

## Consolidated Balance Sheets

Mitsui O.S.K. Lines, Ltd. March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Current assets:</b>			
Cash and cash equivalents	¥ 45,263	¥ 43,057	\$ 428,262
Marketable securities (Note 3)	4,460	4,961	42,199
Trade receivables	119,476	118,887	1,130,438
Allowance for doubtful accounts	(2,097)	(2,474)	(19,841)
Fuel and supplies	12,778	13,829	120,901
Deferred and prepaid expenses	58,435	49,993	552,890
Deferred tax assets (Notes 2 (14) and 11)	6,691	4,692	63,308
Other current assets	54,538	56,700	516,018
<b>Total current assets</b>	<b>299,544</b>	<b>289,645</b>	<b>2,834,175</b>
<b>Vessels, property and equipment, at cost (Note 5):</b>			
Vessels	861,902	977,981	8,155,001
Buildings and structures	65,438	67,172	619,150
Equipment, mainly containers	48,632	47,999	460,138
Land	60,150	60,811	569,117
Vessels and other property under construction	34,475	39,020	326,190
	<b>1,070,597</b>	<b>1,192,983</b>	<b>10,129,596</b>
Accumulated depreciation	(592,976)	(623,749)	(5,610,521)
	<b>477,621</b>	<b>569,234</b>	<b>4,519,075</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 3 and 5)	72,876	49,565	689,526
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 3)	73,630	71,019	696,660
Long-term loan receivable	12,012	8,247	113,653
Consolidation difference	2,471	2,563	23,380
Intangible assets	8,171	6,369	77,311
Deferred tax assets (Notes 2 (14) and 11)	1,592	3,992	15,063
Other assets	52,289	45,978	494,739
	<b>223,041</b>	<b>187,733</b>	<b>2,110,332</b>
	<b>¥1,000,206</b>	<b>¥1,046,612</b>	<b>\$ 9,463,582</b>

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Current liabilities:</b>			
Short-term bank loans . . . . .	¥ 68,032	¥ 96,179	\$ 643,694
Short-term bonds . . . . .	7,966	6,885	75,371
Commercial paper . . . . .	29,000	33,000	274,387
Total short-term debt (Note 5) . . . . .	104,998	136,064	993,452
Long-term bank loans due within one year . . . . .	71,618	65,365	677,623
Bonds due within one year . . . . .	4,057	15,628	38,386
Total long-term debt due within one year (Note 5) . . . . .	75,675	80,993	716,009
Trade payables . . . . .	86,634	88,297	819,699
Advances received . . . . .	59,640	51,644	564,292
Accrued income taxes . . . . .	30,305	8,590	286,735
Deferred tax liabilities (Notes 2 (14) and 11) . . . . .	393	321	3,719
Other current liabilities . . . . .	40,446	57,929	382,685
Total current liabilities . . . . .	398,091	423,838	3,766,591
Long-term bank loans due after one year . . . . .	270,756	358,714	2,561,794
Bonds due after one year . . . . .	40,265	36,875	380,973
Total long-term debt due after one year (Note 5) . . . . .	311,021	395,589	2,942,767
Employees' severance and retirement benefits (Note 12) . . . . .	13,913	15,030	131,640
Directors' and corporate auditors' retirement benefits . . . . .	1,521	–	14,391
Deferred tax liabilities (Notes 2 (14) and 11) . . . . .	15,587	9,227	147,478
Other non-current liabilities . . . . .	31,371	30,446	296,821
Minority interests . . . . .	7,167	7,692	67,811
<b>Commitments and contingent liabilities (Note 6)</b>			
<b>Shareholders' equity (Note 7):</b>			
Common stock;			
Authorized – 3,154,000,000 shares			
Issued – 1,205,410,445 shares . . . . .	64,915	64,915	614,202
Capital surplus . . . . .	43,935	43,887	415,697
Retained earnings . . . . .	101,991	56,469	965,002
	210,841	165,271	1,994,901
Revaluation reserve for land, net of tax . . . . .	2,267	2,231	21,449
Unrealized holding gains on available-for-sale securities, net of tax (Note 2 (5)) . . . . .	25,435	7,036	240,656
Foreign currency translation adjustments . . . . .	(14,475)	(8,055)	(136,957)
Treasury stock, at cost (Note 2 (17)) . . . . .	(2,533)	(1,693)	(23,966)
Total shareholders' equity . . . . .	221,535	164,790	2,096,083
	¥1,000,206	¥1,046,612	\$9,463,582



# Consolidated Statements of Shareholders' Equity

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2004 and 2003

	Millions of yen							
	Shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land, net of tax	Unrealized holding gains on available-for-sale securities, net of tax	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	1,205,410	¥ 64,915	¥ 43,887	¥ 47,818	¥2,173	¥ 11,424	(2,609)	(638)
Due to change in consolidated subsidiaries	—	—	—	116	—	—	—	—
Due to change in affiliated companies accounted for by the equity method	—	—	—	(30)	—	—	—	—
Net income	—	—	—	14,710	—	—	—	—
Revaluation reserve for land, net of tax	—	—	—	—	58	—	—	—
Unrealized holding gains on available-for-sale securities, net of tax	—	—	—	—	—	(4,388)	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(5,466)	—
Treasury stock	—	—	—	—	—	—	—	(1,055)
Gains on disposal of treasury stock	—	—	0	—	—	—	—	—
Dividends paid	—	—	—	(6,017)	—	—	—	—
Bonuses to directors	—	—	—	(128)	—	—	—	—
<b>Balance at March 31, 2003</b>	<b>1,205,410</b>	<b>¥64,915</b>	<b>¥43,887</b>	<b>¥ 56,469</b>	<b>¥2,231</b>	<b>¥ 7,036</b>	<b>¥ (8,055)</b>	<b>¥(1,693)</b>
Due to change in consolidated subsidiaries	—	—	—	293	—	—	—	—
Due to change in affiliated companies accounted for by the equity method	—	—	—	764	—	—	—	—
Net income	—	—	—	55,391	—	—	—	—
Revaluation reserve for land, net of tax	—	—	—	—	36	—	—	—
Unrealized holding gains on available-for-sale securities, net of tax	—	—	—	—	—	18,399	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(6,420)	—
Treasury stock	—	—	—	—	—	—	—	(840)
Gains on disposal of treasury stock	—	—	48	—	—	—	—	—
Dividends paid	—	—	—	(10,802)	—	—	—	—
Bonuses to directors	—	—	—	(124)	—	—	—	—
<b>Balance at March 31, 2004</b>	<b>1,205,410</b>	<b>¥64,915</b>	<b>¥43,935</b>	<b>¥101,991</b>	<b>¥2,267</b>	<b>¥25,435</b>	<b>¥(14,475)</b>	<b>¥(2,533)</b>

