,419**	¥ 31,850	**$ 238,030**

6. Loss on Impairment of Vessels, Property and Equipment

Losses on impairment of vessels, property and equipment for the years ended March 31, 2019 and 2018 are as follows:

Usage	Asset Description	Country	Millions of yen 2019	Thousands of U.S. dollars 2019
Business assets	Vessels and others (product logistics business)	Japan	**¥ 6,735**	**$ 60,681**
Business assets	Vessels (energy resource transport business)	Norway	**1,272**	**11,460**
Business assets	Vessels (dry bulk business)	Japan	**100**	**901**
Assets for sale	Vessels	Norway, Singapore and others	**880**	**7,929**
Idle assets	Land and others	Japan and others	**15**	**135**
Total			**¥ 9,002**	**$ 81,106**

Usage	Asset Description	Country	Millions of yen 2018
Business assets	Vessels (energy resource transport business)	Japan, Singapore	¥ 3,864
Business assets	Vessels (dry bulk business)	Japan	2,960
Business assets	Vessels (product logistics business)	Singapore	262
Business assets	Building and others (other business)	Japan	534
Idle assets	Land	Japan	16
Total			¥ 7,636

The Company and its consolidated subsidiaries, basically group business assets by units whose income and expenditure are monitored perpetually. However, the grouping is conducted by individual business assets for business assets whose cash flow is mostly individual, assets for sale and idle assets.

As profitability decreased significantly, the carrying values of business assets and assets group were reduced to the respective recoverable amounts and loss on impairment was recognized for the year ended March 31, 2019 and 2018.

Since the planned sales amounts of assets for sale were lower than the carrying values, the carrying values were reduced to the respective recoverable amounts and loss on impairment was recognized for the year ended March 31, 2019.

Since the respective recoverable amounts of the idle assets were deemed to be irretrievably lower than the carrying values mainly due to decreasing land prices, the carrying values were reduced to the respective recoverable amounts and loss on impairment was recognized for the years ended March 31, 2019 and 2018.

The recoverable amounts are the higher of net selling value and the value-in-use. Net selling value is measured by third-party valuations and others. The value-in-use is based on estimated future cash flows discounted at rate of 3.0 to 6.3 per cent, 3.7 to 5.8 per cent for the years ended March 31, 2019 and 2018, respectively.

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 0.83 per cent. and 0.35 per cent. per annum at March 31, 2019 and 2018, respectively.

Long-term debt at March 31, 2019 and 2018 consisted of the following:

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Loans from banks and insurance companies due in installments through September 2075 at average interest rates of 1.10% and 1.05% per annum at March 31, 2019 and 2018, respectively	**¥ 449,385**	¥ 457,667	**$ 4,048,879**
Euro-yen zero coupon convertible bonds with stock acquisition rights in yen, due September 26, 2018	**—**	50,000	**—**
Bonds in yen, interest rate indexed to TIBOR, due July 16, 2019	**1,809**	2,187	**16,299**
0.69% bonds in yen, due August 31, 2020	**3,000**	3,000	**27,029**
1.05% bonds in yen, due August 31, 2022	**7,000**	7,000	**63,069**
Total	**461,194**	519,854	**4,155,276**
Less: Current portion	**(45,488)**	(88,110)	**(409,839)**
Long-term debt, less current portion	**¥ 415,706**	¥ 431,744	**$ 3,745,437**

The Euro-yen zero coupon convertible bonds with stock acquisition rights due 2018 were convertible at ¥3,056.0 ($27.53) per share and were exercisable from October 10, 2013 to September 12, 2018. When holders of bonds with stock acquisition rights who intended to exercise their stock acquisition rights requested conversion of the repayment of the bonds to the payment of the exercise price, the Company regarded the payment of the exercise price as the repayment of the bonds. When holders of bonds with stock acquisition rights exercised their stock acquisition rights, the Company also regarded 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, 2019 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 45,488	$ 409,839
2021	88,594	798,216
2022	129,310	1,165,060
2023	92,938	837,355
2024	16,401	147,769
2025 and thereafter	88,463	797,037
Total	¥ 461,194	$ 4,155,276

A summary of assets pledged as collateral at March 31, 2019 for short-term loans and the current portion of long-term loans in the amount of ¥34,377 million ($309,731 thousand), long-term loans of ¥189,664 million ($1,708,839 thousand) and loans to be incurred in the future is presented below:

	Millions of yen	Thousands of U.S. dollars
Vessels	¥ 286,177	$ 2,578,403
Buildings, structures and equipment	454	4,090
Land	86	775
Investments in securities	19,562	176,250
Other	1,330	11,984
Total	¥ 307,609	$ 2,771,502

Investments in securities of ¥19,562 million ($176,250 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, 2019.

Out of vessels at net book value of ¥286,177 million ($2,578,403 thousand) above, ¥3,063 million ($27,597 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, 2019 and 2018.

The details of the differences between statutory tax rate and effective tax rate for the year ended March 31, 2019 were omitted because the Group recorded a loss before income taxes for the year.

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 tax effects of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2019 and 2018 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Deferred tax assets:			
Liability for retirement benefits	**¥ 2,265**	¥ 2,626	**$ 20,407**
Allowance for loss on chartering contracts	**4,450**	5,909	**40,094**
Other allowances	**5,804**	6,263	**52,293**
Loss on impairment of vessels, property and equipment	**2,664**	2,037	**24,002**
Loss on cancellation of chartered vessels	**14,849**	64	**133,787**
Elimination of unrealized intercompany profit	**902**	905	**8,127**
Accounts and notes payable – trade	**3,522**	1,907	**31,733**
Loss on devaluation of investments in securities	**12,886**	12,040	**116,101**
Tax loss carried forward (*2)	**56,039**	52,810	**504,901**
Other	**5,511**	7,396	**49,652**
Gross deferred tax assets	**108,892**	91,957	**981,097**
Valuation allowance for tax loss carried forward (*2)	**(54,319)**	—	**(489,404)**
Valuation allowance for the total of deductible temporary differences and others	**(46,981)**	—	**(423,291)**
Valuation allowance subtotal (*1)	**(101,300)**	(77,727)	**(912,695)**
Total deferred tax assets	**7,592**	14,230	**68,402**
Deferred tax liabilities:			
Reserve for special depreciation	**(271)**	(410)	**(2,442)**
Deferred gain on tangible fixed assets for tax purposes	**(850)**	(1,003)	**(7,658)**
Unrealized holding gain on investments in securities	**(1,629)**	(3,141)	**(14,677)**
Accelerated depreciation in overseas subsidiaries	**(4,380)**	(3,878)	**(39,463)**
Deferred gain on hedges	**(1,021)**	(3,200)	**(9,199)**
Tax effect of undistributed earnings of overseas subsidiaries and affiliates accounted for by the equity method	**(855)**	(622)	**(7,703)**
Other	**(3,532)**	(3,465)	**(31,823)**
Total deferred tax liabilities	**(12,538)**	(15,719)	**(112,965)**
Net deferred tax liabilities	**¥ (4,946)**	¥ (1,489)	**$ (44,563)**

(*1) Valuation allowance increased by ¥23,573 million ($212,389 thousand) in the year ended March 31, 2019. The main reasons for the increase are mainly due to the increase of ¥2,774 million ($24,993 thousand) in valuation allowance for tax loss carried forward, and increases of ¥14,607 million ($131,606 thousand) in valuation allowance for loss on cancellation of chartered vessels, ¥3,632 million ($32,724 thousand) in valuation allowance for loss on devaluation of investments in securities, and ¥2,042 million ($18,398 thousand) of valuation allowance for accounts and notes payable – trade, out of the valuation allowance for the total deductible temporary differences and others.

