

Consolidated Balance Sheets

Mitsui O.S.K. Lines, Ltd. March 31, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current assets:			
Cash and cash equivalents	¥ 51,383	¥ 60,267	\$ 435,265
Marketable securities (Note 3)	87	61	737
Trade receivables	197,262	170,480	1,671,004
Allowance for doubtful accounts	(1,782)	(2,078)	(15,095)
Fuel and supplies	28,438	25,918	240,898
Deferred and prepaid expenses	59,022	50,302	499,975
Deferred tax assets (Notes 2 (14) and 12)	6,191	7,249	52,444
Other current assets	64,873	28,156	549,537
Total current assets	405,474	340,355	3,434,765
Vessels, property, plant and equipment (Note 5):			
Vessels	1,037,938	990,867	8,792,359
Buildings and structures	201,597	197,178	1,707,726
Equipment, mainly containers	69,078	66,815	585,159
Land	180,459	180,525	1,528,666
Vessels and other property under construction	126,637	79,979	1,072,740
Total	1,615,709	1,515,364	13,686,650
Accumulated depreciation	(768,049)	(745,462)	(6,506,133)
Net vessels, property, plant and equipment	847,660	769,902	7,180,517
Investments and other assets:			
Investment securities (Notes 3 and 5)	175,403	155,507	1,485,837
Investments in and advances to unconsolidated subsidiaries and affiliated companies	92,589	84,596	784,320
Long-term loans receivable	31,492	28,470	266,768
Goodwill (Note 2 (1))	9,836	16,970	83,321
Other intangible fixed assets	9,482	8,545	80,322
Deferred tax assets (Notes 2 (14) and 12)	2,707	3,024	22,931
Other assets	65,297	63,455	553,129
Total investments and other assets	386,806	360,567	3,276,628
	¥1,639,940	¥1,470,824	\$13,891,910

See accompanying notes.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY/NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current liabilities:			
Short-term bank loans	¥ 73,123	¥ 65,480	\$ 619,424
Short-term bonds	4,112	15,946	34,833
Commercial paper	12,000	17,000	101,652
Total short-term debt (Note 5)	89,235	98,426	755,909
Long-term bank loans due within one year	74,689	51,398	632,690
Bonds due within one year	6,960	21,989	58,958
Total long-term debt due within one year (Note 5)	81,649	73,387	691,648
Trade payables	151,193	126,190	1,280,754
Advances received	67,570	59,063	572,385
Accrued income taxes	38,390	31,600	325,201
Deferred tax liabilities (Notes 2 (14) and 12)	2,320	692	19,653
Other current liabilities	52,453	43,665	444,328
Total current liabilities	482,810	433,023	4,089,878
Long-term bank loans due after one year	273,044	291,930	2,312,952
Bonds due after one year	125,490	107,687	1,063,024
Total long-term debt due after one year (Note 5)	398,534	399,617	3,375,976
Employees' severance and retirement benefits (Note 13)	14,937	14,063	126,531
Directors' and corporate auditors' retirement benefits	2,373	2,370	20,102
Consolidation difference (Note 2 (1))	–	2,756	–
Deferred tax liabilities (Notes 2 (14) and 12)	78,731	57,582	666,929
Other non-current liabilities	41,566	68,608	352,104
Minority interests	–	68,344	–
Commitments and contingent liabilities (Note 6)			
Shareholders' equity (Note 7):			
Common stock;			
Authorized – 3,154,000,000 shares			
Issued – 1,205,410,445 shares	–	64,915	–
Capital surplus	–	43,887	–
Retained earnings	–	275,689	–
	–	384,491	–
Unrealized holding gains on available-for-sale securities, net of tax (Note 2 (5))	–	48,731	–
Foreign currency translation adjustments	–	(4,713)	–
Treasury stock, at cost	–	(4,048)	–
Total shareholders' equity	–	424,461	–
Net assets (Note 7):			
Owners' equity			
Common stock;			
Authorized – 3,154,000,000 shares			
Issued – 1,205,410,445 shares	64,915	–	549,894
Capital surplus	43,887	–	371,766
Retained earnings	375,443	–	3,180,373
Treasury stock, at cost	(4,154)	–	(35,188)
Total owners' equity	480,091	–	4,066,845
Accumulated gains (losses) from valuation and translation adjustments			
Unrealized holding gains on available-for-sale securities, net of tax (Note 2 (5))	57,771	–	489,377
Unrealized gains on hedging derivatives, net of tax	15,898	–	134,672
Foreign currency translation adjustments	(2,996)	–	(25,379)
Total accumulated gains (losses) from valuation and translation adjustments	70,673	–	598,670
Share subscription rights	366	–	3,100
Minority interests	69,859	–	591,775
Total net assets	620,989	–	5,260,390
	¥1,639,940	¥1,470,824	\$13,891,910

Consolidated Statement of Shareholders' Equity

Mitsui O.S.K. Lines, Ltd. Year ended March 31, 2006

	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, at cost
Balance at March 31, 2005	1,205,410	¥64,915	¥43,887	¥182,143	¥ 2,267	¥25,898	¥(17,137)	¥(3,715)
Due to change in consolidated subsidiaries	-	-	-	1,278	-	-	-	-
Due to change in affiliated companies accounted for by the equity method	-	-	-	(155)	-	-	-	-
Net income	-	-	-	113,732	-	-	-	-
Revaluation reserve for land, net of tax	-	-	-	-	(2,267)	-	-	-
Unrealized holding gains on available-for-sale securities, net of tax	-	-	-	-	-	22,833	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	12,424	-
Treasury stock, at cost	-	-	-	-	-	-	-	(333)
Loss on disposal of treasury stock	-	-	-	(186)	-	-	-	-
Dividends paid	-	-	-	(20,925)	-	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(198)	-	-	-	-
Balance at March 31, 2006	1,205,410	¥64,915	¥43,887	¥275,689	-	¥48,731	¥ (4,713)	¥(4,048)

