# Financial Section

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# Management's Discussion and Analysis

**SHUGO AOTO**
*Managing Executive Officer*

## The Increasing Importance of Financial Strength in a Difficult Business Environment

The marine transport industry experienced an extremely challenging business environment in fiscal 2011 for a lot of reasons. One was the European financial crisis triggered by sovereign debt problems in the eurozone. Then there was the financial headwind in the form of the yen, which appreciated more than expected, and much higher bunker prices. Exacerbating conditions were acts of nature that substantially impacted trade, such as the cyclone in Australia and heavy rains in Brazil at the beginning of 2011, then the tragic Great East Japan Earthquake, and later in 2011 the major flooding in Thailand. Overseas, a number of ocean transport companies specializing in dry bulkers and tankers have collapsed, and containership companies, including industry leaders, have fallen into the red. Some major companies have been granted moratoriums on debt repayments twice by their banks since the Lehman Shock. In Japan, meanwhile, medium-sized operator The Sanko Steamship Co., Ltd. filed a petition for commencement of corporate reorganization proceedings in July 2012.

Under these challenging circumstances, in fiscal 2011 MOL recorded its largest ever loss since its founding, denting the company's balance sheet. Even so, MOL is recognized in the industry as having a comparatively strong financial position. MOL's "healthy financial base is the very key to our continuing competitiveness,"*1 which MOL is leveraging to develop business in various fields. Examples include offshore businesses, where financial soundness is key because of the larger investments required. We invested in a second FPSO*2 project through a joint venture with a partner from another industry. That's not to mention the importance of MOL's financial position in securing long-term contracts in the existing fields of LNG carriers and iron ore carriers. The marine transport operating environment is expected to remain challenging in fiscal 2012 due to a combination of the global financial situation, natural disasters and an oversupply of vessels. Nevertheless, MOL is determined to surmount these difficult conditions by fully leveraging its financial "competitiveness" while minimizing any impact on its financial position.

*1 This expression was used by President Koichi Muto when he announced the current midterm management plan GEAR UP! MOL at a press conference in March 2010.
*2 Floating Production, Storage and Offloading system

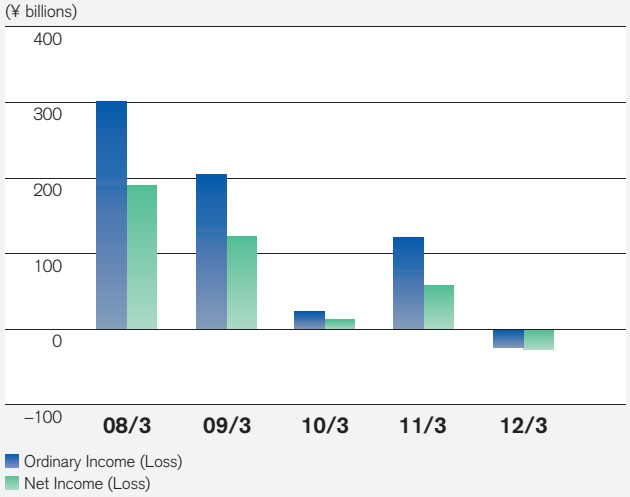
## Cash Flows and Financial Indicators

MOL's operating cash flows recovered to ¥181.8 billion in fiscal 2010 after dropping due to the Lehman Shock. However, MOL generated only ¥5.0 billion in operating cash flows in fiscal 2011, the result mainly of the net loss and a ¥29.1 billion increase in tax paid due to the strong performance in fiscal 2010. On the other hand, investing activities in fiscal 2011 used net cash of ¥134.3 billion, almost the same as fiscal 2010. In order to make up for this shortfall, MOL procured ¥148.3 billion, including ¥30.0 billion from the issuance of domestic straight bonds. This fundraising led to a ¥145.4 billion increase, year on year, to ¥869.6 billion in interest-bearing debt at March 31, 2012.

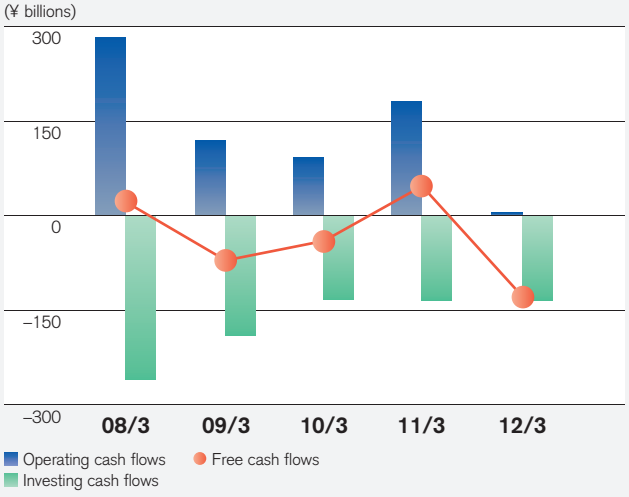
Consequently, MOL's gearing ratio worsened from 110% to 136%. However, the company maintained the net gearing ratio under 130% at 127%. Likewise, while the equity ratio worsened 2.6 percentage points, MOL maintained it over 30% at 32.8%. Hence, as before, MOL surpasses other Japanese marine transport companies in financial strength.

In fiscal 2011, investing cash flows were on a par with the previous fiscal year in the challenging operating environment. This was because the bulk of investments were decided several years earlier, for there is a long lead-time in shipbuilding between the investment decision and vessel delivery. At the same time, almost all the investments we decided on in fiscal 2011 are vessels for which the company has already secured long-term contracts ranging from 15 to 20 years and FPSOs. The FPSO will also operate on long-term contracts, so MOL expects them to be a source of highly stable profits in the future. Unfortunately, it will take several years until these investments begin generating earnings. However, the ability to

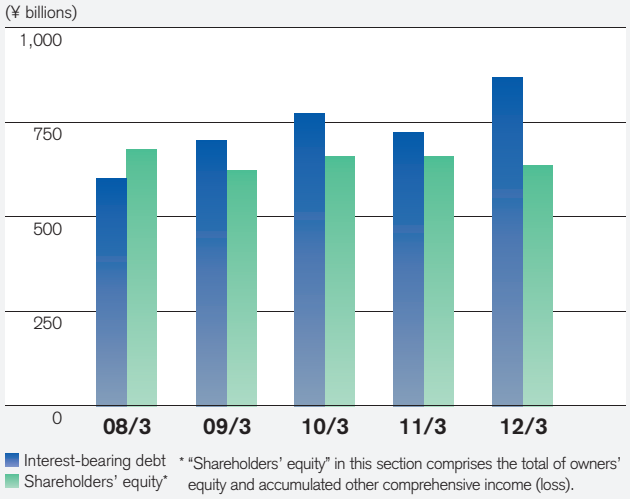
## Ordinary Income (Loss)/Net Income (Loss)




## Cash Flows

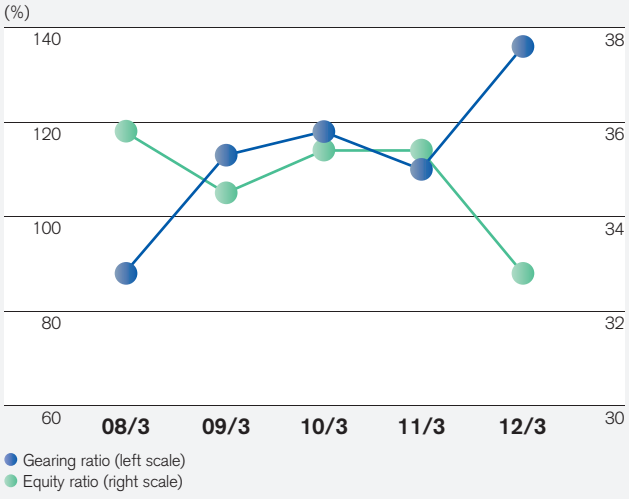



## Interest-bearing Debt/Shareholders' Equity

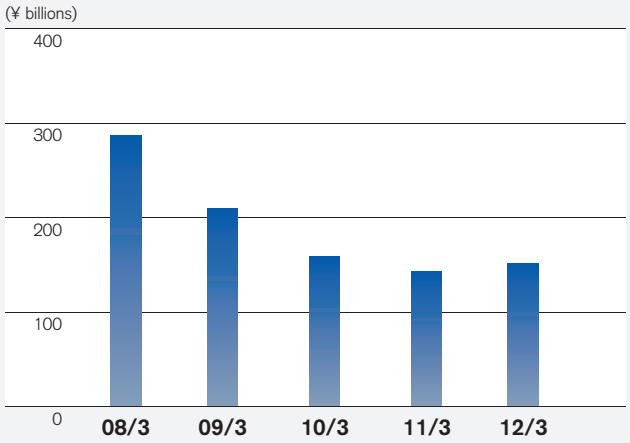



* "Shareholders' equity" in this section comprises the total of owners' equity and accumulated other comprehensive income (loss).

## Gearing Ratio/Equity Ratio




## Capital Expenditure*




* Capital expenditure is the actual amount, calculated by deducting proceeds from the sale of vessels when delivered from "tangible/intangible fixed assets increased" contained in the annual securities report.

secure these long-term, high-value contracts from cargo owners in a tough operating environment is attributable to MOL's sound financial position in the marine transport industry.

Since the drop in freight rates caused by the Lehman Shock, MOL has booked a total of approximately ¥70.0 billion in extraordinary losses for vessel dispositions and charter cancellations. We disposed of vessels which had been ordered when ship prices were high, and cancelled charter contracts where shipowners in Japan and overseas set high charter rates. These actions have lowered our average fleet costs and should ensure we stay competitive going forward. Here too, MOL's balance sheet enabled us to take these actions.

## Cash Management, Financial Ratings and Fund-Raising

While MOL's financial indicators, namely gearing ratio and equity ratio, have unfortunately worsened in the difficult operating environment, MOL has implemented various initiatives through its financing activities. In the company's 2011 annual report, MOL discussed strengthening cash management in Japan and overseas. In fiscal 2011, the company moved into full gear with these actions, which yielded even greater capital efficiency and lower bank fees. In respect to improved capital efficiency in particular, MOL executed a project to identify surplus funds at each MOL Group company, even as far as subsidiaries of overseas subsidiaries for the first time. This project produced an improvement in capital efficiency of more than US$100 million.

These measures and an improving performance have been recognized by ratings agencies. MOL has maintained the highest ratings within the marine transport industry with credit ratings of A from R&I and Baa1 from Moody's. We are determined to ensure that we do not lose the competitive advantage afforded by our financial strength. To this end, we will exercise appropriate financial management regarding the procurement of funds for large projects. For example, MOL will continue to structure project finance without the need for the company to guarantee the obligation as shareholder; in other words, MOL will raise funds based on projected cash flows from a project and using a ship mortgage.

**Credit Ratings** (As of July 2012)

| | Credit Ratings |
|---|---|
| JCR | A+ |
| R&I | A |
| Moody's | Baa1 |

In the company's 2011 annual report, MOL also introduced an LNG vessel project with ExxonMobil. During fiscal 2011, project finance totaling US$870 million was arranged, mainly from The Export-Import Bank of China. MOL also structured project finance totaling US$360 million even in the middle of the European financial crisis in June 2012 for a container terminal project in Rotterdam, the Netherlands, that is scheduled to begin operating in 2015.

Furthermore, in fiscal 2011 MOL successfully procured more than ¥10.0 billion at negative interest rates using distortions in the U.S. dollar-yen currency swap market. MOL was able to use these market distortions to procure funds on advantageous terms because of its financial base and experience in fund-raising.