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land, net of tax	Unrealized holding gains on available-for-sale securities, net of tax	Foreign currency translation adjustments	Treasury stock	
Balance at March 31, 2003	\$614,202	\$415,243	\$ 534,289	\$21,109	\$ 66,572	\$ (76,213)	\$(16,019)	
Due to change in consolidated subsidiaries	—	—	2,772	—	—	—	—	
Due to change in affiliated companies accounted for by the equity method	—	—	7,230	—	—	—	—	
Net income	—	—	524,088	—	—	—	—	
Revaluation reserve for land, net of tax	—	—	—	340	—	—	—	
Unrealized holding gains on available-for-sale securities, net of tax	—	—	—	—	174,084	—	—	
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(60,744)	—	
Treasury stock	—	0	—	—	—	—	(7,947)	
Gains on disposal of treasury stock	—	454	—	—	—	—	—	
Dividends paid	—	—	(102,204)	—	—	—	—	
Bonuses to directors	—	—	(1,173)	—	—	—	—	
<b>Balance at March 31, 2004</b>	<b>\$614,202</b>	<b>\$415,697</b>	<b>\$ 965,002</b>	<b>\$21,449</b>	<b>\$240,656</b>	<b>\$(136,957)</b>	<b>\$(23,966)</b>	

See accompanying notes.

# Consolidated Statements of Cash Flows

Mitsui O.S.K. Lines, Ltd. March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 89,776	¥ 25,114	\$ 849,427
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	55,334	60,711	523,550
Equity in earnings of affiliated companies, net	(6,613)	(3,387)	(62,570)
Loss on write-down of investment securities	401	6,124	3,794
Loss on write-down of securities issued by subsidiaries and affiliates	397	170	3,756
Various provisions (reversals)	215	(1,807)	2,034
Interest and dividend income	(2,996)	(2,840)	(28,347)
Interest expense	16,930	21,103	160,186
Loss (Gain) on sale of marketable securities	(19)	3	(180)
Loss (Gain) on sale of investment securities	(767)	1,474	(7,257)
Loss (Gain) on sale of securities issued by subsidiaries and affiliates	441	(65)	4,173
Gain on sale and disposal of tangible fixed assets	(1,473)	(3,436)	(13,937)
Exchange loss (gain)	(2,029)	1,113	(19,197)
Changes in operating assets and liabilities:			
Trade receivables	(1,401)	(21,662)	(13,255)
Fuel and supplies	953	(2,437)	9,017
Trade payables	(697)	678	(6,595)
Other, net	(6,533)	24,870	(61,813)
Sub total	141,919	105,726	1,342,786
Cash received for interest and dividend	4,915	4,262	46,504
Cash paid for interest	(18,612)	(22,874)	(176,100)
Cash paid for corporate income tax, resident tax, and enterprise tax	(13,631)	(4,239)	(128,972)
Net cash provided by operating activities	114,591	82,875	1,084,218
<b>Cash flows from investing activities:</b>			
Purchase of marketable securities	(1,603)	(2,715)	(15,167)
Purchase of investment securities	(3,287)	(4,649)	(31,100)
Proceeds from sale of marketable securities	3,385	1,408	32,028
Proceeds from sale of investment securities	5,724	3,640	54,158
Payments for vessels and other tangible fixed assets	(50,549)	(47,005)	(478,276)
Proceeds from sale of vessels and other tangible fixed assets	52,249	19,494	494,360
Disbursements for loans	(5,048)	(1,046)	(47,762)
Collections of loans receivable	1,915	8,955	18,119
Net increase in short-term loans receivable	(6,088)	—	(57,602)
Other	3,656	(28,795)	34,592
Net cash provided by (used in) investing activities	354	(50,713)	3,350
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans	(22,365)	14,892	(211,609)
Net increase (decrease) in commercial paper	(4,000)	10,000	(37,847)
Proceeds from long-term loans	22,864	59,325	216,331
Repayments of long-term loans	(89,217)	(88,984)	(844,139)
Proceeds from issuance of bonds	7,488	606	70,849
Redemption of bonds	(16,081)	(17,928)	(152,153)
Cash dividends paid by the company	(10,802)	(6,017)	(102,205)
Purchase of treasury stock	(867)	(641)	(8,203)
Cash dividends paid to minority interest	(1,237)	(471)	(11,704)
Other	3,357	1,953	31,763
Net cash used in financing activities	(110,860)	(27,265)	(1,048,917)
Effect of exchange rate changes on cash and cash equivalents	(2,329)	(1,691)	(22,036)
Net increase in cash and cash equivalents	1,756	3,206	16,615
Cash and cash equivalents at beginning of year	43,057	39,738	407,389
Net cash increase from new consolidation/de-consolidation of subsidiaries	450	113	4,258
Cash and cash equivalents at end of year	¥ 45,263	¥ 43,057	\$ 428,262

See accompanying notes.

# Notes to Consolidated Financial Statements

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2004 and 2003

## 1. Basis of presenting financial statements

Mitsui O.S.K. Lines, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from the International Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of significant accounting policies

### (1) Principles of consolidation

All companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions.