(*2) Tax loss carried forward and related deferred tax assets as of March 31, 2019 will expire as follows:

	Millions of yen		
	2019		
Year ending March 31,	Tax loss carried forward (*)	Valuation allowance for tax loss carried forward	Deferred tax assets for tax loss carried forward
2020	**¥ —**	**¥ —**	**¥ —**
2021	**13,917**	**(13,914)**	**3**
2022	**2,034**	**(2,032)**	**2**
2023	**1,362**	**(1,358)**	**4**
2024	**60**	**(46)**	**14**
2025 and thereafter	**38,666**	**(36,969)**	**1,697**
	¥ 56,039	**¥ (54,319)**	**¥ 1,720**

	Thousands of U.S. dollars		
	2019		
Year ending March 31,	Tax loss carried forward (*)	Valuation allowance for tax loss carried forward	Deferred tax assets for tax loss carried forward
2020	**$ —**	**$ —**	**$ —**
2021	**125,390**	**(125,363)**	**27**
2022	**18,326**	**(18,308)**	**18**
2023	**12,271**	**(12,235)**	**36**
2024	**540**	**(414)**	**126**
2025 and thereafter	**348,374**	**(333,084)**	**15,290**
	$ 504,901	**$ (489,404)**	**$ 15,497**

(*) The tax loss carried forward in the above table is measured using the statutory tax rate.

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, 2019 and 2018, 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	
	2019	
At March 31, 2019	Vessels	Total
Acquisition costs	**¥ 18,517**	**¥ 18,517**
Accumulated depreciation	**(4,394)**	**(4,394)**
Net book value	**¥ 14,123**	**¥ 14,123**

	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

	Thousands of U.S. dollars	
	2019	
At March 31, 2019	Vessels	Total
Acquisition costs	**$ 166,835**	**$ 166,835**
Accumulated depreciation	**(39,589)**	**(39,589)**
Net book value	**$ 127,246**	**$ 127,246**

Lease payments related to finance leases accounted for as operating leases and depreciation and interest expenses for the years ended March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Lease payments	**¥ 1,104**	¥ 1,136	**$ 9,947**
Depreciation	**758**	815	**6,829**
Interest expenses	**160**	169	**1,442**

Future minimum lease payments subsequent to March 31, 2019 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 939	$ 8,460
2021 and thereafter	7,744	69,772
Total	¥ 8,683	$ 78,232

Future minimum lease payments or receipts subsequent to March 31, 2019 for non-cancellable operating leases are summarized as follows:

(As lessees)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 33,505	$ 301,874
2021 and thereafter	148,540	1,338,319
Total	¥ 182,045	$ 1,640,193

(As lessors)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 3,803	$ 34,264
2021 and thereafter	10,707	96,468
Total	¥ 14,510	$ 130,732

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 plan.

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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Retirement benefit obligation at beginning of the year	**¥ 26,304**	¥ 26,131	**$ 236,994**
Service cost	**1,561**	1,707	**14,064**
Interest cost	**80**	88	**721**
Actuarial differences	**205**	(674)	**1,847**
Payment of retirement benefits	**(1,451)**	(902)	**(13,072)**
Foreign currency exchange rate changes	**45**	(46)	**405**
Retirement benefit obligation at end of the year	**¥ 26,744**	¥ 26,304	**$ 240,959**

The changes in pension plan assets, except for plans which apply a simplified method, for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Pension plan assets at fair value at beginning of the year	**¥ 22,555**	¥ 21,284	**$ 203,217**
Expected return on pension plan assets	**1,183**	1,131	**10,659**
Actuarial differences	**(826)**	(782)	**(7,442)**
Contributions by the employer	**1,309**	1,417	**11,794**
Payment of retirement benefits	**(1,038)**	(488)	**(9,352)**
Foreign currency exchange rate changes	**5**	(7)	**44**
Pension plan assets at fair value at end of the year	**¥ 23,188**	¥ 22,555	**$ 208,920**

The changes in liability for retirement benefits calculated by a simplified method for certain consolidated subsidiaries for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Liability for retirement benefits, net at beginning of the year	**¥ 2,171**	¥ 2,173	**$ 19,560**
Retirement benefit expenses	**415**	352	**3,739**
Payment of retirement benefits	**(418)**	(224)	**(3,766)**
Contributions to the plans	**(169)**	(172)	**(1,523)**
Other	**—**	42	**—**
Liability for retirement benefits, net at end of the year	**¥ 1,999**	¥ 2,171	**$ 18,010**

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2019 and 2018 for the Group's defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Funded retirement benefit obligation	**¥ 28,102**	¥ 27,627	**$ 253,194**
Plan assets at fair value	**(25,376)**	(24,808)	**(228,633)**
Subtotal	**2,726**	2,819	**24,561**
Unfunded retirement benefit obligation	**2,829**	3,102	**25,488**
Liability for retirement benefits in the consolidated balance sheet, net	**¥ 5,555**	¥ 5,921	**$ 50,049**
Liability for retirement benefits	**¥ 6,228**	¥ 6,579	**$ 56,113**
Asset for retirement benefits	**(673)**	(658)	**(6,064)**
Liability for retirement benefits in the consolidated balance sheet, net	**¥ 5,555**	¥ 5,921	**$ 50,049**

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

Retirement benefit expenses for the Group for the years ended March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Service cost	**¥ 1,561**	¥ 1,707	**$ 14,064**
Interest cost	**80**	88	**721**
Expected return on pension plan assets	**(1,183)**	(1,131)	**(10,659)**
Amortization of actuarial differences	**135**	431	**1,216**
Amortization of past service cost	**(16)**	(6)	**(143)**
Retirement benefit expenses calculated by a simplified method	**415**	352	**3,739**
Retirement benefit expenses	**¥ 992**	¥ 1,441	**$ 8,938**

Retirement benefits liability adjustments included in other comprehensive income before tax effects for the Group for the years ended March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Past service cost	**¥ (15)**	¥ (6)	**$ (135)**
Actuarial (gain)loss	**(902)**	329	**(8,127)**
Total	**¥ (917)**	¥ 323	**$ (8,262)**

Retirement benefits liability adjustments included in accumulated other comprehensive income before tax effects as of March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unrecognized past service cost	**¥ 106**	¥ 121	**$ 955**
Unrecognized actuarial differences	**(3,858)**	(2,956)	**(34,760)**
Total	**¥ (3,752)**	¥ (2,835)	**$ (33,805)**

The fair value of pension plan assets by major category as of March 31, 2019 and 2018 is as follows:

	2019	2018
Bonds	**38%**	35%
Equity	**23**	22
General account assets under insurance plan	**30**	30
Other	**9**	13
Total	**100%**	100%

The assumptions used in actuarial calculations for the above defined benefit plans for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018
Discount rates	**Mainly 0.0%**	Mainly 0.0%
Expected rates of return on plan assets	**Mainly 7.9%**	Mainly 7.9%
Rates of salary increase	**Mainly from 1.2% to 16.0%**	Mainly from 1.2% to 16.3%

Total contributions paid by consolidated subsidiaries to the defined contribution plans amounted to ¥453 million ($4,081 thousand) and ¥760 million for the years ended March 31, 2019 and 2018, 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 amounted to nil and ¥2,540 million for the years ended March 31, 2019 and 2018, respectively.