Consolidated Statement of Changes in Net Assets

Mitsui O.S.K. Lines, Ltd. Year ended March 31, 2007

	Millions of yen								
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gains on available-for-sale securities, net of tax	Unrealized gains on hedging derivatives, net of tax	Foreign currency translation adjustments	Share subscription rights	Minority interests
Shareholders' equity at March 31, 2006 as previously reported	¥64,915	¥43,887	¥275,689	¥(4,048)	¥48,731	-	¥(4,713)	-	-
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006	-	-	-	-	-	-	-	-	68,344
Net assets at April 1, 2006	¥64,915	¥43,887	¥275,689	¥(4,048)	¥48,731	-	¥(4,713)	-	¥68,344
Due to change in consolidated subsidiaries	-	-	(352)	-	-	-	-	-	-
Due to change in affiliated companies accounted for by the equity method	-	-	783	-	-	-	-	-	-
Due to change in accounting period of consolidated subsidiaries	-	-	(65)	-	-	-	-	-	-
Due to merger of affiliated companies accounted for by the equity method	-	-	240	-	-	-	-	-	-
Net income	-	-	120,940	-	-	-	-	-	-
Purchases of treasury stock	-	-	-	(853)	-	-	-	-	-
Disposal of treasury stock	-	-	(37)	747	-	-	-	-	-
Dividends paid	-	-	(21,520)	-	-	-	-	-	-
Bonuses to directors and corporate auditors	-	-	(235)	-	-	-	-	-	-
Net changes during the year	-	-	-	-	9,040	15,898	1,717	366	1,515
Balance at March 31, 2007	¥64,915	¥43,887	¥375,443	¥(4,154)	¥57,771	¥15,898	¥(2,996)	¥366	¥69,859

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gains on available-for-sale securities, net of tax	Unrealized gains on hedging derivatives, net of tax	Foreign currency translation adjustments	Share subscription rights	Minority interests
Shareholders' equity at March 31, 2006 as previously reported	\$549,894	\$371,766	\$2,335,358	\$(34,291)	\$412,800	-	\$(39,924)	-	-
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006	-	-	-	-	-	-	-	-	578,941
Net assets at April 1, 2006	\$549,894	\$371,766	\$2,335,358	\$(34,291)	\$412,800	-	\$(39,924)	-	\$578,941
Due to change in consolidated subsidiaries	-	-	(2,982)	-	-	-	-	-	-
Due to change in affiliated companies accounted for by the equity method	-	-	6,633	-	-	-	-	-	-
Due to change in accounting period of consolidated subsidiaries	-	-	(550)	-	-	-	-	-	-
Due to merger of affiliated companies accounted for by the equity method	-	-	2,033	-	-	-	-	-	-
Net income	-	-	1,024,481	-	-	-	-	-	-
Purchases of treasury stock	-	-	-	(7,225)	-	-	-	-	-
Disposal of treasury stock	-	-	(313)	6,328	-	-	-	-	-
Dividends paid	-	-	(182,296)	-	-	-	-	-	-
Bonuses to directors and corporate auditors	-	-	(1,991)	-	-	-	-	-	-
Net changes during the year	-	-	-	-	76,577	134,672	14,545	3,100	12,834
Balance at March 31, 2007	\$549,894	\$371,766	\$3,180,373	\$(35,188)	\$489,377	\$134,672	\$(25,379)	\$3,100	\$591,775

See accompanying notes.

Consolidated Statements of Cash Flows

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 197,854	¥ 188,290	\$ 1,676,018
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities			
Depreciation and amortization	68,581	65,700	580,949
Equity in earnings of unconsolidated subsidiaries and affiliated companies, net	(16,171)	(16,817)	(136,984)
Impairment loss	–	1,870	–
Loss on write-down of investment securities	6	84	51
Loss on write-down of securities issued by subsidiaries and affiliated companies	204	245	1,728
Various provisions (reversals)	(147)	228	(1,245)
Interest and dividend income	(7,628)	(4,889)	(64,617)
Interest expense	18,276	15,846	154,816
Gain on sale of investment securities	(851)	(2,842)	(7,209)
Gain on sale of securities issued by subsidiaries and affiliated companies	(5,157)	(146)	(43,685)
Gain on sale and disposal of vessels, property, plant and equipment	(13,393)	(12,403)	(113,452)
Exchange loss, net	2,013	4,470	17,052
Changes in operating assets and liabilities:			
Trade receivables	(23,434)	(33,189)	(198,509)
Fuel and supplies	(2,497)	(10,611)	(21,152)
Trade payables	22,175	13,499	187,844
Others, net	(21,917)	26,005	(185,658)
Sub total	217,914	235,340	1,845,947
Cash received for interest and dividend	14,098	10,138	119,424
Cash paid for interest	(19,099)	(15,128)	(161,787)
Cash paid for corporate income tax, resident tax and enterprise tax	(56,495)	(66,436)	(478,569)
Net cash provided by operating activities	156,418	163,914	1,325,015
Cash flows from investing activities:			
Purchase of marketable securities	(10,288)	–	(87,150)
Purchase of investment securities	(9,358)	(26,652)	(79,271)
Proceeds from sale of marketable securities	10,305	4	87,294
Proceeds from sale of investment securities	8,889	9,911	75,299
Payments for purchase of subsidiaries' securities due to change in consolidated subsidiaries	–	(927)	–
Payments for purchase of vessels and other tangible and intangible fixed assets	(152,180)	(177,226)	(1,289,115)
Proceeds from sale of vessels and other tangible and intangible fixed assets	25,160	33,228	213,130
Disbursements for loans receivable	(6,778)	(5,474)	(57,416)
Collections of loans receivable	3,964	4,198	33,579
Net increase in short-term loans receivable	(9,569)	(455)	(81,059)
Others, net	3,806	8,317	32,240
Net cash used in investing activities	(136,049)	(155,076)	(1,152,469)
Cash flows from financing activities:			
Net increase (decrease) in short-term bonds	(13,186)	9,675	(111,698)
Net increase (decrease) in short-term bank loans	5,502	(4,024)	46,607
Net decrease in commercial paper	(5,000)	(17,000)	(42,355)
Proceeds from long-term bank loans	64,041	74,709	542,490
Repayments of long-term bank loans	(60,126)	(92,008)	(509,327)
Proceeds from issuance of bonds	31,039	64,545	262,931
Redemption of bonds	(26,887)	(5,918)	(227,759)
Cash dividends paid by the Company	(21,498)	(20,884)	(182,109)
Purchase of treasury stock	(852)	(461)	(7,217)
Sale of treasury stock	735	395	6,226
Cash dividends paid to minority interests	(2,693)	(3,817)	(22,812)
Others, net	(218)	(3,390)	(1,847)
Net cash provided by (used in) financing activities	(29,143)	1,822	(246,870)
Effect of exchange rate changes on cash and cash equivalents	(1,058)	2,793	(8,963)
Net increase (decrease) in cash and cash equivalents	(9,832)	13,453	(83,287)
Cash and cash equivalents at beginning of year	60,267	45,757	510,521
Net cash increase from new consolidation/deconsolidation of subsidiaries	948	1,057	8,031
Cash and cash equivalents at end of year	¥ 51,383	¥ 60,267	\$ 435,265

See accompanying notes.