In July 2012, a certain Japanese ocean transport company raised funds by increasing capital through public offerings and subordinated loans. There were some whispers that MOL was contemplating increasing capital as well. However, MOL maintains a consistent policy of providing the necessary funds for ordinary capital investments from its own accumulated capital or through borrowing or bond issuances. Actually, on the day the said Japanese ocean transport company announced the capital increase

by public offering and the subordinated loan, MOL was engaged in pre-sale marketing activities for issuing domestic straight bonds totaling ¥45.0 billion. MOL succeeded in procuring funds at a very advantageous rate just exceeding 1%, with its 10-year bond issuance enjoying strong demand. MOL plans to continue using borrowings and bond issuances as its ordinary methods for procuring funds going forward. However, MOL does not dismiss outright capital fund-raising for entering promising new fields or large M&As in the future. MOL still has some scope in its financial management, since the company has not conducted capital fund-raising since it issued euro yen zero-coupon convertible bonds*3 in March 2006.

*3 The total issue amount was ¥50.0 billion, of which ¥1.0 billion was converted into shares, while ¥49.0 billion was redeemed in March 2011.

### MOL Straight Bond Issuance

| | Date of Issue | Years | Interest Rate | Total Amount of Issue | Outstanding |
|---|---|---|---|---|---|
| Straight bonds No. 10 | 2008.12.19 | 5 | 1.43% | ¥15.0 billion | ¥15.0 billion |
| Straight bonds No. 11 | 2009.5.27 | 5 | 1.28% | ¥30.0 billion | ¥30.0 billion |
| Straight bonds No. 12 | 2009.5.27 | 10 | 2.00% | ¥20.0 billion | ¥20.0 billion |
| Straight bonds No. 13 | 2009.12.17 | 7 | 1.11% | ¥20.0 billion | ¥20.0 billion |
| Straight bonds No. 14 | 2011.6.21 | 5 | 0.57% | ¥10.0 billion | ¥10.0 billion |
| Straight bonds No. 15 | 2011.6.21 | 10 | 1.36% | ¥20.0 billion | ¥20.0 billion |
| Straight bonds No. 16 | 2012.7.12 | 3 | 0.30% | ¥15.0 billion | ¥15.0 billion |
| Straight bonds No. 17 | 2012.7.12 | 5 | 0.46% | ¥20.0 billion | ¥20.0 billion |
| Straight bonds No. 18 | 2012.7.12 | 10 | 1.14% | ¥10.0 billion | ¥10.0 billion |

## Pension Management Policy and Response to New Pension Accounting

In fiscal 2010, MOL shifted to a defined benefit corporate pension plan and lowered the assumed rate of interest to 2.0%. Along with this move, MOL changed its policy from investing in four traditional asset classes to investing mainly in bonds which pay comparatively stable returns. Recently, Japan has witnessed issues with hedge funds such as AIJ Investment Advisors in the pension management sphere. Under this stable return policy, there is no necessity for MOL to pursue high-return investments. Furthermore, even when investing in a mutual fund, because MOL places priority on evaluating the management method and system, not just results, the company does not believe there will be problems like those at AIJ.

Regarding pension accounting changes, from fiscal 2013, MOL will be required to immediately recognize on the balance sheet unrecognized actuarial differences*4 that have been off the balance sheet until now, due to revisions to accounting standards for retirement benefit. The MOL Group's unrecognized actuarial differences at the end of fiscal 2011 were ¥3.9 billion on a consolidated basis, so this would have had only a negligible impact on shareholders' equity. Furthermore, the ratio of plan assets to pension liabilities on a consolidated basis at the end of fiscal 2011 was largely even, meaning MOL has a sound position.

*4 The difference between the expected return on plan assets and the actual return, and the difference arising from divergence between actuarial assumptions and actual results when calculating retirement benefit obligations, are defined as actuarial differences. These differences are amortized (or allocated) over a certain number of years and recognized as expenses (or income). The portion still to be recognized as an expense (or income) of these actuarial differences is what is called unrecognized actuarial differences. Until now, these have not been recognized on the balance sheet.

# 11-year Summary

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

| | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **For the year:** | | | | |
| Shipping and other revenues | **¥1,435,221** | ¥1,543,661 | ¥1,347,965 | ¥1,865,802 |
| Shipping and other expenses | **1,368,795** | 1,328,960 | 1,228,479 | 1,564,486 |
| Selling, general and administrative expenses | **90,886** | 91,300 | 98,547 | 104,105 |
| Operating income (loss) | **(24,460)** | 123,401 | 20,939 | 197,211 |
| Equity in earnings of unconsolidated subsidiaries and affiliated companies, net | **3,300** | 8,174 | 5,363 | 16,000 |
| Ordinary income (loss) | **(24,320)** | 121,622 | 24,235 | 204,511 |
| Income (Loss) before income taxes and minority interests | **(33,516)** | 95,367 | 27,776 | 197,732 |
| Income taxes, current | **(9,546)** | (36,431) | (8,078) | (65,074) |
| Income taxes, deferred | **20,814** | 2,797 | (3,764) | (638) |
| Minority interests | **(3,761)** | (3,456) | (3,212) | (5,032) |
| Net income (loss) | **(26,009)** | 58,277 | 12,722 | 126,988 |
| **At year-end:** | | | | |
| Current assets | **386,936** | 344,444 | 352,030 | 428,598 |
| Current liabilities | **322,851** | 374,269 | 355,185 | 440,910 |
| Net vessels, property and equipment | **1,293,803** | 1,257,823 | 1,209,176 | 1,106,746 |
| Total assets | **1,946,162** | 1,868,741 | 1,861,312 | 1,807,080 |
| Long-term debt due after one year | **739,188** | 559,541 | 594,711 | 499,193 |
| Net assets/Shareholders' equity | **717,909** | 740,247 | 735,702 | 695,022 |
| Retained earnings | **629,667** | 664,645 | 616,736 | 623,626 |

| **Amounts per share of common stock:** | | | | |
|---|---|---|---|---|
| Net income (loss) | **¥(21.76)** | ¥ 48.75 | ¥ 10.63 | ¥106.13 |
| Net assets/Shareholders' equity | **533.27** | 552.83 | 551.70 | 521.23 |
| Cash dividends applicable to the year | **5.00** | 10.00 | 3.00 | 31.00 |

(Translation of foreign currencies)
The Japanese yen amounts for 2012 have been translated into U.S. dollars using the prevailing exchange rate at March 31, 2012, which was ¥82.19 to U.S. $1.00, solely for the convenience of readers. (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.)

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

(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 and related guidance (ASBJ Statement No. 5, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standards Board of Japan on December 9, 2005) and Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005). Net assets are comprised of shareholder's equity as defined up to the year ended March 31, 2006, minority interests, share subscription rights and unrealized gains (losses) on hedging derivatives, net of tax.

(Ordinary income (loss))
"Ordinary income (loss) is calculated by adjusting operating income for gains on management of surplus funds (interest income, etc.) and the cost of raising funds" (interest expense, etc.)

| Millions of yen | | | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|---|
| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | **2012** |
| ¥1,945,697 | ¥1,568,435 | ¥1,366,725 | ¥1,173,332 | ¥997,260 | ¥910,288 | ¥903,943 | **$17,462,234** |
| 1,544,109 | 1,300,038 | 1,101,459 | 917,149 | 824,902 | 787,540 | 761,507 | **16,654,033** |
| 110,303 | 100,324 | 92,273 | 84,388 | 80,232 | 77,392 | 82,663 | **1,105,804** |
| 291,285 | 168,073 | 172,993 | 171,795 | 92,126 | 45,356 | 59,773 | **(297,603)** |
| 18,199 | 16,171 | 16,817 | 11,764 | 6,613 | 3,387 | 4,426 | **40,151** |
| 302,219 | 182,488 | 176,503 | 174,979 | 90,556 | 33,405 | 37,381 | **(295,900)** |
| 318,202 | 197,854 | 188,290 | 155,057 | 89,776 | 25,114 | 24,851 | **(407,787)** |
| (115,183) | (63,042) | (61,200) | (52,587) | (35,346) | (10,872) | (6,101) | **(116,145)** |
| (5,694) | (7,468) | (7,570) | (1,205) | 2,152 | 1,435 | (6,633) | **253,242** |
| (7,004) | (6,404) | (5,788) | (3,004) | (1,191) | (967) | (1,572) | **(45,760)** |
| 190,321 | 120,940 | 113,732 | 98,261 | 55,391 | 14,710 | 10,545 | **(316,450)** |
| 506,078 | 405,474 | 340,355 | 299,835 | 299,544 | 289,645 | 251,388 | **4,707,823** |
| 528,390 | 482,810 | 433,023 | 429,695 | 398,091 | 423,838 | 375,032 | **3,928,106** |
| 1,047,825 | 847,660 | 769,902 | 665,320 | 477,621 | 569,234 | 619,645 | **15,741,611** |
| 1,900,551 | 1,639,940 | 1,470,824 | 1,232,252 | 1,000,206 | 1,046,612 | 1,079,090 | **23,678,817** |
| 459,280 | 398,534 | 399,617 | 340,598 | 311,021 | 395,589 | 475,696 | **8,993,649** |
| 751,652 | 620,989 | 424,461 | 298,258 | 221,535 | 164,790 | 166,970 | **8,734,749** |
| 536,096 | 375,443 | 275,689 | 182,143 | 101,991 | 56,469 | 47,818 | **7,661,114** |
| Yen | | | | | | | U.S. dollars |
| ¥159.14 | ¥101.20 | ¥ 94.98 | ¥ 81.99 | ¥ 46.14 | ¥ 12.16 | ¥ 8.76 | **$(0.265)** |
| 567.74 | 459.55 | 354.01 | 248.40 | 185.06 | 137.44 | 138.78 | **6.488** |
| 31.00 | 20.00 | 18.00 | 16.00 | 11.00 | 5.00 | 5.00 | **0.061** |

# Consolidated Balance Sheets

Mitsui O.S.K. Lines, Ltd. March 31, 2012 and 2011

| ASSETS | Millions of yen 2012 | Millions of yen 2011 | Thousands of U.S. dollars (Note 1) 2012 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents (Note 3) | ¥ 82,837 | ¥ 65,477 | $ 1,007,872 |
| Marketable securities (Notes 3 and 4) | 23 | 29 | 280 |
| Trade receivables (Note 3) | 130,922 | 128,209 | 1,592,919 |
| Allowance for doubtful accounts | (401) | (592) | (4,879) |
| Inventories (Note 5) | 54,336 | 46,548 | 661,102 |
| Deferred and prepaid expenses | 53,744 | 51,172 | 653,900 |
| Deferred tax assets (Note 15) | 4,595 | 5,753 | 55,907 |
| Other current assets | 60,880 | 47,848 | 740,722 |
| Total current assets | 386,936 | 344,444 | 4,707,823 |
| **Vessels, property and equipment** (Notes 7 and 13): | | | |
| Vessels | 1,354,315 | 1,291,685 | 16,477,856 |
| Buildings and structures | 252,043 | 251,390 | 3,066,590 |
| Equipment, mainly containers | 61,315 | 62,241 | 746,015 |
| Land | 215,959 | 216,104 | 2,627,558 |
| Vessels and other property under construction | 116,724 | 150,115 | 1,420,173 |
| | 2,000,356 | 1,971,535 | 24,338,192 |
| Accumulated depreciation | (706,553) | (713,712) | (8,596,581) |
| Net vessels, property and equipment | 1,293,803 | 1,257,823 | 15,741,611 |
| **Investments and other assets:** | | | |
| Investment securities (Notes 3, 4 and 7) | 93,806 | 101,055 | 1,141,331 |
| Investments in and advances to unconsolidated subsidiaries and affiliated companies | 79,877 | 91,779 | 971,858 |
| Long-term loans receivable (Note 3) | 19,166 | 18,199 | 233,191 |
| Intangible fixed assets | 16,194 | 9,187 | 197,031 |
| Deferred tax assets (Note 15) | 11,692 | 7,117 | 142,256 |
| Other assets | 44,688 | 39,137 | 543,716 |
| Total investments and other assets | 265,423 | 266,474 | 3,229,383 |
| Total assets | ¥1,946,162 | ¥1,868,741 | $23,678,817 |

See accompanying notes.