The consolidated financial statements include the accounts of the Company and 286 subsidiaries for the year ended March 31, 2004 (283 subsidiaries for the year ended March 31, 2003). All significant inter-company transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and affiliated companies (20% to 50% owned and certain others 15% to 20% owned) are accounted for by the equity method. Companies accounted for using the equity method include two unconsolidated subsidiaries for the year ended March 31, 2004 and three for the year ended March 31, 2003 and 37 affiliated companies for the year ended March 31, 2004 and 36 for the year ended March 31, 2003. Investments in other subsidiaries (108 in the year ended March 31, 2004 and 117 in the preceding year) and affiliated companies (81 and 86 in the respective years) were stated at costs since the Company's equity in net income and retained earnings in such companies were not material.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

The difference of acquisition cost over net assets acquired is shown as the consolidation difference and amortized over 5 to 14 years.

Amortization of the consolidation difference is included in general and administrative expenses.

### (2) Translation of foreign currency

Revenues earned and expenses incurred in currencies other than Japanese yen of the Company and its subsidiaries keeping their books in Japanese yen are translated into Japanese yen either at a 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 yen at the exchange rate prevailing at the balance sheet date, except for long-term debt covered with forward exchange contracts, which is translated at the forward contract rates. The gain or loss arising from the difference between the forward contract rate and the historical rate recognized in relation to long-term debt is booked in the balance sheets and amortized over the remaining period of the debt.

Subsidiaries keeping their books in a currency other than Japanese yen translate the revenues and expenses and assets and liabilities in foreign currencies into the currency used for financial reporting in accordance with accounting principles generally accepted in their respective countries.

All the items in financial statements of subsidiaries, which are stated in currencies other than Japanese yen, were translated into Japanese yen at the year-end exchange rate, except for shareholders' equity which is translated at historical rates. Translation differences arising from the application of more than one exchange rate are presented as foreign currency translation adjustments in the shareholders' equity section of the consolidated balance sheets.

### (3) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### (4) Shipping revenues and related expenses

Shipping revenues and the related voyage expenses are recognized mainly by the completed-voyage method. Payments received for uncompleted voyages are included in "Advances received" and the related voyage expenses are included in "Deferred and prepaid expenses" in the balance sheets.

### (5) Securities

Securities are classified into (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "Held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, or (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with fair market values are stated at fair market values, and the corresponding unrealized holding gains or losses, net of applicable income taxes, are reported as separate component of shareholders' equity. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

### (6) Fuel and supplies

Fuel and supplies are stated principally at cost determined by the moving-average method.

### (7) Depreciation of vessels, property and equipment

Depreciation of vessels and buildings is computed mainly by the straight-line method. Depreciation of other property and equipment is computed by the declining-balance method. Estimated useful lives are mainly as follows.

Vessels . . . . .	13 – 20 years
Containers . . . . .	7 years

### (8) Amortization of bond issue expense

Bond issue expense is charged to income as incurred.

### (9) Interest capitalization

In cases where a vessel's construction period is long and the amount of interest accruing during this period is significant, such interest expenses are capitalized as a part of the acquisition cost.

### (10) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual percentage of the Company's collection losses.

### (11) Employees' severance and retirement benefits

The Company has tax-qualified pension plans for employees engaged in shore and sea services. Employees engaged in sea service who retire prior to a certain age are also entitled to a lump-sum payment. Some subsidiaries have tax-qualified pension plans which cover all or a part of the retirement benefits and some other subsidiaries have established reserves for a lump-sum payment for retirement benefits.

Under the accounting standards for employees' severance and retirement benefits adopted on April 1, 2000, liabilities and expenses for employees' severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2004 and 2003 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives of mainly 10 years commencing with the following period.

#### **(12) Directors' and corporate auditors' retirement benefits**

The Company and its consolidated subsidiaries recognize liabilities for retirement benefits for directors and corporate auditors at an amount required in accordance with the internal regulations had all directors and corporate auditors terminated as of the balance sheet date.

(Change in accounting method)

Previously, the Company recognized the expenses of retirement benefits for directors and corporate auditors when those benefits were paid. Considering the current accounting practices in Japan, the Company changed its accounting policy to recognize liabilities for directors' and corporate auditors' retirement benefits based on the Company's internal regulations regarding the payment of retirement benefits to directors and corporate auditors. In addition, this change will reflect better the financial position of the Company with the allocation on an accrual basis of retirement benefit expenses throughout the terms of directors and corporate auditors.

As a result of this change, operating income increased by ¥308 million and income before income taxes and minority interests decreased by ¥599 million, in comparison with the results under the previous method of accounting.

#### **(13) Accounting for certain lease transactions**

Finance leases which do not transfer ownership to lessees are accounted for as operating leases under accounting principles generally accepted in Japan.

#### **(14) Income taxes**

The Company and its subsidiaries recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

#### **(15) Amounts per share of common stock**

Net income per share of common stock is computed based upon the weighted-average number of shares outstanding during the year.

Fully diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year or at the date of issuance with an applicable adjustment for related interest expense.

Cash dividends per share shown in the 2004 column represent the amount payable to shareholders as of March 31, 2004.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

The effect on earnings per share of the adoption of this new accounting standard is immaterial.

#### **(16) Derivatives and hedge accounting**

Companies are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
  - (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
  - (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedging 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 was executed.

The following summarizes hedging derivative financial instruments used by the Company and its consolidated subsidiaries and items hedged:

Hedging instruments:	Hedged items:
Loans payable in foreign currencies	Foreign currency transactions
Forward foreign exchange contracts	Foreign currency transactions
Currency swap contracts	Foreign currency loans payable
Interest rate swap contracts	Interest on loans and bonds payable
Commodities futures	Fuel oil
Freight futures	Freight

The derivative transactions are executed and managed by the Company in accordance with the established policies in order to hedge the Group's exposure to interest rate increases, fuel oil increases, freight decreases, and currency exchange rate fluctuations.

The Company evaluates hedge effectiveness semi-annually by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the cumulative changes in cash flows from or the changes in fair value of hedging instruments.

### (17) Treasury stock and reduction of statutory reserves

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reduction of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002). Due to this change, profit or loss from disposal of treasury stock which were previously charged to income or expense are accounted for as a capital transaction.

The effect on net income of the adoption of this new accounting standard is immaterial.

### (18) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2004 presentation. These changes had no impact on previously reported results of operations or cash flows or shareholders' equity.