Notes to Consolidated Financial Statements

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2007 and 2006

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (together "Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statement of shareholders' equity for the year ended March 31, 2006) from the consolidated financial statements of Mitsui O.S.K. Lines, Ltd. (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 consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 (19) 3, is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 (17), the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 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 264 subsidiaries for the year ended March 31, 2007 (275 subsidiaries for the year ended March 31, 2006). 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 1 unconsolidated subsidiary and 53 affiliated companies for the year ended March 31, 2007, and 2 unconsolidated subsidiaries and 48 affiliated companies for the year ended March 31, 2006. Investments in other subsidiaries (129 for the year ended March 31, 2007 and 122 for the year ended March 31, 2006) and affiliated companies (88 and 91 for the respective years) were stated at cost 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 consolidation difference for the year ended March 31, 2006 and goodwill for the year ended March 31, 2007, and amortized over 5 to 14 years. Negative goodwill for the year ended March 31, 2007 is offset by and shown as goodwill.

Amortization of consolidation difference/goodwill is included in "Other income" of the consolidated statements of income.

(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.

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 owners' 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 net assets 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 not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(4) FREIGHT REVENUES AND RELATED EXPENSES

1. Containerships

Freight revenues and the related voyage expenses are recognized by the multiple transportation progress method.

2. Vessels other than containerships

Freight 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 consolidated 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 net assets/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. Held-to-maturity 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 assets value with a corresponding charge in the income statement in the event net assets value declines significantly. In these cases, such fair market value or the net assets 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, PLANT AND EQUIPMENT

Depreciation of vessels and buildings is computed mainly by the straight-line method. Depreciation of other property, plant and equipment is computed mainly by the declining-balance method.

(8) AMORTIZATION OF BOND ISSUE EXPENSE AND STOCK ISSUE EXPENSE

Bond issue expense and stock issue expense are 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 which amounted to ¥2,150 million (\$18,213 thousand) for the year ended March 31, 2007.

(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 (the "Group") provided allowance for employees' severance and retirement benefits at March 31, 2007 and 2006 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 Group recognizes 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.

Effective from the shareholders' meeting of the Company, held on June 23, 2005, the Company abolished the retirement benefits plan for directors and corporate auditors. Accordingly, the Company recognizes liabilities for retirement benefit for directors and corporate auditors till the completion of the shareholders' meeting on June 23, 2005, which will be paid upon their retirement.

(13) ACCOUNTING FOR CERTAIN LEASE TRANSACTIONS

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases under Japanese GAAP.

(14) INCOME TAXES

The Group recognizes 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 statements 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 exercise of the outstanding stock options and conversion of the convertible bonds at the beginning of the year or at the date of issuance.

Cash dividends per share have been presented on an accrual basis and include dividends to be approved after the balance sheet date, but applicable to the year then ended.

(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 hedging instruments and meet certain hedging criteria, the Group defers 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.

If interest rate swap contracts are used as hedging instruments 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 Group and items hedged:

Hedging instruments:	Hedged items:
Loans payable in foreign currencies	Foreign currency future transactions
Forward foreign exchange contracts	Foreign currency future transactions
Currency option contracts	Foreign currency future transactions
Currency swap contracts	Foreign currency loans payable
Interest rate swap contracts	Interest on loans and bonds payable
Crude oil swap contracts	Fuel oil
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) STATEMENT OF CHANGES IN NET ASSETS

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard for statement of changes in net assets ("Accounting Standard for Statement of Changes in Net Assets" issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets ("the Financial Accounting Standard Implementation Guidance No. 9" issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adopted to the new presentation rules of 2007.

(18) RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2007 presentation. These changes had no impact on previously reported results of operations or cash flows or shareholders' equity.

(19) CHANGES IN ACCOUNTING METHOD

1. Freight revenues and related expenses for containerhips

Effective from the year ended March 31, 2006, the Company changed the accounting method to recognize freight revenues and the related voyage expenses for containerhips from the completed-voyage method to the multiple transportation progress method. Under the multiple transportation progress method, freight revenues and the related voyage expenses are recognized in accordance with the progress of transportation for each cargo. The reasons for the change are the recent dramatic progress of day-fixed weekly services using worldwide network coverage by means of "Alliance" formed with other shipping companies, and progress of consolidated transportation services using various means of transportation including trucks and trains. In light of such dramatic change in conditions of container business, a new calculation method has been determined to be more appropriate than the current calculation method and was finally adopted as from this financial period. As a result of this change, shipping and other revenues increased by ¥25,274 million, operating income and income before income taxes and minority interests increased by ¥962 million, in comparison with the results under the previous method of accounting. The effect of the change in segment information is disclosed in Note 11.

2. Impairment of fixed assets

Effective April 1, 2005, the Company adopted the new accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). As a result of the adoption of these standards, income before income taxes and minority interests decreased by ¥1,870 million. Accumulated impairment loss is deducted from net book value of each asset in accordance with consolidated financial statements reporting standard. The effect of the change in segment information is disclosed in Note 11.

3. Presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard for presentation of net assets in the balance sheet (“Accounting Standard for Presentation of Net Assets in the Balance Sheet” issued by the Accounting Standards Board of Japan on December 9, 2005) and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (“the Financial Accounting Standard Implementation Guidance No. 8” issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, “the Additional New Accounting Standards”).

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the Additional New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and shareholders’ equity sections.

Under the Additional New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The net assets section includes unrealized gains (losses) on hedging derivatives, net of tax. Under the previous presentation rules, unrealized gains (losses) on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Share subscription rights and minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present share subscription rights and minority interests in the liabilities section and between the non-current liabilities and the shareholders’ equity sections, respectively.

The adoption of the Additional New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, if the Additional New Accounting Standards had not been adopted at March 31, 2007, the shareholders’ equity amounting to ¥534,866 million (\$4,530,843 thousand) would have been presented.

4. Share-based payments

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard for share-based payments (“Accounting Standard for Share-based Payment” issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for share-based payment (“the Financial Accounting Standard Implementation Guidance No. 11” issued by the Accounting Standards Board of Japan on May 31, 2006). As a result of the adoption of these standards, operating income and income before income taxes and minority interests decreased by ¥366 million (\$3,100 thousand). The effect of the adoption in segment information is disclosed in Note 11.