| LIABILITIES AND NET ASSETS | Millions of yen 2012 | Millions of yen 2011 | Thousands of U.S. dollars (Note 1) 2012 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term loans | ¥ 38,751 | ¥ 41,966 | $ 471,480 |
| Short-term bonds | – | 961 | – |
| Commercial paper | 5,000 | 21,500 | 60,835 |
| Total short-term debt (Notes 3 and 7) | 43,751 | 64,427 | 532,315 |
| Long-term bank loans due within one year | 62,261 | 69,755 | 757,525 |
| Bonds due within one year | 4,191 | 9,281 | 50,992 |
| Total long-term debt due within one year (Notes 3 and 7) | 66,452 | 79,036 | 808,517 |
| Trade payables (Note 3) | 133,600 | 130,752 | 1,625,502 |
| Advances received | 19,809 | 20,282 | 241,015 |
| Accrued income taxes | 6,112 | 27,410 | 74,364 |
| Deferred tax liabilities (Note 15) | 902 | 93 | 10,975 |
| Other current liabilities | 52,225 | 52,269 | 635,418 |
| Total current liabilities | 322,851 | 374,269 | 3,928,106 |
| Long-term bank loans due after one year | 552,157 | 399,383 | 6,718,056 |
| Bonds due after one year | 187,031 | 160,158 | 2,275,593 |
| **Total long-term debt due after one year** (Notes 3 and 7) | 739,188 | 559,541 | 8,993,649 |
| **Employees' severance and retirement benefits** (Note 16) | 13,766 | 14,311 | 167,490 |
| **Directors' and corporate auditors' retirement benefits** | 2,160 | 2,028 | 26,281 |
| **Reserve for periodic drydocking** | 14,058 | 16,908 | 171,042 |
| **Deferred tax liabilities** (Note 15) | 18,733 | 19,441 | 227,923 |
| **Other non-current liabilities** | 117,497 | 141,996 | 1,429,577 |
| **Commitments and contingent liabilities** (Note 8) | | | |
| **Net assets** (Note 9): | | | |
| **Owners' equity** | | | |
| Common stock; | | | |
| Authorized—3,154,000,000 shares | | | |
| Issued —1,206,286,115 shares | 65,400 | 65,400 | 795,717 |
| Capital surplus | 44,487 | 44,516 | 541,270 |
| Retained earnings | 629,667 | 664,645 | 7,661,114 |
| Treasury stock, at cost | (7,152) | (7,181) | (87,017) |
| Total owners' equity | 732,402 | 767,380 | 8,911,084 |
| **Accumulated other comprehensive loss** | | | |
| Unrealized holding gains on available-for-sale securities, net of tax | 16,888 | 14,489 | 205,475 |
| Unrealized losses on hedging derivatives, net of tax | (54,936) | (68,355) | (668,402) |
| Foreign currency translation adjustments | (56,932) | (52,719) | (692,688) |
| Total accumulated other comprehensive loss | (94,980) | (106,585) | (1,155,615) |
| **Share subscription rights** | 2,006 | 1,871 | 24,407 |
| **Minority interests** | 78,481 | 77,581 | 954,873 |
| Total net assets | 717,909 | 740,247 | 8,734,749 |
| Total liabilities and total net assets | ¥1,946,162 | ¥1,868,741 | $23,678,817 |

# Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2012 and 2011

**(Consolidated Statements of Operations)**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Shipping and other revenues** (Note 14) | ¥1,435,221 | ¥1,543,661 | $17,462,234 |
| **Shipping and other expenses** | 1,368,795 | 1,328,960 | 16,654,033 |
| **Gross operating income** | 66,426 | 214,701 | 808,201 |
| **Selling, general and administrative expenses** | 90,886 | 91,300 | 1,105,804 |
| **Operating income (loss)** | (24,460) | 123,401 | (297,603) |
| Other income (expenses): | | | |
| Interest and dividend income | 7,959 | 5,507 | 96,837 |
| Interest expense | (11,511) | (11,372) | (140,054) |
| Equity in earnings of unconsolidated subsidiaries and affiliated companies, net | 3,300 | 8,174 | 40,151 |
| Others, net (Notes 10 and 11) | (8,804) | (30,343) | (107,118) |
| | (9,056) | (28,034) | (110,184) |
| **Income (Loss) before income taxes and minority interests** | (33,516) | 95,367 | (407,787) |
| Income taxes (Note 15): | | | |
| Current | (9,546) | (36,431) | (116,145) |
| Deferred | 20,814 | 2,797 | 253,242 |
| **Income (Loss) before minority interests** | (22,248) | 61,733 | (270,690) |
| Minority interests | (3,761) | (3,456) | (45,760) |
| **Net income (loss)** | ¥ (26,009) | ¥ 58,277 | $ (316,450) |

**(Consolidated Statements of Comprehensive Income)**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Income (Loss) before minority interests** | ¥(22,248) | ¥ 61,733 | $(270,690) |
| **Other comprehensive income (loss)** (Note 20): | | | |
| Unrealized holding gains (losses) on available-for-sale securities, net of tax | 2,504 | (7,081) | 30,466 |
| Unrealized gains (losses) on hedging derivatives, net of tax | 18,731 | (11,480) | 227,899 |
| Foreign currency translation adjustments | (1,303) | (14,034) | (15,853) |
| Share of other comprehensive loss of associates accounted for using equity method | (10,051) | (15,251) | (122,290) |
| | 9,881 | (47,846) | 120,222 |
| **Comprehensive income (loss)** | ¥(12,367) | ¥ 13,887 | $(150,468) |
| | | | |
| **Comprehensive income (loss)** | | | |
| Comprehensive income (loss) attributable to owners of the parent | ¥(14,404) | ¥ 11,717 | $(175,252) |
| Comprehensive income attributable to minority interests | 2,037 | 2,170 | 24,784 |

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

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| Net income (loss) | ¥(21.76) | ¥48.75 | $(0.265) |
| Diluted net income | – | 47.02 | – |
| Cash dividends applicable to the year | 5.00 | 10.00 | 0.061 |

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2012 and 2011

| | 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 losses on hedging derivatives, net of tax | Foreign currency translation adjustments | Share subscription rights | Minority interests | Total net asetts |
| **Balance at April 1, 2010** | ¥65,400 | ¥44,522 | ¥616,736 | ¥(7,126) | ¥20,999 | ¥(45,454) | ¥(35,570) | ¥1,524 | ¥74,671 | ¥735,702 |
| Due to change in consolidated subsidiaries | – | – | (693) | – | – | – | – | – | – | (693) |
| Due to change in affiliated companies accounted for by the equity method | – | – | (365) | – | – | – | – | – | – | (365) |
| Due to change in currencies of consolidated subsidiaries | – | – | 259 | – | – | – | – | – | – | 259 |
| Net income | – | – | 58,277 | – | – | – | – | – | – | 58,277 |
| Purchases of treasury stock | – | – | – | (88) | – | – | – | – | – | (88) |
| Disposal of treasury stock | – | (6) | – | 33 | – | – | – | – | – | 27 |
| Dividends paid | – | – | (9,569) | – | – | – | – | – | – | (9,569) |
| Net changes during the year | – | – | – | – | (6,510) | (22,901) | (17,149) | 347 | 2,910 | (43,303) |
| **Balance at March 31 and April 1, 2011** | ¥65,400 | ¥44,516 | ¥664,645 | ¥(7,181) | ¥14,489 | ¥(68,355) | ¥(52,719) | ¥1,871 | ¥77,581 | ¥740,247 |
| Due to change in consolidated subsidiaries | – | – | 12 | – | – | – | – | – | – | 12 |
| Due to change in affiliated companies accounted for by the equity method | – | – | 159 | – | – | – | – | – | – | 159 |
| Due to change in accounting period of consolidated subsidiaries | – | – | (170) | – | – | – | – | – | – | (170) |
| Net loss | – | – | (26,009) | – | – | – | – | – | – | (26,009) |
| Purchases of treasury stock | – | – | – | (28) | – | – | – | – | – | (28) |
| Disposal of treasury stock | – | (29) | – | 57 | – | – | – | – | – | 28 |
| Dividends paid | – | – | (8,970) | – | – | – | – | – | – | (8,970) |
| Net changes during the year | – | – | – | – | 2,399 | 13,419 | (4,213) | 135 | 900 | 12,640 |
| **Balance at March 31, 2012** | ¥65,400 | ¥44,487 | ¥629,667 | ¥(7,152) | ¥16,888 | ¥(54,936) | ¥(56,932) | ¥2,006 | ¥78,481 | ¥717,909 |

| | 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 losses on hedging derivatives, net of tax | Foreign currency translation adjustments | Share subscription rights | Minority interests | Total net asetts |
| **Balance at April 1, 2011** | $795,717 | $541,623 | $8,086,689 | $(87,370) | $176,287 | $(831,671) | $(641,428) | $22,764 | $943,923 | $9,006,534 |
| Due to change in consolidated subsidiaries | – | – | 146 | – | – | – | – | – | – | 146 |
| Due to change in affiliated companies accounted for by the equity method | – | – | 1,935 | – | – | – | – | – | – | 1,935 |
| Due to change in accounting period of consolidated subsidiaries | – | – | (2,069) | – | – | – | – | – | – | (2,069) |
| Net loss | – | – | (316,450) | – | – | – | – | – | – | (316,450) |
| Purchases of treasury stock | – | – | – | (341) | – | – | – | – | – | (341) |
| Disposal of treasury stock | – | (353) | – | 694 | – | – | – | – | – | 341 |
| Dividends paid | – | – | (109,137) | – | – | – | – | – | – | (109,137) |
| Net changes during the year | – | – | – | – | 29,188 | 163,269 | (51,260) | 1,643 | 10,950 | 153,790 |
| **Balance at March 31, 2012** | $795,717 | $541,270 | $7,661,114 | $(87,017) | $205,475 | $(668,402) | $(692,688) | $24,407 | $954,873 | $8,734,749 |

See accompanying notes.

# Consolidated Statements of Cash Flows

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Cash flows from operating activities:** | | | |
| Income (Loss) before income taxes and minority interests | ¥ (33,516) | ¥ 95,367 | $ (407,787) |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities | | | |
| Depreciation and amortization | 85,624 | 77,446 | 1,041,781 |
| Impairment loss | 5,468 | 10,239 | 66,529 |
| Equity in earnings of unconsolidated subsidiaries and affiliated companies, net | (3,300) | (8,174) | (40,151) |
| Loss on write-down of investment securities | 9,163 | 500 | 111,486 |
| Loss on write-down of securities issued by subsidiaries and affiliated companies | – | 273 | – |
| Various provisions (reversals) | (4,004) | (1,227) | (48,716) |
| Interest and dividend income | (7,959) | (5,507) | (96,837) |
| Interest expense | 11,511 | 11,372 | 140,054 |
| Gain on sale of investment securities | (224) | (1,017) | (2,725) |
| Gain on sale and disposal of vessels, property and equipment | (9,729) | (24) | (118,372) |
| Exchange loss, net | 4,172 | 1,689 | 50,760 |
| Changes in operating assets and liabilities: | | | |
| Trade receivables | (3,971) | (13,756) | (48,315) |
| Inventories | (7,932) | (8,451) | (96,508) |
| Trade payables | 3,805 | 18,860 | 46,295 |
| Others, net | (6,843) | 22,075 | (83,259) |
| Sub total | 42,265 | 199,665 | 514,235 |
| Cash received for interest and dividend | 17,368 | 8,332 | 211,315 |
| Cash paid for interest | (10,478) | (11,202) | (127,485) |
| Cash paid for corporate income tax, resident tax and enterprise tax | (44,141) | (15,040) | (537,060) |
| Net cash provided by operating activities | 5,014 | 181,755 | 61,005 |
| **Cash flows from investing activities:** | | | |
| Purchase of investment securities | (1,158) | (4,568) | (14,089) |
| Proceeds from sale of investment securities | 699 | 4,846 | 8,505 |
| Payments for purchase of vessels and other tangible and intangible fixed assets | (175,036) | (217,361) | (2,129,651) |
| Proceeds from sale of vessels and other tangible and intangible fixed assets | 44,879 | 82,752 | 546,040 |
| Payments for purchase of subsidiaries' securities due to change in consolidated subsidiaries | (4,936) | – | (60,056) |
| Net increase (decrease) in short-term loans receivable | 127 | 49 | 1,545 |
| Disbursements for long-term loans receivable | (4,528) | (4,394) | (55,092) |
| Collections of long-term loans receivable | 8,384 | 2,391 | 102,008 |
| Others, net | (2,744) | 1,500 | (33,387) |
| Net cash used in investing activities | (134,313) | (134,785) | (1,634,177) |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term bonds | 56 | 154 | 681 |
| Net increase (decrease) in short-term loans | (2,958) | (3,284) | (35,990) |
| Net increase (decrease) in commercial paper | (16,500) | 13,000 | (200,754) |
| Proceeds from long-term bank loans | 270,357 | 68,899 | 3,289,415 |
| Repayments of long-term bank loans | (115,662) | (94,287) | (1,407,252) |
| Proceeds from issuance of bonds | 30,000 | 20,000 | 365,008 |
| Redemption of bonds | (7,890) | (56,534) | (95,997) |
| Purchase of treasury stock | (28) | (89) | (341) |
| Sale of treasury stock | 28 | 27 | 341 |
| Cash dividends paid by the Company | (9,041) | (9,618) | (110,001) |
| Cash dividends paid to minority interests | (1,306) | (1,140) | (15,890) |
| Others, net | 1,217 | (887) | 14,807 |
| Net cash provided by (used in) financing activities | 148,273 | (63,759) | 1,804,027 |
| **Effect of exchange rate changes on cash and cash equivalents** | (1,940) | (3,699) | (23,604) |
| **Net increase (decrease) in cash and cash equivalents** | 17,034 | (20,488) | 207,251 |
| **Cash and cash equivalents at beginning of year** | 65,477 | 85,894 | 796,654 |
| **Net cash increase from new consolidation/de-consolidation of subsidiaries** | 115 | 71 | 1,399 |
| **Increase in cash and cash equivalents due to change in accounting periods for consolidated subsidiaries** | 211 | – | 2,568 |
| **Cash and cash equivalents at end of year** | ¥ 82,837 | ¥ 65,477 | $ 1,007,872 |