Movements in common stock and treasury stock of the Company for the years ended March 31, 2019 and 2018 are summarized as follows:

	Number of shares (Thousands)			
	April 1, 2018	Increase	Decrease	March 31, 2019
Common stock	**93,938**	**—**	**—**	**93,938**
Treasury stock (*1,2,3)	**667**	**0**	**1**	**666**

	Number of shares (Thousands)			
	April 1, 2017	Increase	Decrease	March 31, 2018
Common stock (*4)	939,382	—	845,444	93,938
Treasury stock (*5,6,7)	2,189	4,484	6,006	667

(*1) The increase in the number of shares in treasury stock of 0 thousand shares is due to purchases of shares of less than one voting unit.
(*2) The decrease in the number of shares in treasury stock of 1 thousand shares is mainly due to the decrease of 1 thousand shares resulting from providing shares related to the "Board Benefit Trust (BBT)" to officers and 0 thousand shares at request of shareholders owning less than one voting unit.
(*3) 447 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, 2019.
(*4) The decrease in the number of shares in common stock of 845,444 thousand shares is due to the implementation of share consolidation at a ratio of one share for 10 shares as of October 1, 2017.
(*5) 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.
(*6) 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.
(*7) 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, 2019 and 2018 are summarized as follows:

		Number of shares corresponding to stock acquisition rights (Thousands)				Amount
Breakdown	Type	April 1, 2018	Increase	Decrease	March 31, 2019	at March 31, 2019
Euro-yen zero coupon convertible bonds with stock acquisition rights in yen due 2018 (*)	Ordinary shares	**16,361**	**—**	**16,361**	**—**	**—**

(*) The decrease of number of shares corresponding to the stock acquisition rights is due to the redemption of the bonds.

		Number of shares corresponding to stock acquisition rights (Thousands)				Amount
Breakdown	Type	April 1, 2017	Increase	Decrease	March 31, 2018	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 to ¥3,056.0.

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 tax liabilities 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, 2019 and 2018, the fair value of land was lower than its carrying value after revaluation by ¥3,034 million ($27,336 thousand) and ¥2,628 million, respectively.

13. Commitments and Contingent Liabilities

At March 31, 2019, commitments made by the Group for the construction of vessels amounted to ¥14,882 million ($134,084 thousand).

Contingent liabilities for guarantees of loans to affiliates and third-party companies and obligations for additional investment, etc. as of March 31, 2019 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2019	**2019**
Guarantees of loans	**¥ 14,805**	**$ 133,390**
Obligations for additional investment, etc.	**3,274**	**29,498**

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

The Group has been investigated by the overseas competition authorities 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 addition, multiple service providers including the Group are currently subject to class actions in North America in relation to the same matter.

The Group contracts out containerships which the Company or its consolidated subsidiaries then charter to other charterers. Since charter rates are highly sensitive to fluctuations in charter markets, there is a risk that charter rates may fall below hire rates. Depending on changes in the Group's planning for chartering contracts or trends in charter markets, it may be necessary for the Group to recognize additional provisions for losses, when the loss amount can be rationally estimated, which could have a negative impact on the Group's financial position and operating results.

14. 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 56 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 investments in the overseas subsidiaries, etc., 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, (u) 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 investments in the overseas subsidiaries, etc., 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 15. Derivatives and Hedging Activities are not necessarily indicative of the actual market exposure involved in the derivative transactions.

Estimated fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2019 and 2018, 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		
	2019		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and deposits	**¥ 143,201**	**¥ 143,201**	**¥ —**
Accounts and notes receivable – trade	**62,722**	**62,722**	**—**
Marketable securities and investments in securities:			
Held to maturity debt securities	**4**	**4**	**0**
Other securities	**20,382**	**20,382**	**—**
Investment in unconsolidated subsidiaries and affiliates	**3,981**	**1,374**	**(2,607)**
Total assets	**¥ 230,290**	**¥ 227,683**	**¥ (2,607)**
Liabilities			
Accounts and notes payable – trade	**¥ (57,837)**	**¥ (57,837)**	**¥ —**
Short-term loans, inclusive of current portion of long-term loans	**(86,423)**	**(86,440)**	**(17)**
Long-term debt, less current portion:			
Bonds	**(10,000)**	**(9,615)**	**385**
Long-term loans	**(405,706)**	**(405,865)**	**(159)**
Total liabilities	**¥ (559,966)**	**¥ (559,757)**	**¥ 209**
Derivative transactions (*)	**¥ (4,154)**	**¥ (4,228)**	**¥ (74)**

	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)

	Thousands of U.S. dollars		
	2019		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and deposits	**$ 1,290,215**	**$ 1,290,215**	**$ —**
Accounts and notes receivable – trade	**565,114**	**565,114**	**—**
Marketable securities and investments in securities:			
Held to maturity debt securities	**36**	**36**	**0**
Other securities	**183,638**	**183,638**	**—**
Investments in unconsolidated subsidiaries and affiliates	**35,868**	**12,379**	**(23,489)**
Total assets	**$ 2,074,871**	**$ 2,051,382**	**$ (23,489)**
Liabilities			
Accounts and notes payable – trade	**$ (521,101)**	**$ (521,101)**	**$ —**
Short-term loans, inclusive of current portion of long-term loans	**(778,656)**	**(778,809)**	**(153)**
Long-term debt, less current portion:			
Bonds	**(90,098)**	**(86,629)**	**3,469**
Long-term loans	**(3,655,339)**	**(3,656,771)**	**(1,432)**
Total liabilities	**$ (5,045,194)**	**$ (5,043,310)**	**$ 1,884**
Derivative transactions (*)	**$ (37,427)**	**$ (38,094)**	**$ (667)**

(*) 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 debt securities is based on market prices provided by financial institutions. Fair value of equity securities and investments in securities is based on market prices prevailing in the applicable stock exchange. 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, 2019 and 2018 are summarized as follows.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unlisted investments in securities	**¥ 139,743**	¥ 77,436	**$ 1,259,059**

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, 2019 for cash and deposits, accounts and notes receivable – trade and held-to-maturity securities is summarized as follows:

	Millions of yen			
	2019			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	**¥ 143,201**	**¥ —**	**¥ —**	**¥ —**
Accounts and notes receivable – trade	**62,722**	**—**	**—**	**—**
Marketable securities and Investments in securities				
Held-to-maturity securities:				
Government, municipal bonds and others	**—**	**4**	**—**	**—**
Total	**¥ 205,923**	**¥ 4**	**¥ —**	**¥ —**

	Thousands of U.S. dollars			
	2019			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	**$ 1,290,215**	**$ —**	**$ —**	**$ —**
Accounts and notes receivable – trade	**565,114**	**—**	**—**	**—**
Marketable securities and Investments in securities				
Held-to-maturity securities:				
Government, municipal bonds and others	**—**	**36**	**—**	**—**
Total	**$ 1,855,329**	**$ 36**	**$ —**	**$ —**

15. Derivatives and Hedging Activities

Information on the estimated fair value of the derivatives positions outstanding not qualified for deferral hedge accounting at March 31, 2019 and 2018 has been omitted due to immateriality.