5. Bonuses to directors and corporate auditors

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard for bonuses to directors and corporate auditors (“Accounting Standard for Directors’ Bonus” issued by the Accounting Standards Board of Japan on November 29, 2005). As a result of the adoption of this standard, operating income and income before income taxes and minority interests decreased by ¥306 million (\$2,592 thousand). The effect of the adoption in segment information is disclosed in Note 11.

3. Securities

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values at March 31, 2007 and 2006:

(a) Held-to-maturity debt securities:

Securities with available fair values exceeding book values

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Book value	¥2,011	¥2,016	\$17,035
Fair value	2,035	2,045	17,238
Difference	24	29	203

Securities with available fair values not exceeding book values

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Book value	¥-	¥25	\$-
Fair value	-	25	-
Difference	-	-	-

(b) Available-for-sale securities:

Securities with book values exceeding acquisition costs at March 31, 2007

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥40,238	¥152,561	¥112,323
Bonds	5	5	0
Others	494	498	4
Total	¥40,737	¥153,064	¥112,327

Type	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Book value	Difference
Equity securities	\$340,856	\$1,292,342	\$951,486
Bonds	42	42	0
Others	4,185	4,219	34
Total	\$345,083	\$1,296,603	\$951,520

Securities with book values exceeding acquisition costs at March 31, 2006

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥34,999	¥134,223	¥99,224
Bonds	–	–	–
Others	494	495	1
Total	¥35,493	¥134,718	¥99,225

Securities with book values not exceeding acquisition costs at March 31, 2007

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥5,344	¥4,762	¥(582)
Bonds	10	10	(0)
Others	4,548	4,502	(46)
Total	¥9,902	¥9,274	¥(628)

Type	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Book value	Difference
Equity securities	\$45,269	\$40,339	\$(4,930)
Bonds	85	85	(0)
Others	38,526	38,136	(390)
Total	\$83,880	\$78,560	\$(5,320)

Securities with book values not exceeding acquisition costs at March 31, 2006

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥1,838	¥1,662	¥(176)
Bonds	15	15	(0)
Others	4,439	4,415	(24)
Total	¥6,292	¥6,092	¥(200)

B. The following tables summarize book values of securities with no available fair value at March 31, 2007 and 2006:

Type	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
	Book value		Book value
Unlisted equity securities	¥10,984	¥12,478	\$93,045
Others	157	239	1,330
Total	¥11,141	¥12,717	\$94,375

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

For the year ended March 31, 2007:

Type	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Governmental bonds	¥ -	¥ -	¥15	-	¥ 15
Corporate bonds	-	2,000	-	-	2,000
Others	32	-	-	-	32
Total	¥32	¥2,000	¥15	-	¥2,047

Type	Thousands of U.S. dollars (Note 1)				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Governmental bonds	\$ -	\$ -	\$127	-	\$ 127
Corporate bonds	-	16,942	-	-	16,942
Others	271	-	-	-	271
Total	\$271	\$16,942	\$127	-	\$17,340

For the year ended March 31, 2006:

Type	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Governmental bonds	¥ -	¥ -	¥15	-	¥ 15
Corporate bonds	-	2,000	-	-	2,000
Others	20	41	-	-	61
Total	¥20	¥2,041	¥15	-	¥2,076

D. There were no held-to-maturity debt securities sold in the years ended March 31, 2007 and 2006.

E. Total sales of available-for-sale securities sold in the years ended March 31, 2007 and 2006 and the related gains and losses were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Proceeds from sales	¥1,202	¥8,219	\$10,182
Gross realized gains	868	3,558	7,353
Gross realized losses	17	778	144

4. Derivative Transactions

The Group enters into derivative transactions 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, 2007 and 2006, for which hedge accounting has not been applied.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
(1) Currency related:			
Forward currency exchange contracts			
Sell (U.S. dollar):			
Contracts outstanding	¥7,968	¥-	\$67,497
Unrealized losses	(149)	-	(1,262)

The following table summarizes the outstanding contract amounts and unrealized gains or 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.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Currency swaps			
Receive Yen, pay U.S. dollar:			
Contracts outstanding	¥35,500	¥25,400	\$300,720
Unrealized losses	(2,186)	(1,880)	(18,518)
Receive Yen, pay Euro:			
Contracts outstanding	¥ 500	¥ 500	\$ 4,235
Unrealized losses	(90)	(20)	(762)
Receive Euro, pay U.S. dollar:			
Contracts outstanding	¥ 6,652	¥ –	\$ 56,349
Unrealized losses	(10)	–	(85)
Receive Euro, pay Yen:			
Contracts outstanding	¥ 2,348	¥ –	\$ 19,890
Unrealized gains	22	–	186

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
(2) Interest related			
Interest rate swaps:			
Receive floating, pay fixed			
Contracts outstanding	¥38,717	¥22,023	\$327,971
Unrealized losses	(195)	(591)	(1,652)
Receive fixed, pay floating			
Contracts outstanding	¥ 1,403	¥ 3,550	\$ 11,885
Unrealized gains	25	79	212

The following table summarizes the outstanding contract amounts and unrealized gains or 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.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Interest rate swaps:			
Receive floating, pay fixed			
Contracts outstanding	¥19,932	¥19,386	\$168,844
Unrealized losses	(287)	(116)	(2,431)
Receive fixed, pay floating			
Contracts outstanding	¥16,591	¥19,081	\$140,542
Unrealized gains (losses)	(69)	47	(584)
Receive floating, pay floating			
Contracts outstanding	¥13,029	¥12,946	\$110,368
Unrealized gains	20	15	169

- 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 ¥89,235 million (\$755,909 thousand) and ¥98,426 million at March 31, 2007 and 2006, 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, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Bonds:			
1.740% yen bonds due 2007	¥ -	¥ 15,000	\$ -
1.190% yen bonds due 2009	10,000	10,000	84,710
Floating rate yen notes due 2008	1,000	1,000	8,471
Floating/fixed rate Euro medium term notes due 2007-2013	28,450	28,677	241,000
0.000% yen bonds due 2011	50,000	50,000	423,549
1.480% yen bonds due 2011	1,000	-	8,471
1.460% yen bonds due 2011	2,000	-	16,942
1.760% yen bonds due 2014	10,000	10,000	84,710
1.590% yen bonds due 2015	15,000	15,000	127,065
2.070% yen bonds due 2016	15,000	-	127,065
Secured loans from:			
Japan Development Bank due through 2019 at interest rates of 0.50% to 8.50%	85,393	76,848	723,363
Other financial institutions due through 2019 at interest rates of 0.45% to 6.40%	73,755	88,448	624,778
Unsecured loans from:			
Other financial institutions due through 2022 at interest rates of 0.43% to 7.78%	188,585	178,031	1,597,500
	480,183	473,004	4,067,624
Amount due within one year	81,649	73,387	691,648
	¥398,534	¥399,617	\$3,375,976