See accompanying notes.

# Notes to Consolidated Financial Statements

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2012 and 2011

## 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 Financial Instruments and Exchange Act 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 made revisions according to ASBJ PITF No. 18. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) 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 Financial Instruments and Exchange Act. 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 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, 2012, which was ¥82.19 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 335 subsidiaries for the year ended March 31, 2012 (320 subsidiaries for the year ended March 31, 2011). 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 63 affiliated companies for the year ended March 31, 2012, and 60 affiliated companies for the year ended March 31, 2011. Investments in other subsidiaries (113 for the year ended March 31, 2012 and 119 for the year ended March 31, 2011) and affiliated companies (71 and 76 for the respective years) were stated at cost since total revenues, total assets and 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 between acquisition cost and net assets acquired is treated as goodwill and negative goodwill and is amortized principally over 5 years.

Net amortized amount is included in "Selling, general and administrative expenses" or "Other income" of the consolidated statements of operations.

Meanwhile, the negative goodwill incurred after April 1, 2010 is recognized as "Other income" at the time of occurrence in accordance with the revised Japanese GAAP.

### (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.

**(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. 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, net of the amount considered not collectible. 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. 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. 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 not on the equity method, 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 statements of operations 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) INVENTORIES**

Inventories are stated principally at cost determined by the moving-average method (with regard to the book value of inventories on the balance sheet, by writing the inventories down based on their decrease in profitability of assets).

**(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 mainly by the declining-balance method.

Depreciation of finance lease that transfer ownership to lessees is computed mainly by the identical to depreciation method applied to self-owned noncurrent assets. Depreciation of finance lease that do not transfer ownership to lessees is computed mainly by straight-line method on the assumption that the lease term is the useful life and an estimated residual is zero. With regard to finance lease that do not transfer ownership for which the starting date for the lease transaction is prior to March 31, 2008, they will continue to be accounted for by a method corresponding to that used for ordinary operating lease contracts.

**(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 ¥1,156 million ($14,065 thousand) for the year ended March 31, 2012 and ¥2,210 million for the year ended March 31, 2011.

**(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**

In May 2010, the Company reviewed the pension plans for employees engaged in shore and sea services and adopts the defined benefit pension plans. Employees engaged in sea service who retire prior to a certain age are also entitled to a lump-sum payment.

Under the accounting standards for employees' severance and retirement benefits, 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, 2012 and 2011 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 the statements of operations using the straight-line method over the average of the estimated remaining service lives of mainly 10 years commencing with the following period. Past service liability is chiefly accounted for as expenses in lump-sum at the time of occurrence.

**(12) DIRECTORS' AND CORPORATE AUDITORS' RETIREMENT BENEFITS**

The Company and its domestic subsidiaries recognize liabilities for retirement benefits for directors and corporate auditors at an amount required in accordance with the internal regulations.

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) 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 operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

**(14) AMOUNTS PER SHARE OF COMMON STOCK**

Net income (loss) 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. For the year ended March 31, 2012, fully diluted net income per share is not disclosed because of the Company's net loss position.

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.

**(15) 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 ("special treatment").

If foreign exchange forward contracts are used as hedging instruments and meet certain hedging criteria, hedged foreign currency assets and liabilities are translated at the rate of these contracts ("allocation method").

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 foreign currency exchange rate risk.

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.

**(16) RECLASSIFICATIONS**

Certain prior year amounts have been reclassified to conform to the 2012 presentation. These changes had no impact on previously reported results of operations or cash flows or net assets.

**(17) CHANGES IN ACCOUNTING METHOD**

**1. Application of accounting standard for asset retirement obligations**

Effective from the year ended March 31, 2011, the Company adopts the Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18, March 31, 2008) and the Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21, March 31, 2008).

The effect on profit and loss is immaterial.

**2. Application of accounting standards for business combinations**

Effective from the year ended March 31, 2011, the Company adopts the Accounting Standard for Business Combinations (ASBJ Statement No. 21, December 26, 2008), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, December 26, 2008), Partial Amendments to Accounting Standard for Research and Development Costs (ASBJ Statement No. 23, December 26, 2008), Accounting Standard for Business Divestitures (ASBJ Statement No. 7, December 26, 2008), Accounting Standard for Equity Method of Accounting for Investments (ASBJ Statement No. 16, December 26, 2008), and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, December 26, 2008).

**(18) ADDITIONAL INFORMATION**

1. The Company reviewed the projected useful life of LNG carriers, given that over 20 years have passed since LNG carriers became part of the Company's fleet and adequate data on the use of LNG carriers have become available. Based on this review, the Company found that LNG carriers can be expected to have a longer period of useful life than the number of years conventionally recognized. Therefore, effective April 1, 2010, the Company adopts 20 years as the period of useful life of LNG carriers based on actual usage.

As a result, operating income and income before income taxes and minority interests for the fiscal year ended March 31, 2011, increased by ¥5,500 million respectively compared with the results under the previous estimate.

2. Application of accounting standards for presentation of comprehensive income

Effective from the year ended March 31, 2011, the Company adopts the Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, June 30, 2010) and Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, revised June 30, 2010).

3. Application of accounting standards for accounting changes and error corrections

For accounting changes and corrections of past errors which are implemented from the fiscal year beginning on April 1, 2011, the Company adopts the Accounting Standard for Accounting Changes and Error Corrections (ASBJ Statement No. 24, December 4, 2009) and Guidance on Accounting Standard for Accounting Changes and Error Corrections (ASBJ Guidance No. 24, December 4, 2009).

## 3. FINANCIAL INSTRUMENTS

**(1) QUALITATIVE INFORMATION ON FINANCIAL INSTRUMENTS**

**I. Policies for using financial instruments**

We raise capital investment funds to acquire vessels and other fixed assets primarily through bank loans and corporate bonds. In addition, we secure short-term operating funds through commercial papers and bank loans. Furthermore, we have established commitment line with Japanese banks in preparation for supplementing liquidity in emergency situations. Derivatives are utilized to hedge risks as discussed below and are executed within the scope of real requirements. Our policy is not to use derivatives for speculative purposes.

**II. Details of financial instruments / Risk and its management**

Trade receivables are exposed to the credit risks of customers. We strive to mitigate such risks in accordance with internal regulations. Besides, trade receivables denominated in foreign currencies are exposed to the foreign currency exchange rate risk. We avoid the risk mainly by, in principle, utilizing forward exchange contracts which cover the net position (The difference between trade receivables and trade payables dominated in foreign currencies). Investment securities are mainly stocks of companies with which we have business relationships. These investment securities are exposed to the price fluctuation risk. We identify the market value of listed stocks on a quarterly basis.

Trade payables are due within a year.

Short-term loans and commercial papers are primarily used for raising short-term operating funds, while long-term loans and bonds are mainly for capital investments. Although several items with variable interest rates are exposed to the interest rate risk, a certain portion of such variable interest rates is fixed with the use of interest rate swaps.

Long-term loans and bonds denominated in foreign currencies are exposed to the foreign currency exchange rate risk, a part of which is avoided by using currency swaps.

Our major derivative transactions and hedged risks are as follows.

* Forward foreign exchange contracts / Currency swap contracts

: To cover exchange volatility of foreign-currency-denominated trade receivables, trade payables, long-term loans, and corporate bonds.

* Interest rate swap contracts

: To avoid interest rate risk arising out of interest payment of long-term loans and corporate bonds.

* Crude oil swap contracts and Commodities futures

: To hedge fluctuation of fuel oil price.

With regard to the detail of hedge accounting (hedging instruments, hedged items, the way of evaluating hedge effectiveness), see Notes 2 (15) to the consolidated financial statements.

Derivative transactions are executed and managed in accordance with our internal regulations and dealt only with highly rated financial institutions to mitigate credit risks.

On the other hand, as trade payables, loan payables, bonds, and commercial papers are exposed to the risk of financing for repayment, we manage the risk by planning cash management program monthly, having established commitment line with several financial institutions, and adjusting funding period (balancing short-term/long-term combination), in consideration of market circumstances.

**III. Supplemental information on fair value**

Fair value of financial instruments that are actively traded in organized financial markets is determined by market value.

For those where there are no active markets, it is determined by reasonable estimation. Reasonably estimated value might vary depending on condition of calculation as several variation factors are included in the calculation. On the other hand, derivative transactions mentioned in following (2) do not indicate the market risk of such derivatives.