The estimated fair value of the derivatives positions outstanding qualified for deferral hedge accounting at March 31, 2019 and 2018 is summarized as follows:

Currency-related transactions

			Millions of yen		
			2019		
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	**¥ 24,270**	**¥ 1,231**	**¥ 943**
	Selling:				
	USD	Forecasted foreign currency transactions	**5,989**	**—**	**52**
	Currency swaps				
	Receiving JPY, paying USD	Vessel chartering revenues and forecasted foreign currency transactions	**6,148**	**—**	**309**
	Total		**¥ 36,407**	**¥ 1,231**	**¥ 1,304**

			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

			Thousands of U.S. dollars		
			2019		
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	**$ 218,668**	**$ 11,091**	**$ 8,496**
	Selling:				
	USD	Forecasted foreign currency transactions	**53,960**	**—**	**469**
	Currency swaps				
	Receiving JPY, paying USD	Vessel chartering revenues and forecasted foreign currency transactions	**55,392**	**—**	**2,784**
	Total		**$ 328,020**	**$ 11,091**	**$ 11,749**

(*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

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 (*)
			Millions of yen		
			2019		
Deferral hedge	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans	**¥ 71,109**	**¥ 65,897**	**¥ (5,941)**
Special treatment for interest rate swaps	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans	**1,575**	**1,505**	**(74)**
	Total		**¥ 72,684**	**¥ 67,402**	**¥ (6,015)**

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 (*)
			Millions of yen		
			2018		
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)

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 (*)
			Thousands of U.S. dollars		
			2019		
Deferral hedge	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans	**$ 640,679**	**$ 593,721**	**$ (53,527)**
Special treatment for interest rate swaps	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans	**14,190**	**13,559**	**(667)**
	Total		**$ 654,869**	**$ 607,280**	**$ (54,194)**

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

Others

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 (*)
			Millions of yen		
			2019		
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	**¥ 4,275**	**—**	**¥ 244**
	Forward freight agreements	Ocean freight	**974**	**—**	**1**
	Total		**¥ 5,249**	**—**	**¥ 245**

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 (*)
			Millions of yen		
			2018		
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

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 (*)
			Thousands of U.S. dollars		
			2019		
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	**$ 38,517**	**—**	**$ 2,198**
	Forward freight agreements	Ocean freight	**8,775**	**—**	**9**
	Total		**$ 47,292**	**—**	**$ 2,207**

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

16. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Net unrealized holding loss on investments in securities:			
Amount arising during the year	**¥ (3,827)**	¥ 2,717	**$ (34,481)**
Reclassification adjustments to profit or loss	**(1,848)**	(2,683)	**(16,650)**
Amount before tax effect	**(5,675)**	34	**(51,131)**
Tax effect	**1,531**	(306)	**13,794**
Net unrealized holding loss on investments in securities	**(4,144)**	(272)	**(37,337)**
Deferred loss on hedges:			
Amount arising during the year	**1,611**	5,456	**14,515**
Reclassification adjustments to profit or loss	**(4,680)**	(7,672)	**(42,166)**
Adjustments for acquisition costs of vessels due to valuation of hedges	**(4,610)**	(2,093)	**(41,535)**
Amount before tax effect	**(7,679)**	(4,309)	**(69,186)**
Tax effect	**2,134**	1,263	**19,227**
Deferred loss on hedges	**(5,545)**	(3,046)	**(49,959)**
Translation adjustments:			
Amount arising during the year	**3,233**	(11,920)	**29,129**
Reclassification adjustments to profit or loss	**—**	3,196	**—**
Translation adjustments	**3,233**	(8,724)	**29,129**
Retirement benefits liability adjustments:			
Amount arising during the year	**(1,010)**	(106)	**(9,100)**
Reclassification adjustments to profit or loss	**93**	429	**838**
Amount before tax effect	**(917)**	323	**(8,262)**
Tax effect	**(93)**	(145)	**(838)**
Retirement benefits liability adjustments	**(1,010)**	178	**(9,100)**
Share of other comprehensive income (loss) of subsidiaries and affiliates accounted for by the equity method:			
Amount arising during the year	**5,847**	(1,095)	**52,680**
Reclassification adjustments to profit or loss	**184**	574	**1,658**
Share of other comprehensive income (loss) of subsidiaries and affiliates accounted for by the equity method	**6,031**	(521)	**54,338**
Total other comprehensive loss	**¥ (1,435)**	¥ (12,385)	**$ (12,929)**

17. Supplementary Information on Consolidated Statement of Cash Flows

Cash and cash equivalents in the accompanying consolidated statement of cash flows for the years ended March 31, 2019 and 2018 are reconciled to cash and deposits reflected in the accompanying consolidated balance sheet as of March 31, 2019 and 2018 as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Cash and deposits	**¥ 143,201**	¥ 200,606	**$ 1,290,215**
Time deposits with a maturity of more than three months after the purchase date	**(5,161)**	(42,533)	**(46,499)**
Cash and cash equivalents	**¥ 138,040**	¥ 158,073	**$ 1,243,716**

18. Amounts per Share

Amounts per share at March 31, 2019 and 2018 and for the years then ended are as follows:

	Yen		U.S. dollars
	2019	2018	**2019**
Net assets	**¥ 1,110.48**	¥ 2,326.65	**$ 10.01**
(Loss) profit attributable to owners of the parent:			
Basic	**(1,192.08)**	111.13	**(10.74)**
Diluted	**—**	94.57	**—**

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

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

The financial data used in the computation of basic (loss) profit per share for the years ended March 31, 2019 and 2018 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Information used in computation of basic (loss) profit per share:			
(Loss) profit attributable to owners of the parent	**¥ (111,188)**	¥ 10,384	**$ (1,001,784)**

	Thousands of shares	
	2019	2018
Weighted-average number of shares of common stock outstanding	**93,272**	93,444
Increase in common stock	**—**	16,361
(Bonds with stock acquisition rights)	**(—)**	(16,361)

Diluted profit attributable to owners of the parent per share for the year ended March 31, 2019 has not been presented because loss for the year was recorded.

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 (loss) profit 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)" during the fiscal year ended March 31, 2018. 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 (loss) profit 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 447,254 and 275,754 shares for the years ended March 31, 2019 and 2018, respectively.

19. Segment Information

Segment information for the years ended March 31, 2019 and 2018

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 dry bulk segment, the energy resource transport segment and the product logistics segment, considering the economic characteristics, service contents and method of the provision and categorization of the market and customers.

The dry bulk segment includes dry bulk business. The energy resource transport segment includes energy transportation business and offshore energy E&P support business. The product logistics segment includes the following business: car carrier business, logistics business, short sea and coastal business, and containership business.

(Change in Service Lives)

As stated in Note 2. Change in Accounting Estimate, the Group changed the service life of pure car carriers from 20 years to 25 years during the current fiscal year, and the same change has been applied for the vessels of the reporting segments.

As a result of this change in accounting estimate, operating loss of the "Product Logistics" segment for the current fiscal year decreased by ¥2,465 million ($22,209 thousand), compared to that under the previous method.

(Change in Reporting Segments)

The Group decided to change its reporting segments to "Dry Bulk," "Energy Resource Transport" and "Product Logistics," respectively, effective the current fiscal year, from the previous segments, "Containership," "Bulk shipping" and "Offshore energy E&P support and heavy lifter."

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 dry bulk segment includes the dry bulk business. The energy resource transport segment includes the energy transportation business and the offshore energy E&P support business. The product logistics segment includes the following businesses: car carrier businesses, logistics business, short sea and coastal business, and containership business.

Revenues, segment profit (loss), segment assets and other items for the previous fiscal year have been reclassified in conformity with the current fiscal year.