## 3. Securities

A. The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
(a) Held-to-maturity debt securities:			
There were no securities with available fair values exceeding book values as of March 31, 2004 and 2003.			
Securities with available fair values not exceeding book values			
	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Book value	¥9	¥39	\$85
Fair value	9	39	85
Difference	—	—	—

(b) Available-for-sale securities:

Securities with book values exceeding acquisition costs at March 31, 2004

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥20,985	¥56,456	¥35,471
Bonds	10	10	0
Others	64	99	35
Total	¥21,059	¥56,565	¥35,506

Type	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	\$198,552	\$534,166	\$335,614
Bonds	95	95	0
Others	605	936	331
<b>Total</b>	<b>\$199,252</b>	<b>\$535,197</b>	<b>\$335,945</b>

Securities with book values not exceeding acquisition costs at March 31, 2004

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥2,192	¥1,977	¥(215)
Bonds	—	—	—
Others	194	184	(10)
<b>Total</b>	<b>¥2,386</b>	<b>¥2,161</b>	<b>¥(225)</b>

Type	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	\$20,740	\$18,706	\$(2,034)
Bonds	—	—	—
Others	1,836	1,741	(95)
<b>Total</b>	<b>\$22,576</b>	<b>\$20,447</b>	<b>\$(2,129)</b>

B. The following tables summarize book values of securities with no available fair value as of March 31, 2004 and 2003:

Type	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Available-for-sale securities:			
Book value			
Unlisted equity securities	¥13,370	¥13,076	\$126,502
Unlisted foreign bonds	4,416	4,721	41,783
Others	814	278	7,702
<b>Total</b>	<b>¥18,600</b>	<b>¥18,075</b>	<b>\$175,987</b>

C. Available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

For the year ended March 31, 2004:

Type	Millions of yen				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
Securities:					
Governmental bonds	¥10	¥5	—	—	¥15
Corporate bonds	4	—	—	—	4
<b>Total</b>	<b>¥14</b>	<b>¥5</b>	<b>—</b>	<b>—</b>	<b>¥19</b>

For the year ended March 31, 2003:

Type	Millions of yen				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
Securities:					
Governmental bonds	—	¥15	—	—	¥15
Corporate bonds	—	46	—	—	46
Others	¥200	—	—	—	200
<b>Total</b>	<b>¥200</b>	<b>¥61</b>	<b>—</b>	<b>—</b>	<b>¥261</b>

For the year ended March 31, 2004:

Type	Thousands of U.S. dollars				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
<b>Securities:</b>					
Governmental bonds	\$ 95	\$47	—	—	\$142
Corporate bonds	38	—	—	—	38
<b>Total</b>	<b>\$133</b>	<b>\$47</b>	<b>—</b>	<b>—</b>	<b>\$180</b>

D. There were no held-to-maturity debt securities sold in the year ended March 31, 2004 and 2003.

E. Total sales of available-for-sale securities sold in the years ended March 31, 2004 and 2003 and the related gains and losses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Proceeds from sales	¥4,855	¥3,519	\$45,936
Gross realized gains	920	615	8,705
Gross realized losses	152	2,089	1,438

#### 4. Derivative transactions

The Group enters into derivative transactions and forward currency exchange contracts to hedge the Group's exposure to interest rate increases, fuel oil increases, freight decreases, and currency exchange fluctuations, in accordance with the guidance determined by the management of the Company.

The following tables summarize the outstanding contract amounts and unrealized gains or losses of financial derivatives of the Group at March 31, 2004 and 2003, for which hedge accounting has not been applied.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>(1) Currency related:</b>			
Forward currency exchange contracts			
Sell (U.S. dollar):			
Contracts outstanding	¥ 329	¥ 1,196	\$ 3,113
Unrealized gain (loss)	13	(3)	123

The following table summarizes the outstanding contract amounts and unrealized losses of currency swaps of overseas consolidated subsidiaries in the countries where companies are not required either to state derivative financial instruments at fair value, or apply hedge accounting.

Currency swaps			
Receive Yen, pay U.S. dollar:			
Contracts outstanding	¥28,590	¥25,890	\$270,508
Unrealized gain (loss)	1,497	(1,208)	14,164
Receive U.S. dollar, pay Yen:			
Contracts outstanding	¥ 700	¥ 100	\$ 6,623
Unrealized loss	(16)	(9)	(151)

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>(2) Interest related</b>			
Interest rate swaps:			
Receive floating, pay fixed			
Contracts outstanding .....	¥2,584	¥7,617	\$24,449
Unrealized loss .....	(372)	(485)	(3,520)
Receive fixed, pay floating			
Contracts outstanding .....	¥1,712	¥7,181	\$16,198
Unrealized gain .....	342	427	3,236

The following table summarizes the outstanding contract amounts and unrealized losses of interest rate swaps of overseas consolidated subsidiaries in the countries where companies are not required either to state derivative financial instruments at fair value, or apply hedge accounting.

Interest rate swaps:			
Receive floating, pay fixed			
Contracts outstanding .....	¥ 847	¥2,931	\$ 8,014
Unrealized loss .....	(61)	(106)	(577)
Receive fixed, pay floating			
Contracts outstanding .....	¥1,900	¥4,600	\$17,977
Unrealized loss .....	(12)	(1)	(114)

- Notes: 1. In calculating market values in Japanese yen at the end of the fiscal year, forward exchange rates, prevailing at the end of the year, for the same values of the respective contracts are used.
2. Market values of interest swaps at the end of the fiscal year are calculated using prices of the contracts at the end of the year quoted by the financial institutions or trading houses with which the relevant transactions were closed.

## 5. Short-term debt and long-term debt

### (1) Short-term debt

Short-term debt amounting to ¥104,998 million (\$993,452 thousand) and ¥136,064 million at March 31, 2004 and 2003, respectively, were principally unsecured. The interest rates on short-term debt were mainly set on a floating rate basis.