## (2) FAIR VALUES OF FINANCIAL INSTRUMENTS

Book values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2012 are the following;

| | Millions of yen | | |
|---|---|---|---|
| | Book Value | Fair Value | Difference |
| Assets | | | |
| Cash and cash equivalents | ¥ 82,837 | ¥ 82,837 | ¥ – |
| Time deposits with a maturity of more than three months | 1,005 | 1,005 | – |
| Trade receivables | 130,922 | 130,922 | – |
| Marketable securities | | | |
| Available-for-sale securities | 23 | 23 | – |
| Short-term loans receivable | 1,534 | 1,534 | – |
| Investment securities | | | |
| Available-for-sale securities | 82,897 | 82,897 | – |
| Long-term loans receivable (*1) | 19,598 | | |
| Allowance for doubtful accounts (*2) | (185) | | |
| | 19,413 | 26,031 | 6,618 |
| Total | ¥318,631 | ¥325,249 | ¥ 6,618 |
| Liabilities | | | |
| Trade payables | ¥133,600 | ¥133,600 | ¥ – |
| Short-term loans | 38,751 | 38,751 | – |
| Commercial paper | 5,000 | 5,000 | – |
| Bonds (*3) | 191,222 | 197,269 | 6,047 |
| Long-term bank loans (*4) | 614,418 | 616,014 | 1,596 |
| Total | ¥982,991 | ¥990,634 | ¥ 7,643 |
| Derivative financial instruments (*5) | ¥ (52,523) | ¥ (54,374) | ¥(1,851) |

| | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| | Book Value | Fair Value | Difference |
| Assets | | | |
| Cash and cash equivalents | $ 1,007,872 | $ 1,007,872 | $ – |
| Time deposits with a maturity of more than three months | 12,228 | 12,228 | – |
| Trade receivables | 1,592,919 | 1,592,919 | – |
| Marketable securities | | | |
| Available-for-sale securities | 280 | 280 | – |
| Short-term loans receivable | 18,664 | 18,664 | – |
| Investment securities | | | |
| Available-for-sale securities | 1,008,602 | 1,008,602 | – |
| Long-term loans receivable (*1) | 238,447 | | |
| Allowance for doubtful accounts (*2) | (2,251) | | |
| | 236,196 | 316,717 | 80,521 |
| Total | $ 3,876,761 | $ 3,957,282 | $ 80,521 |
| Liabilities | | | |
| Trade payables | $ 1,625,502 | $ 1,625,502 | $ – |
| Short-term loans | 471,480 | 471,480 | – |
| Commercial paper | 60,835 | 60,835 | – |
| Bonds (*3) | 2,326,585 | 2,400,158 | 73,573 |
| Long-term bank loans (*4) | 7,475,581 | 7,495,000 | 19,419 |
| Total | $11,959,983 | $12,052,975 | $ 92,992 |
| Derivative financial instruments (*5) | $ (639,044) | $ (661,565) | $(22,521) |

*1 The book value of long-term loans receivable includes current portion amounting to ¥432 million ($5,256 thousand).
*2 Allowance identified for long-term loans receivable is deducted.
*3 The book value of bonds includes current portion amounting to ¥4,191 million ($50,992 thousand).
*4 The book value of long-term bank loans includes current portion amounting to ¥62,261 million ($757,525 thousand).
*5 Amounts of derivative financial instruments are net of asset and liability. Negative amount stated with ( ) means that the net amount is liability.

Book values and fair values of the financial instruments on the consolidated balance sheet at March 31,2011 are the following;

| | Millions of yen | | |
|---|---|---|---|
| | Book Value | Fair Value | Difference |
| Assets | | | |
| Cash and cash equivalents | ¥ 65,477 | ¥ 65,477 | ¥ – |
| Time deposits with a maturity of more than three months | 311 | 311 | – |
| Trade receivables | 128,209 | 128,209 | – |
| Marketable securities | | | |
| Available-for-sale securities | 29 | 29 | – |
| Short-term loans receivable | 1,695 | 1,695 | – |
| Investment securities | | | |
| Available-for-sale securities | 90,824 | 90,824 | – |
| Long-term loans receivable (*1) | 24,486 | | |
| Allowance for doubtful accounts (*2) | (188) | | |
| | 24,298 | 30,903 | 6,605 |
| Total | ¥310,843 | ¥317,448 | ¥ 6,605 |
| Liabilities | | | |
| Trade payables | ¥130,752 | ¥130,752 | ¥ – |
| Short-term bonds | 961 | 961 | – |
| Short-term loans | 41,966 | 41,966 | – |
| Commercial paper | 21,500 | 21,500 | – |
| Bonds (*3) | 169,439 | 174,241 | 4,802 |
| Long-term bank loans (*4) | 469,138 | 470,605 | 1,467 |
| Total | ¥833,756 | ¥840,025 | ¥ 6,269 |
| Derivative financial instruments (*5) | ¥ (87,850) | ¥ (89,818) | ¥(1,968) |

*1 The book value of long-term loans receivable includes current portion amounting to ¥6,287 million.
*2 Allowance identified for long-term loans receivable is deducted.
*3 The book value of bonds includes current portion amounting to ¥9,281 million.
*4 The book value of long-term bank loans includes current portion amounting to ¥69,755 million.
*5 Amounts of derivative financial instruments are net of asset and liability. Negative amount stated with ( ) means that the net amount is liability.

The following is a description of the valuation methodologies used for the assets and liabilities measured at the fair value.

Cash and cash equivalents, Time deposits with a maturity of more than three months, Trade receivables and Short-term loans receivable
Since these assets are settled in a short term and their fair value is almost equal to the book value, the fair value is evaluated at the book value.

Marketable securities and Investment securities
The fair value of stocks is evaluated at market prices at stock exchange as of the end of the fiscal year and the fair value of bonds is evaluated at market prices at stock exchange or provided by financial institutions as of the end of the fiscal years.

Long-term loans receivable
The fair value of long-term loans receivable with variable interests rate is evaluated at the book value because the interest rate reflects the market rate in a short term and their fair value is almost equal to the book value, unless the creditworthiness of the borrower has changed significantly since the loan origination. The fair value of long-term loans receivable with fixed interest rates, for each category of loans based on types of loans, and maturity length, is evaluated by discounting the total amount of principal and interest using the rate which would apply if similar borrowing were newly made.

Trade payables, Short-term bonds, Short-term loans and Commercial paper
Since these assets are settled in a short term and their fair value is almost equal to the book value, the fair value is evaluated at the book value.

Bonds
The fair value of corporate bonds with market price is evaluated based on their market price. The fair value of variable interest rates corporate bonds without market price is evaluated at the book value because the interest rate reflects the market rate in a short term and there has been no significant change in the creditworthiness of us before and after the issue.

The fair value of fixed interest rates corporate bonds without market price is evaluated by discounting the total amount of principal and interest using the rate adjusted for the creditworthiness of us and the remaining term. The fair value of corporate bonds qualifying for allocation method of interest and currency swap is evaluated at the book value because such bonds were deemed as the variable interest rates corporate bonds and the interest rate reflects the market rate in a short term.

Long-term bank loans
The fair value of long-term bank loans with variable interest rates is evaluated at the book value because the interest rate reflects the market rate in a short term and there has been no significant change in the creditworthiness of us before and after such bank loans were made. Long-term bank loans with fixed interest rates are classified by their duration, and based on their individual loan types, their fair value is evaluated by discounting the total amount of principal and interest using the rate which would apply if similar bank loans were newly taken out. The fair value of long-term bank loans qualifying for allocation method of interest and currency swap is evaluated at the book value because such bank loans were deemed as the variable interest rates bank loans and the interest rate reflects the market rate in a short term.

Derivative financial instruments
Please refer to Note 6 to the consolidated financial statements.

The following table summarizes financial instruments whose fair value is extremely difficult to estimate.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | Book value | Book value | Book value |
| | 2012 | 2011 | 2012 |
| Unlisted stocks | ¥ 7,667 | ¥ 6,977 | $ 93,284 |
| Unlisted foreign securities | 3,200 | 3,200 | 38,934 |
| Others | 42 | 54 | 511 |
| Total | ¥10,909 | ¥10,231 | $132,729 |

The above items are not included in the amount presented under the line “Investments securities” in the table summarizing fair value of financial instruments, because the fair value is extremely difficult to estimate as they have no quoted market price and the future cash flow cannot be estimated.

At March 31, 2012, the aggregate annual maturity of monetary claims and securities was as follow;

| | Millions of yen | | | |
|---|---|---|---|---|
| | Within a year | After one year through five years | After five years through ten years | After ten years |
| Cash and cash equivalents | ¥ 82,837 | ¥ – | ¥ – | ¥ – |
| Time deposits with a maturity of more than three months | 1,005 | – | – | – |
| Trade receivables | 130,922 | – | – | – |
| Short-term loans receivable | 1,534 | – | – | – |
| Marketable securities and investments securities | | | | |
| Held-to-maturity debt securities (Other) | – | – | – | 3,200 |
| Available-for-sale securities (Governmental bonds/Corporate bonds) | – | 10 | – | – |
| Long-term loans receivable | 432 | 12,420 | 2,768 | 3,978 |
| Total | ¥216,730 | ¥12,430 | ¥2,768 | ¥7,178 |

| | Thousands of U.S. dollars (Note 1) | | | |
|---|---|---|---|---|
| | Within a year | After one year through five years | After five years through ten years | After ten years |
| Cash and cash equivalents | $1,007,872 | $ – | $ – | $ – |
| Time deposits with a maturity of more than three months | 12,228 | – | – | – |
| Trade receivables | 1,592,919 | – | – | – |
| Short-term loans receivable | 18,664 | – | – | – |
| Marketable securities and investments securities | | | | |
| Held-to-maturity debt securities (Other) | – | – | – | 38,934 |
| Available-for-sale securities (Governmental bonds/Corporate bonds) | – | 122 | – | – |
| Long-term loans receivable | 5,256 | 151,113 | 33,678 | 48,400 |
| Total | $2,636,939 | $151,235 | $33,678 | $87,334 |

At March 31, 2011, the aggregate annual maturity of monetary claims and securities was as follow;

| | Millions of yen | | | |
|---|---|---|---|---|
| | Within a year | After one year through five years | After five years through ten years | After ten years |
| Cash and cash equivalents | ¥ 65,477 | ¥ – | ¥ – | ¥ – |
| Time deposits with a maturity of more than three months | 311 | – | – | – |
| Trade receivables | 128,209 | – | – | – |
| Short-term loans receivable | 1,695 | – | – | – |
| Marketable securities and investments securities | | | | |
| Held-to-maturity debt securities (Other) | – | – | – | 3,200 |
| Available-for-sale securities (Governmental bonds/Corporate bonds) | – | 10 | – | – |
| Long-term loans receivable | 6,287 | 12,000 | 1,422 | 4,777 |
| Total | ¥201,979 | ¥12,010 | ¥1,422 | ¥7,977 |

## 4. SECURITIES

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values at March 31, 2012 and 2011.

Available-for-sale securities:

Securities with book values exceeding acquisition costs at March 31, 2012

| | Millions of yen | | |
|---|---|---|---|
| Type | Acquisition cost | Book value | Difference |
| Equity securities | ¥24,930 | ¥56,798 | ¥31,868 |
| Bonds | 210 | 224 | 14 |
| Others | – | – | – |
| Total | ¥25,140 | ¥57,022 | ¥31,882 |

| Type | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | $303,322 | $691,058 | $387,736 |
| Bonds | 2,555 | 2,725 | 170 |
| Others | – | – | – |
| Total | $305,877 | $693,783 | $387,906 |

Securities with book values exceeding acquisition costs at March 31, 2011

| Type | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥26,852 | ¥69,118 | ¥42,266 |
| Bonds | 210 | 214 | 4 |
| Others | – | – | – |
| Total | ¥27,062 | ¥69,332 | ¥42,270 |

Securities with book values not exceeding acquisition costs at March 31, 2012

| Type | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥34,171 | ¥25,875 | ¥(8,296) |
| Bonds | – | – | – |
| Others | 23 | 23 | – |
| Total | ¥34,194 | ¥25,898 | ¥(8,296) |

| Type | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | $415,756 | $314,819 | $(100,937) |
| Bonds | – | – | – |
| Others | 280 | 280 | – |
| Total | $416,036 | $315,099 | $(100,937) |

Securities with book values not exceeding acquisition costs at March 31, 2011

| Type | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥29,947 | ¥21,492 | ¥(8,455) |
| Bonds | – | – | – |
| Others | 29 | 29 | – |
| Total | ¥29,976 | ¥21,521 | ¥(8,455) |

B. There were no held-to-maturity debt securities sold in the years ended March 31, 2012 and 2011.

C. Total sales of available-for-sale securities sold in the years ended March 31, 2012 and 2011 and the related gains and losses were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Proceeds from sales | ¥522 | ¥3,434 | $6,351 |
| Gross realized gains | 225 | 1,020 | 2,737 |
| Gross realized losses | 1 | – | 12 |

D. Impairment losses of securities

For the fiscal year ended March 31, 2012 and 2011, the Company reduced the book value on the securities and booked the reductions as impairment losses of ¥9,163 million ($111,486 thousands) and ¥773 million, respectively.

With regard to the impairment losses, the Company principally reduces the book value on the securities to the amount which is considered the recoverability etc. in the event the fair market value declines more than 50% in comparison with the acquisition cost.