2. Calculation method of reporting segment profit (loss)

Reporting segment profit (loss) represents ordinary income (loss), which consists of operating (loss) income and nonoperating income/expenses. Nonoperating income/expenses mainly include interest income, dividend income, interest expenses, exchange gain (loss), net, equity in earnings(loss) 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, 2019 and 2018 consisted of the following:

	Millions of yen						
	2019						
	Dry bulk	Energy resource transport	Product logistics	Other [*1]	Total	Adjustments and eliminations [*2]	Consolidated
1. Revenues:							
(1) Operating revenues from customers	**¥ 273,827**	**¥ 88,701**	**¥ 441,028**	**¥ 33,175**	**¥ 836,731**	**¥ —**	**¥ 836,731**
(2) Intra-group revenues and transfers	**160**	**0**	**8,901**	**48,955**	**58,016**	**(58,016)**	**—**
Total revenues	**¥ 273,987**	**¥ 88,701**	**¥ 449,929**	**¥ 82,130**	**¥ 894,747**	**¥ (58,016)**	**¥ 836,731**
2. Segment profit (loss) [*3]	**¥ 4,442**	**¥ 2,491**	**¥ (49,197)**	**¥ 1,125**	**¥ (41,139)**	**¥ (7,795)**	**¥ (48,934)**
3. Segment assets	**¥ 263,306**	**¥ 242,849**	**¥ 386,735**	**¥ 63,851**	**¥ 956,741**	**¥ (5,479)**	**¥ 951,262**
4. Others							
(1) Depreciation and amortization	**¥ 13,449**	**¥ 11,136**	**¥ 14,485**	**¥ 1,434**	**¥ 40,504**	**¥ 285**	**¥ 40,789**
(2) Interest income	**353**	**587**	**670**	**250**	**1,860**	**(233)**	**1,627**
(3) Interest expenses	**3,060**	**3,248**	**1,821**	**290**	**8,419**	**(79)**	**8,340**
(4) Equity in earnings (loss) of subsidiaries and affiliates, net	**—**	**1,184**	**(20,137)**	**77**	**(18,876)**	**—**	**(18,876)**
(5) Investments in subsidiaries and affiliates accounted for by the equity method	**—**	**23,349**	**97,829**	**3,981**	**125,159**	**—**	**125,159**
(6) Increase in vessels, property and equipment and intangible assets	**14,269**	**42,519**	**40,270**	**620**	**97,678**	**234**	**97,912**

	Millions of yen						
	2018						
	Dry bulk	Energy resource transport	Product logistics	Other [*1]	Total	Adjustments and eliminations [*4]	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) [*3]	¥ (133)	¥ 440	¥ 5,778	¥ 3,018	¥ 9,103	¥ (7,140)	¥ 1,963
3. Segment assets	¥ 278,726	¥ 243,863	¥ 403,205	¥ 77,274	¥ 1,003,068	¥ 33,819	¥ 1,036,887
4. Others							
(1) Depreciation and amortization	¥ 13,430	¥ 9,974	¥ 17,498	¥ 2,211	¥ 43,113	¥ 298	¥ 43,411
(2) Interest income	305	495	610	185	1,595	(174)	1,421
(3) Interest expenses	2,844	2,327	1,376	530	7,077	(107)	6,970
(4) Equity in earnings (loss) of subsidiaries and affiliates, net	—	994	(5,663)	68	(4,601)	—	(4,601)
(5) Investments in subsidiaries and affiliates accounted for by the equity method	—	15,835	39,034	3,923	58,792	—	58,792
(6) Increase in vessels, property and equipment and intangible assets	18,113	48,079	33,675	961	100,828	277	101,105

	Thousands of U.S. dollars						
	2019						
	Dry bulk	Energy resource transport	Product logistics	Other (*1)	Total	Adjustments and eliminations (*2)	Consolidated
1. Revenues:							
(1) Operating revenues from customers	**$ 2,467,132**	**$ 799,180**	**$ 3,973,583**	**$ 298,901**	**$ 7,538,796**	**$ —**	**$ 7,538,796**
(2) Intra-group revenues and transfers	**1,442**	**0**	**80,196**	**441,076**	**522,714**	**(522,714)**	**—**
Total revenues	**$ 2,468,574**	**$ 799,180**	**$ 4,053,779**	**$ 739,977**	**$ 8,061,510**	**$ (522,714)**	**$ 7,538,796**
2. Segment profit (loss) (*3)	**$ 40,022**	**$ 22,443**	**$ (443,256)**	**$ 10,136**	**$ (370,655)**	**$ (70,232)**	**$ (440,887)**
3. Segment assets	**$ 2,372,340**	**$ 2,188,026**	**$ 3,484,413**	**$ 575,286**	**$ 8,620,065**	**$ (49,365)**	**$ 8,570,700**
4. Others							
(1) Depreciation and amortization	**$ 121,173**	**$ 100,333**	**$ 130,507**	**$ 12,921**	**$ 364,934**	**$ 2,568**	**$ 367,502**
(2) Interest income	**3,180**	**5,289**	**6,037**	**2,252**	**16,758**	**(2,099)**	**14,659**
(3) Interest expenses	**27,570**	**29,264**	**16,407**	**2,613**	**75,854**	**(712)**	**75,142**
(4) Equity in earnings (loss) of subsidiaries and affiliates, net	**—**	**10,668**	**(181,431)**	**694**	**(170,069)**	**—**	**(170,069)**
(5) Investments in subsidiaries and affiliates accounted for by the equity method	**—**	**210,370**	**881,422**	**35,868**	**1,127,660**	**—**	**1,127,660**
(6) Increase in vessels, property and equipment and intangible assets	**128,561**	**383,089**	**362,825**	**5,586**	**880,061**	**2,109**	**882,170**

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

*2 (1) The adjustment and elimination of segment profit (loss) of ¥7,795 million ($70,232 thousand) includes the following elements: ¥273 million ($2,460 thousand) of intersegment transaction eliminations and ¥7,522 million ($67,772 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 ¥5,479 million ($49,365 thousand) includes the following elements: ¥29,587 million ($266,574 thousand) of intersegment transaction eliminations and ¥24,108 million ($217,209 thousand) of corporate assets, which are not distributed to specific segments.

(3) The adjustment and elimination of depreciation and amortization of ¥285 million ($2,568 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 ¥233 million ($2,099 thousand) includes the following elements: ¥448 million ($4,036 thousand) of intersegment transaction eliminations and ¥215 million ($1,937 thousand) of interest income, which are not distributed to specific segments.

(5) The adjustment and elimination of interest expenses of ¥79 million ($712 thousand) includes the following elements: ¥448 million ($4,036 thousand) of intersegment transaction eliminations and ¥369 million ($3,324 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 ¥234 million ($2,109 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 ¥7,140 million includes the following elements: ¥513 million of intersegment transaction eliminations and ¥6,627 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 ¥33,819 million includes the following elements: ¥37,732 million of intersegment transaction eliminations and ¥71,551 million of corporate assets, which are not distributed to specific segments.

(3) The adjustment and elimination of depreciation and amortization of ¥298 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 ¥174 million includes the following elements: ¥303 million of intersegment transaction eliminations and ¥129 million of interest income, which are not distributed to specific segments.

(5) The adjustment and elimination of interest expenses of ¥107 million includes the following elements: ¥302 million of intersegment transaction eliminations and ¥195 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 ¥277 million is the increase in assets that belong to the entire group, which are not distributed to specific segments.