At March 31, 2007, the aggregate annual maturity of long-term debt was as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2008	¥ 81,649	\$ 691,648
2009	64,097	542,965
2010	64,764	548,615
2011	81,412	689,640
2012	24,825	210,292
2013 and thereafter	163,436	1,384,464
	¥480,183	\$4,067,624

(3) ASSETS PLEDGED AND SECURED DEBT

At March 31, 2007, 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 (Note 1)
Vessels	¥230,843	\$1,955,468
Buildings and structures	6,580	55,739
Land	5,676	48,081
Investment securities	23,236	196,832
Others	189	1,601
	¥266,524	\$2,257,721

Secured debt	Millions of yen	Thousands of U.S. dollars (Note 1)
Short-term debt	¥ 585	\$ 4,956
Long-term debt due within one year	33,826	286,540
Long-term debt due after one year	125,322	1,061,600
	¥159,733	\$1,353,096

6. Commitments and Contingent Liabilities

At March 31, 2007, 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 ¥116,513 million (\$986,980 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. Net Assets

As described in Note 2 (19) 3, net assets comprises four sections, which are the owners' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in-capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in-capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in-capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the board of directors.

Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in-capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in-capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 21, 2007, the shareholders approved cash dividends amounting to ¥13,156 million (\$111,444 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

(A) SHARES ISSUED AND OUTSTANDING

Changes in number of shares issued and outstanding during the years ended March 31, 2007 and 2006 were as follows:

	Shares of common stock (Thousands)	Shares of treasury stock (Thousands)
Balance at March 31, 2005	1,205,410	11,046
Net increase during the year	–	891
Net decrease during the year	–	(1,678)
Balance at March 31, 2006	1,205,410	10,259
Net increase during the year	–	1,204
Net decrease during the year	–	(1,348)
Balance at March 31, 2007	1,205,410	10,115

(B) SHARE SUBSCRIPTION RIGHTS

Share subscription rights at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Stock options	¥366	–	\$3,100
Total	¥366	–	\$3,100

(C) DIVIDENDS

(1) Dividends paid for the year ended March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Approved at the shareholders' meeting held on June 22, 2006	¥10,759	\$ 91,139
Approved at the board of directors held on November 9, 2006	10,761	91,156
Total	¥21,520	\$182,295

(2) Dividends included in the retained earnings at March 31, 2007 and to be paid in subsequent periods were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Approved at the shareholders' meeting held on June 21, 2007	¥13,156	\$111,444
Total	¥13,156	\$111,444

8. Impairment Loss

Impairment losses on fixed assets for the year ended March 31, 2006 consisted of the following:

	Millions of yen
Land:	
Hirayama-cho, Midori-ku, Chiba-shi	¥ 968
Nasu-machi, Nasu-gun, Tochigi	8
Itamuro, Kuroiso-shi, Tochigi	14
Togakushi-mura, Kamiminouchi-gun, Nagano	24
Ago-cho, Shima-shi, Mie	149
Shima-cho, Shima-shi, Mie	30
Nakaizu-cho, Tagata-gun, Shizuoka	1
Vessels:	
Cruise ship (Nippon Maru)	676
Total	¥1,870

- Notes: 1. The Company recognized impairment losses because (a) the above-mentioned lands, which were a training center and sites to build a rest center, are not expected to be used and their fair value has declined, and (b) fair value of the above-mentioned vessel had declined when its transfer within the Group was decided.
2. The Company and its consolidated subsidiaries grouped their long-lived assets based on consolidated managerial segments, the lowest level for which there is identifiable cash flows that are independent of the cash flows from other groups of assets.
3. The recoverable amount of the assets is net selling price based on real estate appraisal value, publicly-assessed value for tax purpose and vessel appraisal value evaluated by Nippon Kaiji Kentei Kyokai.

There was no impairment loss on fixed assets for the year ended March 31, 2007.

9. Other Income (Expenses): Others, Net – Breakdown

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Others, net:			
Gain on sale of marketable securities	¥ 0	¥ 0	\$ 0
Exchange gain (loss), net	1,656	(4,140)	14,028
Amortization of consolidation difference/goodwill	1,296	1,658	10,978
Gain on sale of vessels, investment securities and others	19,918	17,856	168,725
Loss on sale and disposal of vessels, investment securities and others	(501)	(2,472)	(4,244)
Loss arising from dissolution of subsidiaries and affiliated companies	(197)	(424)	(1,669)
Loss on write-down of investment securities and others	(210)	(329)	(1,779)
Provision for doubtful accounts	(172)	(1,247)	(1,457)
Special retirement	(325)	(534)	(2,753)
Loss arising from marine incident	(2,213)	–	(18,746)
Sundries, net	5,006	939	42,406
Total	¥24,258	¥11,307	\$205,489

10. 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, 2007 of finance leases that do not transfer ownership to the lessee is as follows:

	Millions of yen		
	Equipment, mainly containers	Other	Total
Acquisition cost	¥51,639	¥626	¥52,265
Accumulated depreciation	30,682	397	31,079
Net book value	¥20,957	¥229	¥21,186

	Thousands of U.S. dollars (Note 1)		
	Equipment, mainly containers	Other	Total
Acquisition cost	\$437,433	\$5,303	\$442,736
Accumulated depreciation	259,907	3,363	263,270
Net book value	\$177,526	\$1,940	\$179,466

(2) Future lease payments at March 31, 2007

	Millions of yen	Thousands of U.S. dollars (Note 1)
Amount due within one year	¥ 5,262	\$ 44,574
Amount due after one year	24,845	210,462
Total	¥30,107	\$255,036

(3) Lease payments, Depreciation equivalent and Interest equivalent

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Lease payments	¥6,462	¥5,517	\$54,740
Depreciation equivalent	8,054	6,824	68,225
Interest equivalent	652	550	5,523

(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.

(6) Impairment loss

There was no impairment loss on finance lease accounted for as operating leases.