### (2) Long-term debt

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Bonds:</b>			
2.750% yen bonds due 2004	¥ —	¥ 10,000	\$ —
3.025% yen bonds due 2006	10,000	10,000	94,616
3.075% yen bonds due 2007	10,000	10,000	94,616
3.250% yen bonds due 2009	10,000	10,000	94,616
Floating rate yen notes due 2008	1,000	—	9,462
Floating/fixed rate Euro medium term notes due 2003-2009	13,321	12,503	126,039
<b>Secured loans from:</b>			
Japan Development Bank due through 2016 at interest rates of 0.60% to 8.50%	70,783	82,703	669,723
Other financial institutions due through 2025 at interest rates of 0.26% to 6.80%	160,468	218,437	1,518,289
<b>Unsecured loans from:</b>			
Other financial institutions due through 2033 at interest rates of 0.21% to 7.78%	111,124	122,939	1,051,415
	<b>386,696</b>	476,582	<b>3,658,776</b>
Amount due within one year	75,675	80,993	716,009
	<b>¥311,021</b>	¥395,589	<b>\$2,942,767</b>

At March 31, 2004, the aggregate annual maturity of long-term debt were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 75,675	\$ 716,009
2006	67,091	634,791
2007	76,535	724,146
2008	57,175	540,969
2009	40,643	384,549
2010 and thereafter	69,577	658,312
	<b>¥386,696</b>	<b>\$3,658,776</b>

At March 31, 2004, the following assets were pledged as collateral for short-term debt and long-term debt.

Assets pledged	Millions of yen	Thousands of U.S. dollars
Vessels	¥253,243	\$2,396,092
Buildings and structures	7,154	67,689
Land	6,813	64,462
Investment securities	36,957	349,673
Others	831	7,863
	<b>¥304,998</b>	<b>\$2,885,779</b>

Secured debt	Millions of yen	Thousands of U.S. dollars
Short-term debt	¥ 110	\$ 1,041
Long-term debt due within one year	45,281	428,433
Long-term debt	185,969	1,759,570
	<b>¥231,360</b>	<b>\$2,189,044</b>

## 6. Commitments and contingent liabilities

At March 31, 2004, the Company and its consolidated subsidiaries were contingently liable mainly as guarantors or co-guarantors of indebtedness of related and other companies in the aggregate amount of ¥101,043 million (\$956,032 thousand).

The BGT project is operated by subsidiaries, which have their own corporate bodies, legally independent of the Company. The assets of the BGT eight LNG carrier transportation project are held in several subsidiaries of the Company, which have their own creditors.

## 7. Shareholders' equity

Under the Code, at least 50% of the issue price of new shares is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital, which is included in capital surplus.

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the board of directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distributions and certain other purposes by the resolution of shareholders' meeting. The legal earnings reserve is included in the retained earnings in the accompanying consolidated financial statements.

In accordance with the customary practice in Japan, the appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period after the shareholders' approval has been obtained. Retained earnings at March 31, 2004 include amounts representing the year-end cash dividends and directors' bonuses approved at the shareholders' meeting held on June 24, 2004. The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code. In addition, semi-annual interim dividend may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Code.

## 8. Other income (expenses): others, net – Breakdown

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Others, net:</b>			
Gain (loss) on sale of marketable securities	¥ 19	¥ (3)	\$ 180
Exchange gain, net	2,095	2,080	19,822
Gain on sale of vessels, investment securities and others	10,821	4,797	102,384
Loss on cancellation of vessel charters	–	(421)	–
Loss on sale and disposal of vessels, investment securities and others	(7,024)	(2,771)	(66,458)
Loss arising from dissolution of subsidiaries and affiliated companies	(36)	(164)	(341)
Loss on write-down of securities and other investments	(798)	(6,294)	(7,550)
Provision for doubtful accounts	(1,605)	(545)	(15,186)
Special retirement	(1,018)	(1,864)	(9,632)
Provision for loss on the liquidation and integration of subsidiaries	(141)	–	(1,334)
Sundries	2,658	(181)	25,149
<b>Total</b>	<b>¥ 4,971</b>	<b>¥(5,366)</b>	<b>\$ 47,034</b>

## 9. Leases

### As lessee:

#### (A) Information on finance leases accounted for as operating leases:

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2004 of finance leases that do not transfer ownership to the lessee is as follows:

	Millions of yen			
	Vessels	Property and equipment	Other	Total
Acquisition cost	¥2,746	¥36,936	¥273	¥39,955
Accumulated depreciation	1,295	25,359	233	26,887
Net book value	¥1,451	¥11,577	¥ 40	¥13,068

	Thousands of U.S. dollars			
	Vessels	Property and equipment	Other	Total
Acquisition cost	\$25,982	\$349,475	\$2,583	\$378,040
Accumulated depreciation	12,253	239,937	2,205	254,395
Net book value	\$13,729	\$109,538	\$ 378	\$123,645

(2) Future lease payments inclusive of interest at March 31, 2004

	Millions of yen	Thousands of U.S. dollars
Amount due within one year	¥ 3,758	\$ 35,557
Amount due after one year	15,055	142,445
Total	¥18,813	\$178,002

(3) Lease payments, Depreciation equivalent and Interest equivalent

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease payments	¥4,514	¥4,913	\$42,710
Depreciation equivalent	3,813	3,897	36,077
Interest equivalent	476	607	4,504

(4) Calculation of depreciation equivalent

Assumed depreciation amounts are computed using the straight-line method over the lease terms assuming no residual value.

(5) Calculation of interest equivalent

The excess of total lease payments over acquisition cost equivalents is regarded as amounts representing interest payable equivalents and is allocated to each period using the interest method.

#### (B) Future lease payments under operating leases at March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Amount due within one year	¥ 36,509	\$ 345,435
Amount due after one year	277,221	2,622,963
Total	¥313,730	\$2,968,398

As lessor:

(A) Information on finance leases accounted for as operating leases:

(1) A summary of acquisition cost, accumulated depreciation and net book value at March 31, 2004 of finance leases that do not transfer ownership to the lessee is as follows:

	Millions of yen		
	Property and equipment	Other	Total
Acquisition cost	¥57	¥492	¥549
Accumulated depreciation	42	449	491
Net book value	¥15	¥ 43	¥ 58

	Thousands of U.S. dollars		
	Property and equipment	Other	Total
Acquisition cost	\$539	\$4,655	\$5,194
Accumulated depreciation	397	4,248	4,645
Net book value	\$142	\$ 407	\$ 549

(2) Future lease income inclusive of interest at March 31, 2004

	Millions of yen	Thousands of U.S. dollars
Amount due within one year	¥ 97	\$ 918
Amount due after one year	69	653
Total	¥166	\$1,571

(3) Lease income, Depreciation and Interest equivalent

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease income	¥110	¥119	\$1,041
Depreciation	59	93	558
Interest equivalent	13	17	123

(4) Calculation of interest equivalent

The excess of total lease income over acquisition costs equivalent is regarded as amounts representing interest receivable equivalents and is allocated to each period using the interest method.