Revenues by countries or geographical areas for the years ended March 31, 2019 and 2018 are summarized as follows:

	Millions of yen					
	2019					
	Japan	U.S.A.	Europe	Asia	Others	Total
Revenues	**¥ 419,234**	**¥ 73,317**	**¥ 111,818**	**¥ 183,743**	**¥ 48,619**	**¥ 836,731**

	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

	Thousands of U.S. dollars					
	2019					
	Japan	U.S.A.	Europe	Asia	Others	Total
Revenues	**$ 3,777,223**	**$ 660,573**	**$ 1,007,460**	**$ 1,655,492**	**$ 438,048**	**$ 7,538,796**

At March 31, 2019 and 2018, vessels, property and equipment by countries or geographical areas are summarized as follows:

	Millions of yen			
	2019			
	Japan	Singapore	Others	Total
Vessels, property and equipment	**¥ 327,703**	**¥ 50,627**	**¥ 70,302**	**¥ 448,632**

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

	Thousands of U.S. dollars			
	2019			
	Japan	Singapore	Others	Total
Vessels, property and equipment	**$ 2,952,545**	**$ 456,140**	**$ 633,409**	**$ 4,042,094**

Losses on impairment of vessels, property and equipment for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen					
	2019					
	Dry bulk	Energy resource transport	Product logistics	Other (*)	Adjustments and eliminations	Total
Loss on impairment of vessels, property and equipment	**¥ 100**	**¥ 2,104**	**¥ 6,786**	**¥ —**	**¥ 12**	**¥ 9,002**

	Millions of yen					
	2018					
	Dry bulk	Energy resource transport	Product logistics	Other (*)	Adjustments and eliminations	Total
Loss on impairment of vessels, property and equipment	¥ 2,960	¥ 3,864	¥ 262	¥ 534	¥ 16	¥ 7,636

	Thousands of U.S. dollars					
	2019					
	Dry bulk	Energy resource transport	Product logistics	Other (*)	Adjustments and eliminations	Total
Loss on impairment of vessels, property and equipment	**$ 901**	**$ 18,957**	**$ 61,140**	**$ —**	**$ 108**	**$ 81,106**

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

20. Subsequent Events

a. (Establishment of Joint Holding Company through Share Transfer and Partial Transfer of Holding Company's Shares)

On April 1, 2019, the Company established a joint holding company that became the wholly owning parent company of the three domestic harbor transportation subsidiaries of the Company through an associated share transfer, and 49% of the total shares of the holding company were then transferred to Kamigumi Co., Ltd. ("Kamigumi").

1. Purpose

Further enhancement of service quality by utilizing resources such as technology, knowledge and management resources that the Company and Kamigumi have cultivated in the harbor transportation business and domestic logistics business.

2. Procedures for the Share Transfer

Under this joint share transfer, the three domestic harbor transportation subsidiaries of the Company became wholly-owned subsidiaries and the newly incorporated joint holding company became the wholly-owning parent company.

3. Effective Date of the Share Transfer

April 1, 2019

4. Outline of the Three Target Companies (as of March 31, 2019)

(1) Company name	Daito Corporation	Nitto Total Logistics Ltd.	SEAGATE CORPORATION
(2) Date established	September 3, 1934	March 8, 1943	December 7, 1956
(3) Location of head office	Minato-ku, Tokyo	Chuo-ku, Kobe	Minami-ku, Hiroshima
(4) Representative	President Kazuhiro Matsukawa	President Mitsuru Kochi	President & CEO Hiroshi Nishiyama
(5) Capital	¥843 million ($7,595 thousand)	¥1,596 million ($14,380 thousand)	¥270 million ($2,433 thousand)
(6) Shareholder and share ownership ratio	Kawasaki Kisen Kaisha, Ltd. 100%	Kawasaki Kisen Kaisha, Ltd. 100%	Kawasaki Kisen Kaisha, Ltd. 100%
(7) Main business	Harbor transportation, warehousing, harbor tugboat service, custom brokerage, freight forwarding, etc.		

5. Outline of the Joint Holding Company (at the time of establishment)

(1) Company name KLKG HOLDINGS, Co., Ltd.
(2) Location of head office Chiyoda-ku, Tokyo
(3) Representative Representative Director Daisuke Arai
(4) Capital ¥10 million ($90 thousand)
(5) Main business Management of its subsidiaries within the group and the business of the group as a whole, etc.

6. Overview of the Partial Transfer of the Joint Holding Company's Shares

(1) Transfer to Kamigumi Co., Ltd.
(2) Transfer date April 1, 2019
(3) Number of shares transferred 49,000 shares
(4) Transfer price Due to a confidentiality provision in the agreement with the transferee, the transfer price may not be disclosed.
(5) Gain on share transfer The Company expects that this transaction will have an immaterial impact on its consolidated business results for the fiscal year ending March 31, 2020.
(6) Increase in capital surplus Increase in capital surplus is currently being evaluated.
(7) Stock ownership after the transfer 51%

b. (Financing through Subordinated Loan)

The Company raised funds through a subordinated loan (the "Subordinated Loan") on April 5, 2019, which was agreed to on March 29, 2019. An overview is as follows.

Overview of the Subordinated Loan

(1) Total loan amount ¥45,000 million ($405,442 thousand)
(2) Date of agreement March 29, 2019
(3) Loan execution date April 5, 2019
(4) Maturity date March 31, 2054
The Company may, at its own discretion, make early repayment of all or part of the principal of the Subordinated Loan on March 31, 2024 or any interest payment date thereafter or upon occurrence of any predefined early repayment events.
(5) Use of loan proceeds Repayment of interest-bearing liabilities and capital expenditures mainly for vessels.
(6) Applicable interest rate (a) From April 5, 2019 up to and excluding March 31, 2024
At base floating interest rate plus initial spread
(b) From March 31, 2024
At base floating interest rate plus 1.00% step-up from initial spread
(7) Interest deferral clause The Company may defer interest payments at its own discretion.
(8) Replacement restrictions There is no contractual provision on replacement restrictions.
However, if the Company repays the Subordinated Loan earlier than the due date, the Company intends to replace the Subordinated Loan with other financial instruments that have an equal or higher equity credit from the credit rating agency (*).
(9) Subordination clause The creditors of the Subordinated Loan shall have a claim subordinated to that of other senior debt creditors in the event of the Company's liquidation, bankruptcy, corporate reorganization or civil rehabilitation proceedings under Japanese Laws or any equivalent proceedings under any laws other than Japanese Laws. Any provisions stipulated in the Subordinated Loan agreement shall not be amended in any manner detrimental to any of the Company's creditors other than the creditors of the Subordinated Loan.
(10) Evaluation of equity credit Medium Level, 50% (Japan Credit Rating Agency, Ltd.)
(11) Lenders Mizuho Bank, Ltd., Development Bank of Japan Inc., and Sumitomo Mitsui Trust Bank, Limited

(*) The Company may decide not to replace the Subordinated Loan with other financial instruments that have an equal or higher equity credit, if the Company satisfies predefined financial requirements.

21. Related Party Transactions

1. Transactions with related parties

Transactions with the Company and related parties for the years ended March 31, 2019 and 2018 are summarized as follows:

For the year ended March 31, 2019

Name	Location	Thousands of U.S. dollars Amount of capital stock	Business description	Voting (%)	Relationship
OCEAN NETWORK EXPRESS PTE. LTD. (*1)	SINGAPORE	**$ 3,000,000**	Container Shipping Business	—	Investee Chartering contractor, etc. Interlocking directors

Details of business transaction	Amount of transaction Millions of yen	Amount of transaction Thousands of U.S. dollars	Account	Balance at the end of year Millions of yen	Balance at the end of year Thousands of U.S. dollars
Underwriting of additional investments	**¥ 72,244**	**$ 650,905**			
Receiving charter hire, etc. (*2)	**89,805**	**809,127**	Accounts and notes receivable – trade	**¥ 3,508**	**$ 31,606**
			Other current assets	**227**	**2,045**
			Investments in and advances to unconsolidated subsidiaries and affiliates	**312**	**2,811**

(*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) Fee for charter hire, etc. is determined after discussion considering market prices, hiring cost and acquisition cost.