(B) FUTURE LEASE PAYMENTS UNDER OPERATING LEASES AT MARCH 31, 2007:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Amount due within one year	¥ 42,408	\$ 359,238
Amount due after one year	221,216	1,873,917
Total	¥263,624	\$2,233,155

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, 2007 of finance leases that do not transfer ownership to the lessee is as follows:

	Millions of yen	
	Equipment, mainly containers	Total
Acquisition cost	¥107	¥107
Accumulated depreciation	89	89
Net book value	¥ 18	¥ 18

	Thousands of U.S. dollars (Note 1)	
	Equipment, mainly containers	Total
Acquisition cost	\$906	\$906
Accumulated depreciation	754	754
Net book value	\$152	\$152

(2) Future lease income at March 31, 2007

	Millions of yen	Thousands of U.S. dollars (Note 1)
	Amount due within one year	¥22
Amount due after one year	21	178
Total	¥43	\$364

(3) Lease income, Depreciation and Interest equivalent

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Lease income	¥34	¥81	\$288
Depreciation	19	39	161
Interest equivalent	2	6	17

(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, 2007:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	Amount due within one year	¥ 3,300
Amount due after one year	22,490	190,513
Total	¥25,790	\$218,467

11. Segment Information

(A) BUSINESS SEGMENT INFORMATION:

		Millions of yen						
For the year ended March 31, 2007:	Bulk-ships	Container-ships	Logistics	Ferry & Domestic transport	Associated business	Others	Elimination	Consolidated
1. Revenues:								
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . .	¥787,039	¥568,590	¥55,570	¥49,849	¥ 99,670	¥ 7,717	¥ -	¥1,568,435
(2) Inter-segment revenues . . .	2,194	2,430	1,514	144	20,294	11,353	(37,929)	-
Total revenues	789,233	571,020	57,084	49,993	119,964	19,070	(37,929)	1,568,435
2. Operating expenses								
Operating income (loss) . . .	¥153,981	¥ (2,954)	¥ 1,427	¥ 461	¥ 11,660	¥ 5,387	¥ (1,889)	¥ 168,073
3. Assets, Depreciation and Capital expenditures:								
(1) Assets	¥817,317	¥271,485	¥56,715	¥50,050	¥300,113	¥360,500	¥(216,240)	¥1,639,940
(2) Depreciation	41,707	11,821	1,469	3,578	6,416	3,320	270	68,581
(3) Capital expenditures	109,857	30,328	909	4,387	8,285	111	-	153,877

		Thousands of U.S. dollars (Note 1)						
For the year ended March 31, 2007:	Bulk-ships	Container-ships	Logistics	Ferry & Domestic transport	Associated business	Others	Elimination	Consolidated
1. Revenues:								
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . .	\$6,666,997	\$4,816,518	\$470,733	\$422,270	\$ 844,303	\$ 65,371	\$ -	\$13,286,192
(2) Inter-segment revenues . . .	18,585	20,585	12,825	1,220	171,910	96,171	(321,296)	-
Total revenues	6,685,582	4,837,103	483,558	423,490	1,016,213	161,542	(321,296)	13,286,192
2. Operating expenses								
Operating income (loss) . . .	\$1,304,371	\$ (25,023)	\$ 12,088	\$ 3,905	\$ 98,772	\$ 45,633	\$ (16,002)	\$ 1,423,744
3. Assets, Depreciation and Capital expenditures:								
(1) Assets	\$6,923,482	\$2,299,746	\$480,432	\$423,973	\$2,542,253	\$3,053,790	\$(1,831,766)	\$13,891,910
(2) Depreciation	353,299	100,136	12,444	30,309	54,350	28,124	2,287	580,949
(3) Capital expenditures	930,597	256,908	7,700	37,162	70,182	941	-	1,303,490

(Change in accounting method)

- As mentioned in Note 2 (19) 4. Share-based payments, effective from the year ended March 31, 2007, the Company adopted the new accounting standard for share-based payments ("Accounting Standard for Share-based Payment" issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for share-based payment ("the Financial Accounting Standard Implementation Guidance No. 11" issued by the Accounting Standards Board of Japan on May 31, 2006). As a result of the adoption of these standards, operating income (loss) decreased by ¥216 million (\$1,830 thousand) for Bulkships, ¥125 million (\$1,059 thousand) for Containerships, ¥9 million (\$76 thousand) for Logistics, ¥5 million (\$42 thousand) for Ferry & Domestic transport, ¥10 million (\$85 thousand) for Associated business and ¥2 million (\$17 thousand) for Others.
- As mentioned in Note 2 (19) 5. Bonuses to directors and corporate auditors, effective from the year ended March 31, 2007, the Company adopted the new accounting standard for bonuses to directors and corporate auditors ("Accounting Standard for Directors' Bonus" issued by the Accounting Standards Board of Japan on November 29, 2005). As a result of the adoption of this standard, operating income (loss) decreased by ¥139 million (\$1,177 thousand) for Bulkships, ¥100 million (\$847 thousand) for Containerships, ¥5 million (\$42 thousand) for Logistics, ¥3 million (\$25 thousand) for Ferry & Domestic transport, ¥59 million (\$500 thousand) for Associated business and ¥1 million (\$8 thousand) for Others.

For the year ended March 31, 2006:	Millions of yen							
	Bulk-ships	Container-ships	Logistics	Ferry & Domestic transport	Associated business	Others	Elimination	Consolidated
1. Revenues:								
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . .	¥676,323	¥488,233	¥63,686	¥46,771	¥ 87,453	¥ 4,259	¥ -	¥1,366,725
(2) Inter-segment revenues . . .	365	1,812	1,636	51	21,960	8,228	(34,052)	-
Total revenues	676,688	490,045	65,322	46,822	109,413	12,487	(34,052)	1,366,725
2. Operating expenses	551,099	455,488	64,122	46,514	98,152	7,957	(29,600)	1,193,732
Operating income	¥125,589	¥ 34,557	¥ 1,200	¥ 308	¥ 11,261	¥ 4,530	¥ (4,452)	¥ 172,993
3. Assets, Depreciation, Impairment loss and Capital expenditures:								
(1) Assets	¥695,797	¥225,214	¥55,342	¥50,129	¥307,881	¥334,893	¥(198,432)	¥1,470,824
(2) Depreciation	41,040	10,505	1,440	3,385	6,516	2,916	(102)	65,700
(3) Impairment loss	-	-	-	-	677	-	1,193	1,870
(4) Capital expenditures	119,485	37,913	1,236	8,204	7,252	3,136	-	177,226

(Change in accounting method)

As mentioned in Note 2 (19) 1. Freight revenues and related expenses for containerships, the Company changed the accounting method to recognize freight revenues and the related voyage expenses for containerships from the completed-voyage method to the multiple transportation progress method. As a result of this change, revenues increased by ¥25,274 million and operating income increased by ¥962 million for Containerships in comparison with the results under the previous method of accounting.