(B) Future lease income under operating leases at March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Amount due within one year	¥ 99	\$ 937
Amount due after one year	126	1,192
Total	¥225	\$2,129

## 10. Segment information

### (A) Business segment information:

Millions of yen							
For the year ended March 31, 2004:	Overseas shipping	Ferry/ domestic shipping	Shipping agent and harbor/ terminal operation	Cargo forwarding and warehousing	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	¥823,477	¥31,368	¥45,359	¥46,060	¥ 50,996	¥ –	¥ 997,260
(2) Inter-segment revenues . . . . .	6,730	4,068	39,331	921	21,125	(72,175)	–
Total revenues . . . . .	830,207	35,436	84,690	46,981	72,121	(72,175)	997,260
<b>2. Operating expenses</b> . . . . .	<b>747,122</b>	<b>34,179</b>	<b>79,338</b>	<b>46,759</b>	<b>69,231</b>	<b>(71,495)</b>	<b>905,134</b>
Operating income (loss) . . . . .	¥ 83,085	¥ 1,257	¥ 5,352	¥ 222	¥ 2,890	¥ (680)	¥ 92,126
<b>3. Assets, depreciation and Capital expenditures:</b>							
(1) Assets . . . . .	¥856,792	¥33,454	¥57,975	¥25,476	¥191,088	¥(164,579)	¥1,000,206
(2) Depreciation . . . . .	48,182	1,884	2,984	562	1,722	0	55,334
(3) Capital expenditures . . . . .	40,964	3,566	2,262	1,378	2,379	–	50,549

Millions of yen							
For the year ended March 31, 2003:	Overseas shipping	Ferry/ domestic shipping	Shipping agent and harbor/ terminal operation	Cargo forwarding and warehousing	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	¥736,171	¥29,135	¥41,520	¥47,319	¥ 56,143	¥ –	¥ 910,288
(2) Inter-segment revenues . . . . .	6,800	4,320	37,335	1,061	18,678	(68,194)	–
Total revenues . . . . .	742,971	33,455	78,855	48,380	74,821	(68,194)	910,288
<b>2. Operating expenses</b> . . . . .	<b>705,514</b>	<b>32,807</b>	<b>76,549</b>	<b>48,434</b>	<b>70,842</b>	<b>(69,214)</b>	<b>864,932</b>
Operating income (loss) . . . . .	¥ 37,457	¥ 648	¥ 2,306	¥ (54)	¥ 3,979	¥ 1,020	¥ 45,356
<b>3. Assets, depreciation and Capital expenditures:</b>							
(1) Assets . . . . .	¥870,673	¥30,652	¥53,375	¥26,660	¥186,661	¥(121,409)	¥1,046,612
(2) Depreciation . . . . .	53,672	1,908	2,860	616	1,655	–	60,711
(3) Capital expenditures . . . . .	42,733	1,290	3,934	481	1,056	–	49,494

Thousands of U.S. dollars							
For the year ended March 31, 2004:	Overseas shipping	Ferry/ domestic shipping	Shipping agent and harbor/ terminal operation	Cargo forwarding and warehousing	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	\$7,791,437	\$296,793	\$429,170	\$435,803	\$ 482,505	\$ –	\$9,435,708
(2) Inter-segment revenues . . . . .	63,677	38,490	372,135	8,714	199,877	(682,893)	–
Total revenues . . . . .	7,855,114	335,283	801,305	444,517	682,382	(682,893)	9,435,708
<b>2. Operating expenses</b> . . . . .	<b>7,068,994</b>	<b>323,389</b>	<b>750,667</b>	<b>442,417</b>	<b>655,038</b>	<b>(676,459)</b>	<b>8,564,046</b>
Operating income (loss) . . . . .	\$ 786,120	\$ 11,894	\$ 50,638	\$ 2,100	\$ 27,344	\$ (6,434)	\$ 871,662
<b>3. Assets, depreciation and Capital expenditures:</b>							
(1) Assets . . . . .	\$8,106,651	\$316,529	\$548,538	\$241,045	\$1,808,005	\$(1,557,186)	\$9,463,582
(2) Depreciation . . . . .	455,880	17,826	28,234	5,317	16,293	–	523,550
(3) Capital expenditures . . . . .	387,587	33,740	21,402	13,038	22,509	–	478,276

(Change in accounting method)

As mentioned in Note 2 (12) Directors' and corporate auditors' retirement benefits, the Company previously recognized the expenses of retirement benefits for directors and corporate auditors when those benefits were paid. Considering the current accounting practices in Japan, the Company changed its accounting policy to recognize liabilities for directors' and corporate auditors' retirement benefits based on the Company's internal regulations regarding the payment of retirement benefits to directors and corporate auditors. Because of this change, operating expenses decreased by ¥308 million and operating income increased by ¥308 million in comparison with the results under previous method of accounting. The effect of this new accounting method over other segments is immaterial.

**(B) Geographical segment information:**

Each segment covers the following countries or regions;

North America:	U.S.A. and Canada
Europe:	U.K., The Netherlands and other European countries
Asia:	The Middle and Near East, South-West Asia, South-East Asia, East Asia
Others:	Central and South America, Africa, Australia and other countries

Revenues of a segment are revenues, wherever they may be earned, of companies registered in countries in the segment except for revenues earned by companies registered in such countries as Panama and Liberia (FOC companies) solely for the purpose of owning ships under charter to the Company and/or its subsidiaries in Japan. The FOC companies are deemed to be companies registered in Japan in this segment information for convenience.