For the year ended March 31, 2018

Name	Location	Thousands of U.S. dollars Amount of capital stock	Business description	Voting (%)	Relationship
OCEAN NETWORK EXPRESS PTE. LTD. (*1)	SINGAPORE	$ 800,000	Container Shipping Business	—	Investee

Details of business transaction	Millions of yen Amount of transaction
Underwriting of investments (*2)	¥ 28,816

(*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, 2019. The affiliate's summarized financial statements for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Total current assets	**¥ 376,069**	¥ 53,642	**$ 3,388,314**
Total fixed assets	**42,144**	25,924	**379,710**
Total current liabilities	**168,066**	11,547	**1,514,245**
Total long-term liabilities	**5,321**	5,232	**47,941**
Total net assets	**244,826**	62,787	**2,205,838**
Operating revenues	**1,258,215**	26	**11,336,292**
Loss before income taxes	**(61,790)**	(22,205)	**(556,717)**
Loss	**(65,147)**	(22,205)	**(586,963)**

Independent Auditor's Report

EY
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, 2019, 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, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 21, 2019
Osaka, Japan

Global Network


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

Major Subsidiaries and Affiliates[*1] (as of March 31, 2019)

Domestic		Company name	"K" LINE's ownership (%)[*2]	Paid-in capital (millions)	Fiscal 2018 revenue (millions)
Marine transportation		Kawasaki Kinkai Kisen Kaisha, Ltd.	51.0	¥ 2,369	¥ 43,447
		Asahi Kisen Kaisha, Ltd.	100.0	100	272
	★	Shibaura Kaiun Co., Ltd.	100.0	20	707
Ship management		"K" Line Energy Ship Management Co., Ltd.	100.0	75	10,877
		"K" Line RoRo Bulk Ship Management Co., Ltd.	100.0	400	36,050
Harbor transportation / Warehousing		Daito Corporation	100.0	843	23,451
		Nitto Total Logistics Ltd.	100.0	1,596	15,304
		Hokkai Transportation Co., Ltd.	80.1	60	12,309
		Seagate Corporation	100.0	270	7,571
		Nitto Tugboat Co., Ltd.	100.0	150	4,150
	★	Rinko Corporation	25.1	1,950	17,625
Logistics		"K" Line Logistics, Ltd.	91.9	600	32,440
Land transportation		Japan Express Transportation Co., Ltd.	100.0	100	3,038
		Shinto Rikuun Kaisha, Ltd.	100.0	10	853
		Maizuru Kousoku Yusou Co., Ltd.	100.0	25	714
Container repairing		Intermodal Engineering Co., Ltd.	100.0	40	186
Travel business		"K" Line Travel, Ltd.	100.0	100	6,346
Holding company	★	Ocean Network Express Holdings, Ltd.	31.0	50	0
Other business		"K" Line Engineering Co., Ltd.	100.0	50	1,996
		Shinki Corporation	100.0	80	2,565
		"K" Line Business Systems, Ltd.	100.0	40	1,054
		KMDS Co., Ltd.	100.0	40	1,270
		"K"Line Business Support, Ltd.	100.0	30	665
		Offshore Operation Co., Ltd.	55.6	26	2,107
		K Line Next Century GK	100.0	0.1	0

Overseas		Company name	"K" LINE's ownership (%)[*2]	Paid-in capital (millions)	Fiscal 2018 revenue (millions)
Marine transportation		"K" Line Pte Ltd	100.0	US$41.0	US$216.0
		"K" Line Bulk Shipping (UK) Limited	100.0	US$34.0	US$203.0
		"K" Line LNG Shipping (UK) Limited	100.0	US$36.0	US$89.0
		"K" Line European Sea Highway Services GmbH	100.0	EUR5.0	EUR105.0
		'K' Line (India) Shipping Private Limited	80.0	INR609.0	INR559.0
		K Line Offshore AS	100.0	NOK2,107.0	NOK318.0
	★	Northern LNG Transport Co., I Ltd.	49.0	US$48.0	US$23.0
	★	Northern LNG Transport Co., II Ltd.	36.0	US$53.0	US$20.0
	★	Ocean Network Express Pte. Ltd.[*3]	—	US$3,000.0	US$11,336.0
Shipping agency		"K" Line America, Inc.	100.0	US$16.0	US$25.0
		"K" Line (Australia) Pty Limited	100.0	A$0.0001	A$6.0
		"K" Line (Belgium) N.V.	51.0	EUR0.06	EUR1.0
		"K" Line Brasil Transportes Maritimos Ltda.	100.0	BRL2.0	BRL6.0
		KLine (China) Ltd.	100.0	US$3.0	CNY36.0
		"K" Line Chile Ltda	100.0	US$0.6	US$1.0
		"K" Line (Deutschland) GmbH	100.0	EUR0.1	EUR8.0
		"K" Line (Europe) Limited	100.0	£0.01	£5.0
		"K" Line (Korea) Ltd.	100.0	KRW400.0	KRW4,647.0

Overseas		Company name	"K" LINE's ownership (%)*2	Paid-in capital (millions)	Fiscal 2018 revenue (millions)
		"K" Line Maritime (M) Sdn Bhd	57.5	MYR0.3	MYR1.0
		K Line Mexico SA de CV	100.0	MXN0.9	US$1.0
		"K" Line Peru S.A.C.	100.0	PEN1.0	PEN2.0
		"K" Line Shipping (South Africa) Pty Ltd	51.0	ZAR0.0001	ZAR38.0
		"K" Line (Taiwan) Ltd.	60.0	NT$60.0	NT$60.0
		K Line (Thailand) Ltd.	39.0	THB30.0	THB2,107.0
		"K" Line (Vietnam) Limited	100.0	US$3.0	VND20,342.0
		PT. K Line Indonesia	93.0	IDR2,557.0	IDR23,694.0
	★	'K' Line (India) Private Limited	50.0	INR60.0	INR391.0
Ship management		"K" Line Ship Management (Singapore) Pte. Ltd.	100.0	S$0.7	US$54.0
Terminal operator		International Transportation Service, Inc.	70.0	US$34.0	US$205.0
		Husky Terminal & Stevedoring, Inc.	100.0	US$0.1	US$107.0
Freight consolidation		Century Distribution Systems, Inc.	100.0	US$2.0	US$26.0
		Century Distribution Systems (Canada), Inc.	100.0	US$0.0001	US$0.6
		Century Distribution Systems (Europe) B.V.	100.0	EUR0.01	EUR2.0
		Century Distribution Systems (Hong Kong) Limited	100.0	HK$0.07	HK$35.0
		Century Distribution Systems (International) Limited	100.0	HK$2.0	HK$189.0
		Century Distribution Systems (Shenzhen) Limited	100.0	CNY5.0	CNY415.0
		Century Distribution Systems (Shipping) Limited	100.0	HK$0.000001	HK$9.0
Warehousing		Universal Logistics System, Inc.	100.0	US$12.0	US$0.7
		Universal Warehouse Co.	100.0	US$0.05	US$8.0
Logistics		"K" Line Logistics (Hong Kong) Ltd.	100.0	HK$8.0	HK$126.0
		"K" Line Logistics (Singapore) Pte. Ltd.	100.0	S$1.0	S$34.0
		K Line Logistics South East Asia Ltd.	95.0	THB73.0	THB0.0
		K Line Logistics (Thailand) Ltd.	86.5	THB20.0	THB871.0
		"K" Line Logistics (UK) Ltd.	100.0	£0.2	£6.0
		"K" Line Logistics (U.S.A.) Inc.	100.0	US$0.3	US$87.0
		K Line Total Logistics, LLC	100.0	US$0.01	US$19.0
Land transportation		ULS Express, Inc.	100.0	US$0.05	US$4.0
		PMC Transportation Company, Inc.	100.0	US$0.0	US$0.3
Container repairing		Bridge Chassis Supply LLC.	100.0	US$8.0	US$8.0
	★	Multimodal Engineering Corporation	100.0	US$0.1	US$14.0
Holding company		Kawasaki (Australia) Pty. Ltd.	100.0	A$5.0	A$0.1
		"K" Line Holding (Europe) Limited	100.0	£45.0	£0.0
		"K" Line Drilling/Offshore Holding, INC.	100.0	US$0.001	US$0.0
Other business		"K" Line TRS S.A.	100.0	US$0.006	US$0.0
	★	"K" Line Auto Logistics Pty Ltd.	50.0	A$67.0	A$175.0