## 5. INVENTORIES

Inventories as of March 31, 2012 and 2011 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Fuel and supplies | ¥52,848 | ¥45,523 | $642,998 |
| Others | 1,488 | 1,025 | 18,104 |
| Total | ¥54,336 | ¥46,548 | $661,102 |

## 6. 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.

### I. HEDGE ACCOUNTING NOT APPLIED

The following tables summarize the outstanding contract amounts and fair values of financial derivatives of the Group at March 31, 2012 and 2011, for which hedge accounting has not been applied.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **(1) Currency related:** | | | |
| Forward currency exchange contracts | | | |
| Sell (U.S. dollar): | | | |
| Contracts outstanding | ¥ 468 | ¥ 5,821 | $ 5,694 |
| Fair values | (9) | (1) | (109) |
| Buy (U.S. dollar): | | | |
| Contracts outstanding | ¥ 29 | ¥ – | $ 353 |
| Fair values | (0) | – | (0) |
| Buy (Others): | | | |
| Contracts outstanding | ¥ 5 | ¥ – | $ 61 |
| Fair values | 0 | – | 0 |
| Currency swaps contracts | | | |
| Buy (U.S. dollar): | | | |
| Contracts outstanding | ¥ 7,882 | ¥ 5,871 | $ 95,900 |
| Fair values | (1,777) | (1,212) | (21,621) |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **(2) Interest related** | | | |
| Interest rate swaps | | | |
| Receive floating, pay fixed | | | |
| Contracts outstanding | ¥51,276 | ¥51,102 | $623,872 |
| Fair values | (2,966) | (3,420) | (36,087) |
| Receive fixed, pay floating | | | |
| Contracts outstanding | ¥ – | ¥ 1,907 | $ – |
| Fair values | – | 6 | – |

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 rate 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.

## II. HEDGE ACCOUNTING APPLIED

The following tables summarize the outstanding contract amounts and fair values of financial derivatives of the Group at March 31, 2012 and 2011, for which hedge accounting has been applied.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **(1) Deferral hedge accounting** | | | |
| a. Forward currency exchange contracts to hedge the risk for the foreign currency transactions | | | |
| Sell (U.S. dollar): | | | |
| Contracts outstanding | ¥ 25,479 | ¥ 28,604 | $ 310,001 |
| Fair values | (1,333) | 126 | (16,218) |
| Buy (U.S. dollar): | | | |
| Contracts outstanding | ¥ 98,802 | ¥162,240 | $1,202,117 |
| Fair values | (6,360) | (13,308) | (77,382) |
| Buy (Australian dollar): | | | |
| Contracts outstanding | ¥ – | ¥ 16 | $ – |
| Fair values | – | 1 | – |
| b. Currency swaps contracts to hedge the risk for charterages | | | |
| Sell (U.S. dollar): | | | |
| Contracts outstanding | ¥ 1,863 | ¥ 2,308 | $ 22,667 |
| Fair values | 131 | 205 | 1,594 |
| Buy (U.S. dollar): | | | |
| Contracts outstanding | ¥609,265 | ¥641,203 | $7,412,885 |
| Fair values | (29,780) | (64,062) | (362,331) |
| c. Interest rate swaps to hedge the risk for the long-term bank loans and charterages | | | |
| Receive floating, pay fixed | | | |
| Contracts outstanding | ¥174,262 | ¥140,908 | $2,120,234 |
| Fair values | (13,955) | (7,709) | (169,790) |
| Receive fixed, pay floating | | | |
| Contracts outstanding | ¥ 14,336 | ¥ 17,439 | $ 174,425 |
| Fair values | 452 | 566 | 5,499 |
| d. Commodities futures to hedge the risk for the fuel oil | | | |
| Contracts outstanding | ¥ 25,371 | ¥ 9,075 | $ 308,687 |
| Fair values | 3,074 | 959 | 37,401 |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **(2) Special treatment** | | | |
| Interest rate swaps to hedge the risk for the long-term bank loans | | | |
| Receive floating, pay fixed | | | |
| Contracts outstanding | ¥15,090 | ¥17,533 | $183,599 |
| Fair values | (1,851) | (1,968) | (22,521) |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **(3) Allocation method** | | | |
| Currency swaps to hedge the risk for the foreign bonds and long-term bank loans | | | |
| Contracts outstanding | ¥30,354 | ¥16,512 | $369,315 |
| Fair values | – | – | – |

Notes: 1. Fair values are measured based on forward exchange rates prevailing at the end of the year and information provided by financial institutions, etc.
2. Currency swaps which are applied allocation method are recorded as the combined amount of such currency swaps and their hedge items. Therefore, their fair values are included in fair values of such hedge items.

## 7. SHORT-TERM DEBT AND LONG-TERM DEBT

### (1) SHORT-TERM DEBT

Short-term debt amounting to ¥43,751 million ($532,315 thousand) and ¥64,427 million at March 31, 2012 and 2011, 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, 2012 and 2011 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Bonds:** | | | |
| Floating/fixed rate Euro medium term notes due 2012–2013 | ¥ 6,222 | ¥ 11,439 | $ 75,702 |
| 1.480% yen bond due 2011 | – | 1,000 | – |
| 1.460% yen bond due 2011 | – | 2,000 | – |
| 1.428% yen bond due 2013 | 15,000 | 15,000 | 182,504 |
| 1.760% yen bonds due 2014 | 10,000 | 10,000 | 121,669 |
| 1.278% yen bonds due 2014 | 30,000 | 30,000 | 365,008 |
| 1.590% yen bonds due 2015 | 15,000 | 15,000 | 182,504 |
| 0.573% yen bonds due 2016 | 10,000 | – | 121,669 |
| 2.070% yen bonds due 2016 | 15,000 | 15,000 | 182,504 |
| 1.106% yen bonds due 2016 | 20,000 | 20,000 | 243,339 |
| 1.999% yen bonds due 2019 | 20,000 | 20,000 | 243,339 |
| 1.670% yen bonds due 2019 | 10,000 | 10,000 | 121,669 |
| 1.400% yen bonds due 2020 | 15,000 | 15,000 | 182,504 |
| 1.361% yen bonds due 2021 | 20,000 | – | 243,339 |
| 1.650% yen bonds due 2022 | 5,000 | 5,000 | 60,835 |
| **Secured loans from:** | | | |
| Japan Development Bank due through 2021 at interest rates of 0.25% to 4.70% | 66,084 | 71,990 | 804,039 |
| Other financial institutions due through 2024 at interest rates of 0.40% to 6.70% | 14,581 | 13,814 | 177,406 |
| **Unsecured loans from:** | | | |
| Other financial institutions due through 2026 at interest rates of 0.23% to 4.63% | 533,753 | 383,334 | 6,494,136 |
| | 805,640 | 638,577 | 9,802,166 |
| Amount due within one year | 66,452 | 79,036 | 808,517 |
| | ¥739,188 | ¥559,541 | $8,993,649 |

At March 31, 2012, 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) |
|---|---|---|
| 2013 | ¥ 66,452 | $ 808,517 |
| 2014 | 103,801 | 1,262,939 |
| 2015 | 143,765 | 1,749,179 |
| 2016 | 70,277 | 855,055 |
| 2017 | 102,765 | 1,250,335 |
| 2018 and thereafter | 318,580 | 3,876,141 |
| | ¥805,640 | $9,802,166 |

### (3) ASSETS PLEDGED AND SECURED DEBT

At March 31, 2012, 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 | ¥192,298 | $2,339,676 |
| Buildings and structures | 1,683 | 20,477 |
| Land | 891 | 10,841 |
| Vessels and other property under construction | 5,624 | 68,427 |
| Investment securities | 68,934 | 838,715 |
| Others | 31 | 377 |
| | ¥269,461 | $3,278,513 |

| Secured debt | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Short-term debt | ¥ 130 | $ 1,582 |
| Long-term debt due within one year | 14,772 | 179,730 |
| Long-term debt due after one year | 65,893 | 801,715 |
| | ¥80,795 | $983,027 |

## 8. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2012, 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 ¥66,765 million ($812,325 thousand).

## 9. NET ASSETS

Net assets comprises four sections, which are the owners' equity, accumulated other comprehensive income (loss), share subscription rights and minority interests.

Under the Japanese Companies Act ("the Act") 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 Act, 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 Act, appropriations (legal earnings reserve and additional paid-in-capital could be used to eliminate or reduce a deficit or could be capitalized) generally require a resolution of the shareholders' meeting.

### (A) SHARES ISSUED AND OUTSTANDING

Changes in number of shares issued and outstanding during the years ended March 31, 2012 and 2011 were as follows:

| | Shares of common stock (Thousands) | Shares of treasury stock (Thousands) |
|---|---|---|
| Balance at April 1, 2010 | 1,206,286 | 10,878 |
| Increase during the year | – | 154 |
| Decrease during the year | – | (48) |
| Balance at March 31 and April 1, 2011 | 1,206,286 | 10,984 |
| **Increase during the year** | **–** | **76** |
| **Decrease during the year** | **–** | **(85)** |
| **Balance at March 31, 2012** | **1,206,286** | **10,975** |

### (B) SHARE SUBSCRIPTION RIGHTS

Share subscription rights at March 31, 2012 and 2011 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Stock options | **¥2,006** | ¥1,871 | **$24,407** |
| Total | **¥2,006** | ¥1,871 | **$24,407** |

### (C) DIVIDENDS

(1) Dividends paid for the year ended March 31, 2012 were as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Approved at the shareholders' meeting held on June 23, 2011 | **¥5,980** | **$ 72,758** |
| Approved at the board of directors held on October 31, 2011 | **2,990** | **36,379** |
| Total | **¥8,970** | **$109,137** |

(2) Dividends included in the retained earnings at March 31, 2012 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 22, 2012 | **¥2,990** | **$36,379** |
| Total | **¥2,990** | **$36,379** |

## 10. IMPAIRMENT LOSSES

For the fiscal year ended March 31, 2012, the Group recorded an impairment loss on the following asset group.

| Application | Type | Millions of yen | Thousands of U.S. dollars (Note1) |
|---|---|---|---|
| Assets to be disposed of by sale | Vessels and Other | ¥5,468 | $66,529 |

For the fiscal year ended March 31, 2011, the Group recorded an impairment loss on the following asset group.

| Application | Type | Millions of yen |
|---|---|---|
| Assets to be disposed of by sale | Vessels and Other | ¥10,239 |

The Group group operating assets based on management accounting categories, and also group assets to be disposed of by sale and idle assets by structure. For the fiscal year ended March 31, 2012 and 2011, with regard to the target price of assets to be disposed of by sale which fell below book value, the Group reduced the book value on these assets to recoverable amounts and booked the reductions as impairment losses.

The recoverable amount for this asset group is evaluated based on the asset's net selling price. And the asset's net selling price is appraised based on the target price of assets to be disposed of by sale.