Expenses of a segment are expenses wherever they may be incurred to earn revenues at companies registered in countries in the segment. Assets of a segment are assets possessed by companies registered in countries in the segment, except for assets including ships of FOC companies which are treated as Japanese companies.

Millions of yen							
For the year ended March 31, 2004:	Japan	North America	Europe	Asia	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	¥940,671	¥37,270	¥ 8,875	¥10,370	¥ 74	¥ –	¥ 997,260
(2) Inter-segment revenues . . . . .	1,001	7,576	4,936	13,308	1,519	(28,340)	–
Total revenues . . . . .	941,672	44,846	13,811	23,678	1,593	(28,340)	997,260
<b>2. Operating expenses</b> . . . . .	855,888	39,972	12,831	22,495	1,525	(27,577)	905,134
Operating income (loss) . . . . .	¥ 85,784	¥ 4,874	¥ 980	¥ 1,183	¥ 68	¥ (763)	¥ 92,126
<b>3. Assets</b> . . . . .	¥933,747	¥29,399	¥88,992	¥12,567	¥1,660	¥(66,159)	¥1,000,206

Millions of yen							
For the year ended March 31, 2003:	Japan	North America	Europe	Asia	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	¥851,026	¥39,747	¥ 8,150	¥11,331	¥ 34	¥ –	¥ 910,288
(2) Inter-segment revenues . . . . .	2,881	6,925	2,633	13,379	1,172	(26,990)	–
Total revenues . . . . .	853,907	46,672	10,783	24,710	1,206	(26,990)	910,288
<b>2. Operating expenses</b> . . . . .	812,144	43,202	10,339	24,124	1,270	(26,147)	864,932
Operating income (loss) . . . . .	¥ 41,763	¥ 3,470	¥ 444	¥ 586	¥ (64)	¥ (843)	¥ 45,356
<b>3. Assets</b> . . . . .	¥971,131	¥33,620	¥95,103	¥13,486	¥1,243	¥(67,971)	¥1,046,612

Thousands of U.S. dollars							
For the year ended March 31, 2004:	Japan	North America	Europe	Asia	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	\$8,900,284	\$352,635	\$ 83,972	\$ 98,117	\$ 700	\$ –	\$9,435,708
(2) Inter-segment revenues . . . . .	9,471	71,681	46,703	125,916	14,372	(268,143)	–
Total revenues . . . . .	8,909,755	424,316	130,675	224,033	15,072	(268,143)	9,435,708
<b>2. Operating expenses</b> . . . . .	8,098,098	378,200	121,402	212,840	14,429	(260,923)	8,564,046
Operating income (loss) . . . . .	\$ 811,657	\$ 46,116	\$ 9,273	\$ 11,193	\$ 643	\$(7,220)	\$ 871,662
<b>3. Assets</b> . . . . .	\$8,834,771	\$278,163	\$842,010	\$118,904	\$15,706	\$(625,972)	\$9,463,582

(Change in accounting method)

As mentioned in Note 2 (12) Directors' and corporate auditors' retirement benefits, the Company previously recognized the expenses of retirement benefits for directors and corporate auditors when those benefits were paid. Considering the current accounting practices in Japan, the Company changed its accounting policy to recognize liabilities for directors' and corporate auditors' retirement benefits based on the Company's internal regulations regarding the payment of retirement benefits to directors and corporate auditors. Because of this change, operating expenses decreased by ¥308 million and operating income increased by ¥308 million in comparison with the results under previous method of accounting. The effect of this new accounting method over other segments is immaterial.

(C) International business information:

For the year ended March 31, 2004:	Millions of yen				
	North America	Europe	Asia	Others	Total
1. International revenue . . . . .	¥261,238	¥141,015	¥217,647	¥269,278	¥889,178
2. Consolidated revenue . . . . .	—	—	—	—	¥997,260
3. Ratio of international revenue to consolidated revenue . . . . .	26.2%	14.1%	21.8%	27.0%	89.2%

Segmentation is made from the perspective of geographical closeness and identity.

Geographical areas belonging to the segments are as follows:

- North America: U.S.A. and Canada
- Europe: U.K., the Netherlands and other European countries
- Asia: The Middle and Near East, South-West Asia, South-East Asia, East Asia
- Others: Central and South America, Africa, Australia and other countries

Revenues from international business mainly consist of ocean-going vessel and voyage revenues.

For the year ended March 31, 2003:	Millions of yen				
	North America	Europe	Asia	Others	Total
1. International revenue . . . . .	¥230,970	¥117,057	¥192,984	¥225,812	¥766,823
2. Consolidated revenue . . . . .	—	—	—	—	¥910,288
3. Ratio of international revenue to consolidated revenue . . . . .	25.4%	12.9%	21.2%	24.8%	84.2%

For the year ended March 31, 2004:	Thousands of U.S. dollars				
	North America	Europe	Asia	Others	Total
1. International revenue . . . . .	\$2,471,738	\$1,334,232	\$2,059,296	\$2,547,810	\$8,413,076
2. Consolidated revenue . . . . .	—	—	—	—	\$9,435,708
3. Ratio of international revenue to consolidated revenue . . . . .	26.2%	14.1%	21.8%	27.0%	89.2%

## 11. Income taxes

The company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 38% for the years ended March 31, 2004 and 2003.