*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
NOK: Norwegian krone
VND: Vietnamese dong
ZAR: South African rand
PEN: Peruvian nuevo sol
INR: Indian rupee
BRL: Brazil Real
MXN: Mexican peso

Outline of the Company / Stock Information

Outline of the Company (as of March 31, 2019)

Name	Kawasaki Kisen Kaisha, Ltd. ("K" LINE)
Established	April 5, 1919
Paid-in capital	¥75,457.64 million
President	Yukikazu Myochin (Effective from April 1, 2019)
Employees	On-land Duty 552 At-sea Duty 204 Unconsolidated total 756 Consolidated total 6,022
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: 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, Finland, Denmark, Norway, Spain, Portugal, Turkey, U.S.A., Mexico, Chile, Peru, Brazil, South Africa, etc.
Affiliated companies (to be consolidated)	26 (domestic), 304 (overseas)

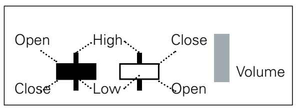
Stock Information (as of March 31, 2019)

Authorized	200,000,000 shares of common stock
Issued	93,938,229 shares of common stock
Number of shareholders	28,997
Shareholder registry administrator	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Listing of shares	Tokyo, Nagoya and Fukuoka

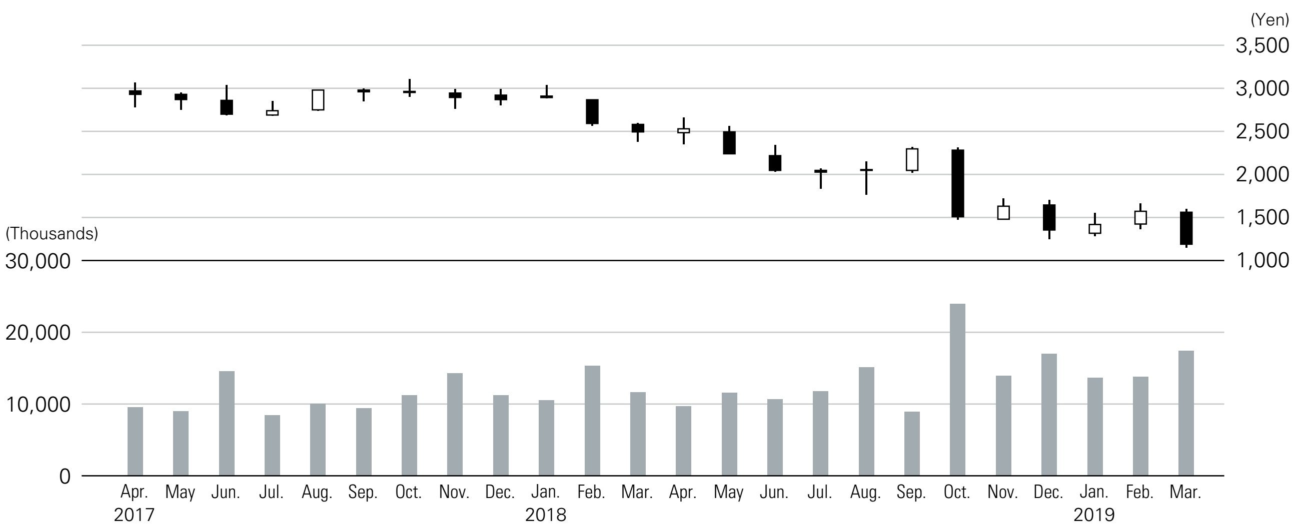
Principal Shareholders (as of March 31, 2019)

Shareholders	Number of shares held (thousands)	Percentage of shares held (%)
SMP PARTNERS (CAYMAN) LIMITED	15,297	16.31
GOLDMAN SACHS INTERNATIONAL	9,989	10.65
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	5,151	5.49
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
ECM MF	3,119	3.32
The Master Trust Bank of Japan, Ltd. (trust account)	3,067	3.27
IMABARI SHIPBUILDING CO., LTD.	2,910	3.10
JFE Steel Corporation	2,817	3.00
J.P.MORGAN SECURITIES PLC FOR AND ON BEHALF OF ITS CLIENTS JPMSP RE CLIENT ASSETS-SEGR ACCT	2,100	2.24
Sompo Japan Nipponkoa Insurance Inc.	1,910	2.03

*Percentage of shares held is calculated excluding treasury stock (194,972 shares).



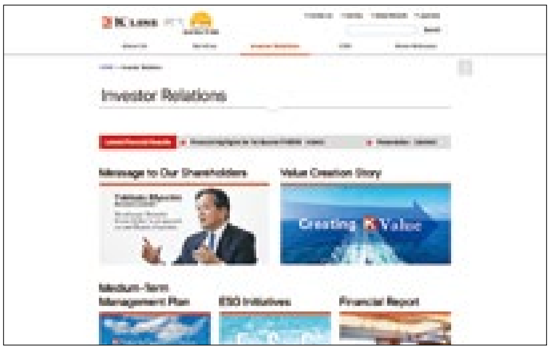
Stock Price Range & Trading Volume (Tokyo Stock Exchange)



*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).

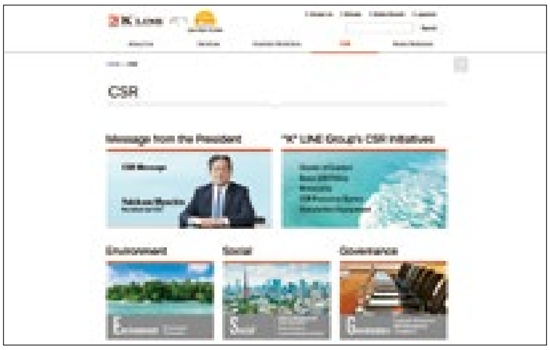
"K" LINE's Websites

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.



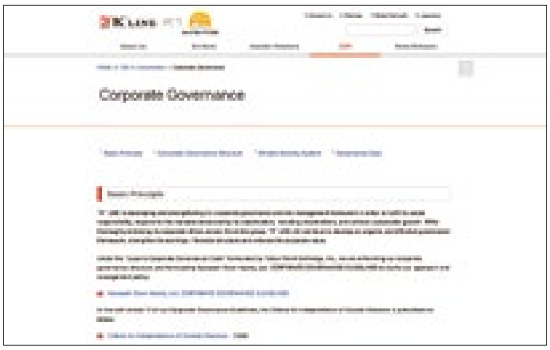
Investor Relations

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



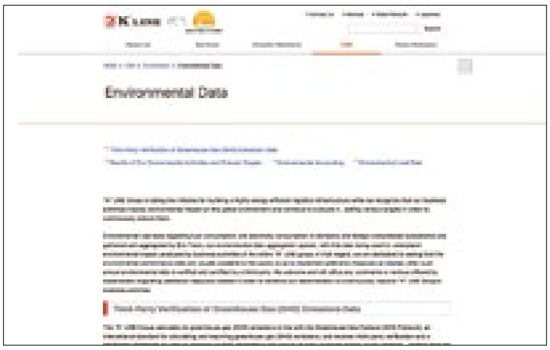
CSR

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



Environmental Data

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

About This Report

Reporting Period

Fiscal 2018 (April 1, 2018–March 31, 2019)

Note: The report also includes some developments after April 2019.

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
- ISO 26000
- Environmental Reporting Guidelines 2018, The Ministry of the Environment of Japan
- Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation, The Ministry of Economy, Trade and Industry of Japan

"K" LINE
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