(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.

For the year ended March 31, 2007:	Millions of yen						
	Japan	North America	Europe	Asia	Others	Elimination	Consolidated
1. Revenues:							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies	¥1,490,370	¥45,011	¥ 16,877	¥16,074	¥ 103	¥ -	¥1,568,435
(2) Inter-segment revenues	5,716	16,922	8,057	8,664	2,469	(41,828)	-
Total revenues	1,496,086	61,933	24,934	24,738	2,572	(41,828)	1,568,435
2. Operating expenses	1,342,716	50,590	20,026	23,091	2,469	(38,530)	1,400,362
Operating income	¥ 153,370	¥11,343	¥ 4,908	¥ 1,647	¥ 103	¥ (3,298)	¥ 168,073
3. Assets	¥1,576,913	¥37,369	¥120,225	¥19,831	¥4,833	¥(119,231)	¥1,639,940

For the year ended March 31, 2007:	Thousands of U.S. dollars (Note 1)						
	Japan	North America	Europe	Asia	Others	Elimination	Consolidated
1. Revenues:							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies	\$12,624,905	\$381,288	\$ 142,965	\$136,162	\$ 872	\$ -	\$13,286,192
(2) Inter-segment revenues	48,420	143,346	68,251	73,393	20,914	(354,324)	-
Total revenues	12,673,325	524,634	211,216	209,555	21,786	(354,324)	13,286,192
2. Operating expenses	11,374,130	428,548	169,640	195,603	20,914	(326,387)	11,862,448
Operating income	\$ 1,299,195	\$ 96,086	\$ 41,576	\$ 13,952	\$ 872	\$ (27,937)	\$ 1,423,744
3. Assets	\$13,358,009	\$316,552	\$1,018,424	\$167,988	\$40,941	\$(1,010,004)	\$13,891,910

(Change in accounting method)

- As mentioned in Note 2 (19) 4. Share-based payments, effective from the year ended March 31, 2007, the Company adopted the new accounting standard for share-based payments ("Accounting Standard for Share-based Payment" issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for share-based payment ("the Financial Accounting Standard Implementation Guidance No. 11" issued by the Accounting Standards Board of Japan on May 31, 2006). As a result of the adoption of these standards, operating income decreased by ¥366 million (\$3,100 thousand) for Japan.
- As mentioned in Note 2 (19) 5. Bonuses to directors and corporate auditors, effective from the year ended March 31, 2007, the Company adopted the new accounting standard for bonuses to directors and corporate auditors ("Accounting Standard for Directors' Bonus" issued by the Accounting Standards Board of Japan on November 29, 2005). As a result of the adoption of this standard, operating income decreased by ¥306 million (\$2,592 thousand) for Japan.

For the year ended March 31, 2006:	Millions of yen						
	Japan	North America	Europe	Asia	Others	Elimination	Consolidated
1. Revenues:							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies	¥1,296,013	¥44,668	¥ 10,181	¥15,763	¥ 100	¥ –	¥1,366,725
(2) Inter-segment revenues	4,061	14,820	8,367	6,373	1,902	(35,523)	–
Total revenues	1,300,074	59,488	18,548	22,136	2,002	(35,523)	1,366,725
2. Operating expenses	1,137,653	47,938	15,293	20,667	2,058	(29,877)	1,193,732
Operating income (loss)	¥ 162,421	¥11,550	¥ 3,255	¥ 1,469	¥ (56)	¥ (5,646)	¥ 172,993
3. Assets	¥1,391,176	¥43,783	¥122,637	¥17,707	¥2,458	¥(106,937)	¥1,470,824

(Change in accounting method)

As mentioned in Note 2 (19) 1. Freight revenues and related expenses for containerships, the Company changed the accounting method to recognize freight revenues and the related voyage expenses for containerships from the completed-voyage method to the multiple transportation progress method. As a result of this change, revenues increased by ¥25,274 million and operating income (loss) increased by ¥962 million for Japan in comparison with the results under the previous method of accounting.

(C) INTERNATIONAL BUSINESS INFORMATION:

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, 2007:	Millions of yen				
	North America	Europe	Asia	Others	Total
1. International revenues	¥353,183	¥287,006	¥345,429	¥402,861	¥1,388,479
2. Consolidated revenues	–	–	–	–	¥1,568,435
3. Ratio of international revenues to consolidated revenues	22.5%	18.3%	22.0%	25.7%	88.5%

For the year ended March 31, 2007:	Thousands of U.S. dollars (Note 1)				
	North America	Europe	Asia	Others	Total
1. International revenues	\$2,991,809	\$2,431,224	\$2,926,125	\$3,412,629	\$11,761,787
2. Consolidated revenues	–	–	–	–	\$13,286,192
3. Ratio of international revenues to consolidated revenues	22.5%	18.3%	22.0%	25.7%	88.5%

For the year ended March 31, 2006:	Millions of yen				
	North America	Europe	Asia	Others	Total
1. International revenues	¥310,082	¥193,977	¥318,031	¥396,118	¥1,218,208
2. Consolidated revenues	–	–	–	–	¥1,366,725
3. Ratio of international revenues to consolidated revenues	22.7%	14.2%	23.3%	28.9%	89.1%

(Change in accounting method)

As mentioned in Note 2 (19) 1. Freight revenues and related expenses for containerships, the Company changed the accounting method to recognize freight revenues and the related voyage expenses for containerships from the completed-voyage method to the multiple transportation progress method.

As a result of this change, revenues increased by ¥9,934 million for North America, ¥6,050 million for Europe, ¥3,565 million for Asia and ¥5,724 million for Others, in comparison with the results under the previous method of accounting.

12. 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 37.25% for the years ended March 31, 2007 and 2006.