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2004 and 2003 is not shown because the difference between the statutory tax rate and the effective tax rate after application of deferred tax accounting was less than 5%.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Deferred tax assets:</b>			
Excess bad debt expenses . . . . .	¥ 2,726	¥ 2,237	\$ 25,792
Excess reserve for bonuses expenses . . . . .	1,672	1,365	15,820
Excess retirement benefits expenses . . . . .	5,184	4,615	49,049
Excess retirement allowances for officers . . . . .	593	292	5,611
Write-down of securities and other investments . . . . .	1,903	2,373	18,005
Operating loss carried forward . . . . .	1,006	806	9,518
Accrued business tax and business place tax . . . . .	498	305	4,712
Unrealized gain on sale of fixed assets . . . . .	407	542	3,851
Others . . . . .	73	602	691
<b>Total deferred tax assets . . . . .</b>	<b>14,062</b>	<b>13,137</b>	<b>133,049</b>
Valuation allowance . . . . .	(1,365)	(541)	(12,915)
<b>Net deferred tax assets . . . . .</b>	<b>12,697</b>	<b>12,596</b>	<b>120,134</b>
<b>Deferred tax liabilities:</b>			
Reserve deductible for tax purposes when appropriated for deferred gain on real properties . . . . .	(983)	(952)	(9,301)
Reserve deductible for tax purposes when appropriated for special depreciation . . . . .	(2,212)	(3,366)	(20,929)
Unrealized holding gains on available-for-sale securities . . . . .	(12,392)	(4,040)	(117,248)
Gain on securities contributed to employee retirement benefit trust . . . . .	(4,368)	(4,367)	(41,328)
Others . . . . .	(439)	(735)	(4,154)
<b>Total deferred tax liabilities . . . . .</b>	<b>(20,394)</b>	<b>(13,460)</b>	<b>(192,960)</b>
<b>Net deferred tax liabilities . . . . .</b>	<b>¥ (7,697)</b>	<b>¥ (864)</b>	<b>\$ (72,826)</b>

## 12. Employees' severance and pension benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2004 and 2003 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation . . . . .	¥ 63,348	¥ 63,501	\$ 599,375
Unrecognized actuarial differences . . . . .	(5,003)	(14,196)	(47,337)
Prepaid pension expenses . . . . .	11,402	11,424	107,882
Less fair value of pension assets . . . . .	(55,833)	(45,699)	(528,271)
<b>Liability for severance and retirement benefits . . . . .</b>	<b>¥ 13,914</b>	<b>¥ 15,030</b>	<b>\$ 131,649</b>

Included in the consolidated statement of income for the years ended March 31, 2004 and 2003 are severance and retirement benefit expenses, which comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service costs—benefits earned during the year .....	¥3,326	¥4,001	\$31,469
Interest cost on projected benefit obligation .....	946	1,147	8,951
Expected return on plan assets .....	(26)	(745)	(246)
Amortization of actuarial differences .....	1,541	363	14,580
	¥5,787	¥4,766	\$54,754

The discount rate for the years ended March 31, 2004 and 2003 used by the Company is 2.0%. Also, the rate of expected return on plan assets for the years ended March 31, 2004 and 2003 is 0%.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in income statement using the straight-line method primarily over 10 years commencing with the following period.

### 13. Subsequent events

On June 24, 2004, the shareholders of the Company approved (1) payment of year-end cash dividends to shareholders of record as of March 31, 2004 of ¥7 (\$0.066) per share or a total of ¥8,392 million (\$79,402 thousand) and (2) bonuses to directors of ¥132 million (\$1,249 thousand).

### 14. Stock-Based Compensation Plans

The Company has a stock option plan. On June 27, 2000, the shareholders of the Company approved the issuance of stock options to the directors and the executive officers of the Company according to Article 210-2 of the Code, which was subsequently revised in 2002. The number of shares to be transferred from treasury stock on the exercise of stock options issued pursuant to the aforesaid shareholders' approval was 103,000 shares of common stock of the Company as of March 31, 2004 and 0 shares of common stock of the Company as of May 31, 2004. The issued stock options are exercisable from June 20, 2002, to June 26, 2004.

On June 27, 2001, the shareholders of the Company approved the issuance of stock options to the directors and the executive officers of the Company in accordance with Article 210-2 of the Code, which was subsequently revised in 2002. The number of shares to be newly issued or transferred from treasury stock on the exercise of stock options issued pursuant to the aforesaid shareholders' approval was 628,000 shares of common stock of the Company as of March 31, 2004, and 465,000 shares of common stock of the Company as of May 31, 2004. The stock options are exercisable from June 28, 2003 to June 30, 2005.

On June 25, 2002, the shareholders of the Company approved the issuance of stock options to the directors, the executive officers, and the managing officers of the Company and the presidents of the Company's affiliates in accordance with Article 280-20 and 280-21 of the Code. The number of shares to be newly issued or transferred from treasury stock on the exercise of stock options issued pursuant to the aforesaid shareholders' approval was 1,490,000 shares of common stock of the Company as of March 31, 2004, and 1,480,000 shares of common stock of the Company as of May 31, 2004. The stock options are exercisable from June 26, 2004 to June 25, 2012.

On June 25, 2003, the shareholders of the Company approved the issuance of stock options to the directors, the executive officers, and the managing officers of the Company and the presidents of the Company's affiliates in accordance with Article 280-20 and 280-21 of the Code. The number of shares to be newly issued or transferred from treasury stock on the exercise of stock options issued pursuant to the aforesaid shareholders' approval was 1,590,000 shares of common stock of the Company as of March 31, 2004, and 1,580,000 shares of common stock of the Company as of May 31, 2004. The stock options are exercisable from June 26, 2005 to June 25, 2013.

On June 24, 2004, the shareholders of the Company approved the issuance of stock options to the directors, the executive officers, and the managing officers of the Company and the presidents of the Company's affiliates in accordance with Article 280-20 and 280-21 of the Code. Under this approval, the maximum number of shares to be newly issued or transferred from treasury stocks on the exercise of the stock options is 2,100,000 shares of common stock of the Company. The stock options are exercisable from June 20, 2005 to June 24, 2014 by the approval of the Company's board of directors.

## Independent Auditors' Report



To the shareholders and Board of Directors of  
Mitsui O.S.K. Lines, Ltd.:

We have audited the accompanying consolidated balance sheets of Mitsui O.S.K. Lines, Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui O.S.K. Lines, Ltd. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

As discussed in Note 2 (12) to the consolidated financial statements, effective April 1, 2003, the Company changed its accounting policy for directors' and corporate auditors' retirement benefits from expensing them when payments are made to accruing an amount required in accordance with the internal regulations if all directors and corporate auditors had retired as of the balance sheet date.

The consolidated financial statements as of and for the year ended March 31, 2004 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG AZSA & CO.

Tokyo, Japan  
June 24, 2004



KPMG AZSA & Co., an audit corporation incorporated under the Japanese Certified Public Accountants Law, is the Japan member firm of KPMG International, a Swiss cooperative.