## 11. OTHER INCOME (EXPENSES): OTHERS, NET—BREAKDOWN

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Others, net:** | | | |
| Exchange loss, net | ¥ (4,440) | ¥ (4,584) | $ (54,021) |
| Amortization of goodwill, net | 288 | – | 3,504 |
| Gain on sale of vessels, investment securities and others | 11,784 | 7,623 | 143,375 |
| Loss on sale and disposal of vessels, investment securities and others | (1,831) | (6,975) | (22,278) |
| Loss arising from dissolution of subsidiaries and affiliated companies | (286) | (303) | (3,480) |
| Loss on write-down of investment securities and others | (9,163) | (773) | (111,486) |
| Provision for doubtful accounts | (28) | (7) | (340) |
| Special retirement | (361) | (438) | (4,392) |
| Cancellation fee for chartered ships, net | (199) | (10,503) | (2,421) |
| Impairment loss | (5,468) | (10,239) | (66,529) |
| Sundries, net | 900 | (4,144) | 10,950 |
| Total | ¥ (8,804) | ¥(30,343) | $(107,118) |

## 12. 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, 2012 of finance leases that do not transfer ownership to the lessee is as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Equipment, mainly containers | Others | Total |
| Acquisition cost | ¥34,800 | ¥89 | ¥34,889 |
| Accumulated depreciation | 32,316 | 85 | 32,401 |
| Net book value | ¥ 2,484 | ¥ 4 | ¥ 2,488 |

| | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| | Equipment, mainly containers | Others | Total |
| Acquisition cost | $423,409 | $1,083 | $424,492 |
| Accumulated depreciation | 393,187 | 1,034 | 394,221 |
| Net book value | $ 30,222 | $ 49 | $ 30,271 |

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2011 of finance leases that do not transfer ownership to the lessee is as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Equipment, mainly containers | Others | Total |
| Acquisition cost | ¥36,459 | ¥192 | ¥36,651 |
| Accumulated depreciation | 32,087 | 178 | 32,265 |
| Net book value | ¥ 4,372 | ¥ 14 | ¥ 4,386 |

(2) Future lease payments at March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Amount due within one year | ¥2,631 | ¥2,882 | $32,011 |
| Amount due after one year | 2,814 | 5,092 | 34,238 |
| Total | ¥5,445 | ¥7,974 | $66,249 |

(3) Lease payments, Depreciation equivalent and Interest equivalent

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Lease payments | ¥3,167 | ¥3,475 | $38,533 |
| Depreciation equivalent | 1,898 | 2,598 | 23,093 |
| Interest equivalent | 125 | 181 | 1,521 |

(4) Calculation of depreciation equivalent

Assumed depreciation amounts are computed using the declining-balance method or 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 FOR ONLY NON-CANCELABLE CONTRACTS AT MARCH 31, 2012 AND 2011:**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Amount due within one year | ¥ 38,589 | ¥ 37,921 | $ 469,510 |
| Amount due after one year | 240,143 | 266,156 | 2,921,803 |
| Total | ¥278,732 | ¥304,077 | $3,391,313 |

**AS LESSOR:**

**(A) FUTURE LEASE INCOME UNDER OPERATING LEASES FOR ONLY NON-CANCELABLE CONTRACTS AT MARCH 31, 2012 AND 2011:**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Amount due within one year | ¥13,125 | ¥13,271 | $159,691 |
| Amount due after one year | 42,020 | 47,700 | 511,254 |
| Total | ¥55,145 | ¥60,971 | $670,945 |

## 13. RENTAL PROPERTIES

The Company and certain of its consolidated subsidiaries own real estate for office lease (including lands) in Tokyo, Osaka and other areas.

Information about the book value and the fair value of such rental properties is as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Book value | ¥267,295 | ¥264,815 | $3,252,160 |
| Fair value | 356,497 | 360,994 | 4,337,474 |

Notes: 1. The book value was calculated as the amount equivalent to the cost for acquisition deducting accumulated depreciation and impairment losses.
2. The fair value is mainly based upon the amount appraised by outside independent real estate appraisers.

In addition, information about rental revenue and expense from rental properties is as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Rental revenue | ¥26,223 | ¥27,361 | $319,053 |
| Rental expense | 14,431 | 15,222 | 175,581 |
| Difference | ¥11,792 | ¥12,139 | $143,472 |

Note: Rental revenue is mainly recorded as "shipping and other revenues" and rental expense (depreciation expense, repairs and maintenance fee, utilities, personnel cost, tax and public charge, etc.) is mainly recorded as "shipping and other expenses".

## 14. SEGMENT AND RELATED INFORMATION

### (A) SEGMENT INFORMATION:

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | |
| For the year ended March 31, 2012: | Bulkships | Containerships | Ferry & Domestic transport | Associated business | Sub Total | Others | Total | Adjustment | Consolidated |
| **1. Revenues:** | | | | | | | | | |
| (1) Revenues from customers, unconsolidated subsidiaries and affiliated companies | ¥ 726,011 | ¥542,426 | ¥52,134 | ¥106,710 | ¥1,427,281 | ¥ 7,940 | ¥1,435,221 | ¥ – | ¥1,435,221 |
| (2) Inter-segment revenues | 978 | 1,700 | 206 | 17,729 | 20,613 | 7,206 | 27,819 | (27,819) | – |
| Total revenues | ¥ 726,989 | ¥544,126 | ¥52,340 | ¥124,439 | ¥1,447,894 | ¥ 15,146 | ¥1,463,040 | ¥ (27,819) | ¥1,435,221 |
| Segment income (loss) | ¥ (6,922) | ¥ (29,910) | ¥ (534) | ¥ 9,099 | ¥ (28,267) | ¥ 4,304 | ¥ (23,963) | ¥ (357) | ¥ (24,320) |
| Segment assets | ¥1,194,814 | ¥365,975 | ¥36,089 | ¥355,342 | ¥1,952,220 | ¥278,061 | ¥2,230,281 | ¥(284,119) | ¥1,946,162 |
| **2. Others** | | | | | | | | | |
| (1) Depreciation and amortization | ¥ 58,371 | ¥ 13,433 | ¥ 3,867 | ¥ 8,254 | ¥ 83,925 | ¥ 1,446 | ¥ 85,371 | ¥ 253 | ¥ 85,624 |
| (2) Amortization of goodwill, net | (558) | 35 | 241 | (12) | (294) | 6 | (288) | – | (288) |
| (3) Interest income | 798 | 170 | 70 | 42 | 1,080 | 1,256 | 2,336 | (1,163) | 1,173 |
| (4) Interest expenses | 9,818 | 2,457 | 406 | 1,980 | 14,661 | 1,056 | 15,717 | (4,206) | 11,511 |
| (5) Equity in earnings of unconsolidated subsidiaries and affiliated companies, net | 1,883 | 984 | 93 | 124 | 3,084 | 216 | 3,300 | – | 3,300 |
| (6) Investment in affiliates | 59,381 | 5,082 | 1,096 | 1,370 | 66,929 | 2,228 | 69,157 | – | 69,157 |
| (7) Tangible/intangible fixed assets increased | 158,188 | 8,210 | 829 | 5,442 | 172,669 | 2,768 | 175,437 | 289 | 175,726 |

| | Thousands of U.S. dollars (Note 1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | |
| For the year ended March 31, 2012: | Bulkships | Containerships | Ferry & Domestic transport | Associated business | Sub Total | Others | Total | Adjustment | Consolidated |
| **1. Revenues:** | | | | | | | | | |
| (1) Revenues from customers, unconsolidated subsidiaries and affiliated companies | $ 8,833,325 | $6,599,659 | $634,311 | $1,298,333 | $17,365,628 | $ 96,606 | $17,462,234 | $ – | $17,462,234 |
| (2) Inter-segment revenues | 11,899 | 20,684 | 2,506 | 215,708 | 250,797 | 87,675 | 338,472 | (338,472) | – |
| Total revenues | $ 8,845,224 | $6,620,343 | $636,817 | $1,514,041 | $17,616,425 | $ 184,281 | $17,800,706 | $ (338,472) | $17,462,234 |
| Segment income (loss) | $ (84,220) | $ (363,913) | $ (6,497) | $ 110,707 | $ (343,923) | $ 52,367 | $ (291,556) | $ (4,344) | $ (295,900) |
| Segment assets | $14,537,219 | $4,452,793 | $439,092 | $4,323,421 | $23,752,525 | $3,383,148 | $27,135,673 | $(3,456,856) | $23,678,817 |
| **2. Others** | | | | | | | | | |
| (1) Depreciation and amortization | $ 710,196 | $ 163,438 | $ 47,050 | $ 100,426 | $ 1,021,110 | $ 17,593 | $ 1,038,703 | $ 3,078 | $ 1,041,781 |
| (2) Amortization of goodwill, net | (6,789) | 426 | 2,932 | (146) | (3,577) | 73 | (3,504) | – | (3,504) |
| (3) Interest income | 9,709 | 2,068 | 852 | 511 | 13,140 | 15,282 | 28,422 | (14,150) | 14,272 |
| (4) Interest expenses | 119,454 | 29,894 | 4,940 | 24,091 | 178,379 | 12,849 | 191,228 | (51,174) | 140,054 |
| (5) Equity in earnings of unconsolidated subsidiaries and affiliated companies, net | 22,910 | 11,972 | 1,132 | 1,509 | 37,523 | 2,628 | 40,151 | – | 40,151 |
| (6) Investment in affiliates | 722,484 | 61,832 | 13,335 | 16,669 | 814,320 | 27,108 | 841,428 | – | 841,428 |
| (7) Tangible/intangible fixed assets increased | 1,924,662 | 99,891 | 10,086 | 66,213 | 2,100,852 | 33,678 | 2,134,530 | 3,516 | 2,138,046 |

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | |
| For the year ended March 31, 2011: | Bulkships | Containerships | Ferry & Domestic transport | Associated business | Sub Total | Others | Total | Adjustment | Consolidated |
| **1. Revenues:** | | | | | | | | | |
| (1) Revenues from customers, unconsolidated subsidiaries and affiliated companies | ¥ 790,573 | ¥586,650 | ¥50,089 | ¥108,447 | ¥1,535,759 | ¥ 7,902 | ¥1,543,661 | ¥ – | ¥1,543,661 |
| (2) Inter-segment revenues | 2,120 | 3,578 | 195 | 15,700 | 21,593 | 7,512 | 29,105 | (29,105) | – |
| Total revenues | ¥ 792,693 | ¥590,228 | ¥50,284 | ¥124,147 | ¥1,557,352 | ¥ 15,414 | ¥1,572,766 | ¥ (29,105) | ¥1,543,661 |
| Segment income (loss) | ¥ 70,838 | ¥ 38,854 | ¥ (566) | ¥ 10,677 | ¥ 119,803 | ¥ 3,361 | ¥ 123,164 | ¥ (1,542) | ¥ 121,622 |
| Segment assets | ¥1,173,526 | ¥386,911 | ¥38,408 | ¥342,749 | ¥1,941,594 | ¥317,866 | ¥2,259,460 | ¥(390,719) | ¥1,868,741 |
| **2. Others** | | | | | | | | | |
| (1) Depreciation and amortization | ¥ 50,509 | ¥ 11,777 | ¥ 4,256 | ¥ 9,050 | ¥ 75,592 | ¥ 1,604 | ¥ 77,196 | ¥ 250 | ¥ 77,446 |
| (2) Amortization of goodwill, net | (211) | 195 | 240 | (49) | 175 | (9) | 166 | – | 166 |
| (3) Interest income | 988 | 106 | 58 | 87 | 1,239 | 1,604 | 2,843 | (1,262) | 1,581 |
| (4) Interest expenses | 10,093 | 2,525 | 457 | 2,086 | 15,161 | 1,484 | 16,645 | (5,273) | 11,372 |
| (5) Equity in earnings of unconsolidated subsidiaries and affiliated companies, net | 6,354 | 1,009 | 127 | 154 | 7,644 | 530 | 8,174 | – | 8,174 |
| (6) Investment in affiliates | 69,002 | 5,315 | 1,045 | 1,230 | 76,592 | 2,018 | 78,610 | – | 78,610 |
| (7) Tangible/intangible fixed assets increased | 136,262 | 38,605 | 1,316 | 41,188 | 217,371 | 2,342 | 219,713 | 730 | 220,443 |

(Segment income (loss))
Segment income (loss) is calculated by adjusting operating income for gains on management of surplus funds (interest income, etc.) and the cost of raising funds (interest expense, etc.)

## (B) RELATED INFORMATION:

### (1) Information about geographic areas:

Our service areas are not necessarily consistent with our customer's location in our core ocean transport business.

That's why the revenues of geographic areas are revenues, wherever they may be earned, of companies registered in countries in the geographic areas.