(A) Significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Deferred tax assets:			
Excess bad debt expenses	¥ 1,606	¥ 1,753	\$ 13,604
Reserve for bonuses expenses	1,989	1,921	16,849
Retirement benefits expenses	5,380	6,941	45,574
Retirement allowances for directors	1,034	1,082	8,759
Write-down of securities and other investments	2,268	2,666	19,212
Accrued business tax and business place tax	881	720	7,463
Operating loss carried forward	4,339	5,361	36,756
Unrealized gain on sale of fixed assets	1,297	794	10,987
Impairment loss	1,004	3,493	8,505
Others	2,000	1,658	16,942
Total deferred tax assets	21,798	26,389	184,651
Valuation allowance	(7,083)	(6,526)	(60,000)
Net deferred tax assets	14,715	19,863	124,651
Deferred tax liabilities:			
Reserve deductible for tax purposes when appropriated for deferred gain on real properties	(2,355)	(2,558)	(19,949)
Reserve deductible for tax purposes when appropriated for special depreciation	(271)	(633)	(2,296)
Unrealized holding gains on available-for-sale securities	(42,143)	(38,403)	(356,993)
Gain on securities contributed to employee retirement benefit trust	(4,339)	(4,338)	(36,756)
Revaluation reserve	(12,172)	(11,248)	(103,109)
Retained earnings of consolidated subsidiaries	(12,166)	(9,324)	(103,058)
Unrealized gains on hedging derivatives	(12,464)	–	(105,582)
Others	(959)	(1,359)	(8,124)
Total deferred tax liabilities	(86,869)	(67,863)	(735,867)
Net deferred tax liabilities	¥(72,154)	¥(48,000)	\$ (611,216)

(B) Significant differences between the statutory tax rate and the effective tax rate for the financial statement purpose for the years ended March 31, 2007 and 2006 were as follows:

The differences between the statutory tax rate and the effective tax rate for the financial statement purpose for the years ended March 31, 2007 and 2006 are not disclosed as they are immaterial.

13. Employees' Severance and Retirement Benefits

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Projected benefit obligation	¥ 64,749	¥ 67,275	\$ 548,488
Unrecognized actuarial differences	20,979	14,512	177,713
Prepaid pension expenses	14,397	11,688	121,957
Less fair value of pension assets	(85,188)	(79,412)	(721,627)
Employees' severance and retirement benefits	¥ 14,937	¥ 14,063	\$ 126,531

Included in the consolidated statements of income for the years ended March 31, 2007 and 2006 were severance and retirement benefit expenses, which comprise the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Service costs—benefits earned during the year	¥ 3,096	¥2,127	\$ 26,226
Interest cost on projected benefit obligation	949	947	8,039
Expected return on plan assets	(1,405)	(33)	(11,902)
Amortization of actuarial differences	(1,084)	611	(9,182)
	¥ 1,556	¥3,652	\$ 13,181

The discount rate for the years ended March 31, 2007 and 2006 used by the Company is 2.0%. Also, the rate of expected return on plan assets for the years ended March 31, 2007 and 2006 are mainly 2.0% and 0%, respectively.

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 the statements of income using the straight-line method primarily over 10 years commencing with the following period.

14. Stock Options

(A) EXPENSED AMOUNT

Expensed amount on stock options for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Selling, general and administrative expenses	¥366	—	\$3,100
Total	¥366	—	\$3,100

(B) TERMS AND CONDITIONS

The following table summarizes terms and conditions of stock options for the years when they were granted:

	2002	2003	2004	2005	2006
Number of grantees	Directors: 13 Executive officers: 19 Employees: 52	Directors: 11 Executive officers: 16 Employees: 37 Presidents of the Company's domestic consolidated subsidiaries: 34	Directors: 11 Executive officers: 16 Employees: 32 Presidents of the Company's domestic consolidated subsidiaries: 34	Directors: 11 Executive officers: 17 Employees: 38 Presidents of the Company's domestic consolidated subsidiaries: 34	Directors: 11 Executive officers: 17 Employees: 34 Presidents of the Company's domestic consolidated subsidiaries: 37
Number of stock options	Common stock 1,560,000	Common stock 1,590,000	Common stock 1,570,000	Common stock 1,650,000	Common stock 1,670,000
Grant date	September 11, 2002	August 8, 2003	August 5, 2004	August 5, 2005	August 11, 2006
Vesting conditions	No provisions	No provisions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions	No provisions	No provisions
Exercise period	From June 26, 2004 to June 25, 2012	From June 20, 2004 to June 25, 2013	From June 20, 2005 to June 24, 2014	From June 20, 2006 to June 23, 2015	From June 20, 2007 to June 22, 2016

(C) CHANGES IN NUMBER AND UNIT PRICES

The following tables summarize changes in number and unit prices of stock options for the years when they were granted:

(1) Changes in number of stock options

Non-vested stock options	2002	2003	2004	2005	2006
Balance at March 31, 2006 . .	–	–	–	–	–
Options granted during the year	–	–	–	–	1,670,000
Options expired during the year	–	–	–	–	–
Options vested during the year	–	–	–	–	1,670,000
Balance at March 31, 2007 . .	–	–	–	–	–

Vested stock options	2002	2003	2004	2005	2006
Balance at March 31, 2006 . .	200,000	488,000	1,570,000	1,650,000	–
Options vested during the year	–	–	–	–	1,670,000
Options exercised during the year	150,000	356,000	794,000	–	–
Options expired during the year	–	–	–	–	–
Balance at March 31, 2007 . .	50,000	132,000	776,000	1,650,000	1,670,000

(2) Unit prices of stock options

	2002	2003	2004	2005	2006
Exercise price	¥ 264	¥ 377	¥ 644	¥762	¥841
Average market price of share at exercise	¥1,064	¥1,112	¥1,097	–	–
Fair value per stock option at the grant date	–	–	–	–	¥219

(D) KEY FIGURES FOR FAIR VALUE PER STOCK OPTION

The Company utilized the Black Scholes Model for calculating fair value per stock option. Key figures of the calculation were as follows:

	2006
Stock price volatility	33.7%
Expected remaining term of the option	5 years and 10 months
Expected dividends	¥18 per share
Risk-free interest rate	1.5%



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 consolidated subsidiaries as of March 31, 2007 and 2006, the related consolidated statements of income for the years then ended, the consolidated statement of net assets for the year ended March 31, 2007, the consolidated statement of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for the years ended March 31, 2007 and 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2007 and 2006, 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 followings:

- (1) As discussed in Note 2 (19) 3 to the consolidated financial statements, effective from the year ended March 31, 2007, the Company adopted the new accounting standard for presentation of net assets in the balance sheet.
- (2) As discussed in Note 2 (19) 1 to the consolidated financial statements, effective from the year ended March 31, 2006, the Company changed the accounting method to recognize freight revenues and the related voyage expenses for containerships from the completed-voyage method to the multiple transportation progress method.
- (3) As discussed in Note 2 (19) 2 to the consolidated financial statements, effective April 1, 2005, the Company adopted the new accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 21, 2007