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| For the year ended March 31, 2012: | Japan | North America | Europe | Asia | Others | Consolidated |
| Revenues | **¥1,355,877** | **¥19,150** | **¥25,008** | **¥34,657** | **¥529** | **¥1,435,221** |
| Tangible fixed assets | **¥1,226,211** | **¥25,194** | **¥ 4,013** | **¥38,299** | **¥ 86** | **¥1,293,803** |

| | Thousands of U.S. dollars (Note 1) | | | | | |
|---|---|---|---|---|---|---|
| For the year ended March 31, 2012: | Japan | North America | Europe | Asia | Others | Consolidated |
| Revenues | **$16,496,861** | **$232,997** | **$304,271** | **$421,669** | **$6,436** | **$17,462,234** |
| Tangible fixed assets | **$14,919,224** | **$306,534** | **$ 48,826** | **$465,981** | **$1,046** | **$15,741,611** |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| For the year ended March 31, 2011: | Japan | North America | Europe | Asia | Others | Consolidated |
| Revenues | ¥1,463,441 | ¥28,662 | ¥22,919 | ¥28,511 | ¥128 | ¥1,543,661 |
| Tangible fixed assets | ¥1,196,713 | ¥26,609 | ¥ 4,519 | ¥29,879 | ¥103 | ¥1,257,823 |

### (2) Information about impairment loss by reportable segment:

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | |
| For the year ended March 31, 2012: | Bulkships | Containerships | Ferry & Domestic transport | Associated business | Sub Total | Others | Elimination | Consolidated |
| Impairment loss | **¥5,468** | **¥–** | **¥–** | **¥–** | **¥5,468** | **¥–** | **¥–** | **¥5,468** |

| | Thousands of U.S. dollars (Note 1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | |
| For the year ended March 31, 2012: | Bulkships | Containerships | Ferry & Domestic transport | Associated business | Sub Total | Others | Elimination | Consolidated |
| Impairment loss | **$66,529** | **$–** | **$–** | **$–** | **$66,529** | **$–** | **$–** | **$66,529** |

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | |
| For the year ended March 31, 2011: | Bulkships | Containerships | Ferry & Domestic transport | Associated business | Sub Total | Others | Elimination | Consolidated |
| Impairment loss | ¥4,224 | ¥5,858 | ¥– | ¥– | ¥10,082 | ¥– | ¥157 | ¥10,239 |

### (3) Information about goodwill (negative goodwill) by reportable segment:

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | |
| For the year ended March 31, 2012: | Bulkships | Containerships | Ferry & Domestic transport | Associated business | Sub Total | Others | Elimination | Consolidated |
| Goodwill (Negative goodwill) at the end of current year | **¥(1,362)** | **¥62** | **¥977** | **¥1,155** | **¥832** | **¥14** | **¥–** | **¥846** |

| | Thousands of U.S. dollars (Note 1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | |
| For the year ended March 31, 2012: | Bulkships | Containerships | Ferry & Domestic transport | Associated business | Sub Total | Others | Elimination | Consolidated |
| Goodwill (Negative goodwill) at the end of current year | **$(16,571)** | **$754** | **$11,887** | **$14,053** | **$10,123** | **$170** | **$–** | **$10,293** |

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | |
| For the year ended March 31, 2011: | Bulkships | Containerships | Ferry & Domestic transport | Associated business | Sub Total | Others | Elimination | Consolidated |
| Goodwill (Negative goodwill) at the end of current year | ¥(2,076) | ¥1,666 | ¥1,218 | ¥0 | ¥808 | ¥(1,545) | ¥– | ¥(737) |

Additional information:
Effective from the fiscal year ended March 31, 2011, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17 27th/Mar/2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20 21st/Mar/2008) are applied.

## 15. 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, 2012 and 2011.

(A) Significant components of deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Deferred tax assets:** | | | |
| Excess bad debt expenses | ¥ 673 | ¥ 871 | $ 8,188 |
| Reserve for bonuses expenses | 1,495 | 1,818 | 18,190 |
| Retirement benefits expenses | 4,198 | 4,331 | 51,077 |
| Retirement allowances for directors | 702 | 814 | 8,541 |
| Write-down of securities and other investments | 2,404 | 2,137 | 29,249 |
| Accrued business tax and business place tax | 392 | 709 | 4,769 |
| Operating loss carried forward | 25,491 | 5,615 | 310,147 |
| Unrealized gain on sale of fixed assets | 2,052 | 2,310 | 24,967 |
| Impairment loss | 613 | 1,053 | 7,458 |
| Unrealized losses on hedging derivatives | 13,150 | 30,589 | 159,995 |
| Others | 3,787 | 3,891 | 46,077 |
| Total deferred tax assets | 54,957 | 54,138 | 668,658 |
| Valuation allowance | (11,269) | (11,626) | (137,109) |
| Net deferred tax assets | 43,688 | 42,512 | 531,549 |
| **Deferred tax liabilities:** | | | |
| Reserve deductible for tax purposes when appropriated for deferred gain on real properties | (1,849) | (2,086) | (22,497) |
| Reserve deductible for tax purposes when appropriated for special depreciation | (1,173) | (1,726) | (14,272) |
| Unrealized holding gains on available-for-sale securities | (10,931) | (12,719) | (132,997) |
| Gain on securities contributed to employee retirement benefit trust | (3,698) | (4,339) | (44,993) |
| Revaluation reserve | (14,787) | (14,093) | (179,912) |
| Retained earnings of consolidated subsidiaries | (14,228) | (13,842) | (173,111) |
| Others | (370) | (371) | (4,502) |
| Total deferred tax liabilities | (47,036) | (49,176) | (572,284) |
| Net deferred tax liabilities | ¥ (3,348) | ¥ (6,664) | $ (40,735) |

Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), Japanese corporation tax rates will be reduced and the special reconstruction corporation tax, a surtax for reconstruction funding after the Great East Japan Earthquake, will be imposed for the fiscal years beginning on or after April 1, 2012. In line with these revisions, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 37.25% to 34.25% for temporary differences which are expected to reverse during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Similarly, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 37.25% to 31.75% for temporary differences which are expected to reverse from the fiscal years beginning on or after April 1, 2015.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) decreased by ¥527 million ($6,412 thousand), and income taxes—deferred, unrealized holding gains on available-for-sale securities, net of tax increased by ¥556 million ($6,765 thousand), ¥1,782 million ($21,681 thousand), respectively and unrealized losses on hedging derivatives, net of tax decreased by ¥1,752 million ($21,316 thousand).

(B) Significant difference between the statutory tax rate and the effective tax rate for the financial statement purpose for the year ended March 31, 2011 was as follows:

| | 2011 |
|---|---|
| Statutory tax rate | 37.3 % |
| Non-deductible expenses | 0.5 % |
| Tax exempt revenues | (5.0)% |
| Effect on elimination of dividend income | 5.6 % |
| Equity in earnings of unconsolidated subsidiaries and affiliated companies | (2.7)% |
| Others | (0.4)% |
| Effective tax rate | 35.3 % |

* For the year ended March 31, 2012, the difference between the statutory tax rate and the effective tax rate is not stated as the Company recorded Loss before Income Taxes and Minority Interests.

## 16. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets at March 31, 2012 and 2011 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Projected benefit obligation | **¥ 61,317** | ¥ 62,720 | **$ 746,040** |
| Unrecognized actuarial differences | **(3,887)** | (4,859) | **(47,293)** |
| Prepaid pension expenses | **17,566** | 18,098 | **213,724** |
| Less fair value of pension assets | **(61,230)** | (61,648) | **(744,981)** |
| Employees' severance and retirement benefits | **¥ 13,766** | ¥ 14,311 | **$ 167,490** |

Included in the consolidated statements of operations for the years ended March 31, 2012 and 2011 were severance and retirement benefit expenses, which comprise the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Service costs—benefits earned during the year | **¥ 3,965** | ¥ 3,528 | **$ 48,242** |
| Interest cost on projected benefit obligation | **874** | 873 | **10,634** |
| Expected return on plan assets | **(1,085)** | (1,116) | **(13,201)** |
| Amortization of actuarial differences | **685** | 374 | **8,334** |
| Amortization of past service liabilities | **–** | (957) | **–** |
| Others* | **459** | 453 | **5,585** |
| Employees' severance and retirement benefits expenses | **¥ 4,898** | ¥ 3,155 | **$ 59,594** |

* "Others" represents expenses related to the defined contribution pension plan of consolidated subsidiaries.

The discount rate for the years ended March 31, 2012 and 2011 used by the Company is mainly 2.0%. Also, the rate of expected return on plan assets for the years ended March 31, 2012 and 2011 is mainly 2.0%.

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.

## 17. STOCK OPTIONS

### (A) EXPENSED AMOUNT

Expensed amount on stock options for the years ended March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Selling, general and administrative expenses | ¥150 | ¥347 | $1,825 |
| Total | ¥150 | ¥347 | $1,825 |

### (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 |
|---|---|---|---|---|
| Number of grantees | Directors: 13<br>Executive officers: 19<br>Employees: 52 | Directors: 11<br>Executive officers: 16<br>Employees: 37<br>Presidents of the Company's domestic consolidated subsidiaries: 34 | Directors: 11<br>Executive officers: 16<br>Employees: 32<br>Presidents of the Company's domestic consolidated subsidiaries: 34 | Directors: 11<br>Executive officers: 17<br>Employees: 38<br>Presidents of the Company's domestic consolidated subsidiaries: 34 |
| Number of stock options | Common stock 1,560,000 | Common stock 1,590,000 | Common stock 1,570,000 | Common stock 1,650,000 |
| Grant date | September 11, 2002 | August 8, 2003 | August 5, 2004 | August 5, 2005 |
| Vesting conditions | No provisions | No provisions | No provisions | No provisions |
| Service period | 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 |

| | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Number of grantees | Directors: 11<br>Executive officers: 17<br>Employees: 34<br>Presidents of the Company's domestic consolidated subsidiaries: 37 | Directors: 11<br>Executive officers: 20<br>Employees: 33<br>Presidents of the Company's domestic consolidated subsidiaries: 36 | Directors: 11<br>Executive officers: 20<br>Employees: 38<br>Presidents of the Company's domestic consolidated subsidiaries: 36 | Directors: 11<br>Executive officers: 20<br>Employees: 33<br>Presidents of the Company's domestic consolidated subsidiaries: 35 |
| Number of stock options | Common stock 1,670,000 | Common stock 1,710,000 | Common stock 1,760,000 | Common stock 1,640,000 |
| Grant date | August 11, 2006 | August 10, 2007 | August 8, 2008 | August 14, 2009 |
| Vesting conditions | No provisions | No provisions | No provisions | No provisions |
| Service period | No provisions | No provisions | No provisions | No provisions |
| Exercise period | From June 20, 2007 to June 22, 2016 | From June 20, 2008 to June 21, 2017 | From July 25, 2009 to June 24, 2018 | From July 31, 2011 to June 22, 2019 |

| | 2010 | 2011 |
|---|---|---|
| Number of grantees | Directors: 10<br>Executive officers: 21<br>Employees: 36<br>Presidents of the Company's domestic consolidated subsidiaries: 33 | Directors: 10<br>Executive officers: 22<br>Employees: 34<br>Presidents of the Company's domestic consolidated subsidiaries: 33 |
| Number of stock options | Common stock 1,710,000 | Common stock 1,720,000 |
| Grant date | August 16, 2010 | August 9, 2011 |
| Vesting conditions | No provisions | No provisions |
| Service period | No provisions | No provisions |
| Exercise period | From July 31, 2012 to June 21, 2020 | From July 26, 2013 to June 22, 2021 |

### (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 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at March 31, 2011 | – | – | – | – | – | – | – | 1,640,000 | 1,710,000 | – |
| Options granted during the year | – | – | – | – | – | – | – | – | – | 1,720,000 |
| Options expired during the year | – | – | – | – | – | – | – | – | – | – |
| Options vested during the year | – | – | – | – | – | – | – | 1,640,000 | – | – |
| Balance at March 31, 2012 | – | – | – | – | – | – | – | – | 1,710,000 | 1,720,000 |

| Vested stock options | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at March 31, 2011 | 20,000 | 14,000 | 296,000 | 888,000 | 1,463,000 | 1,700,000 | 1,760,000 | – | – | – |
| Options vested during the year | – | – | – | – | – | – | – | 1,640,000 | – | – |
| Options exercised during the year | – | – | – | – | – | – | – | – | – | – |
| Options expired during the year | – | – | 10,000 | 10,000 | 20,000 | 20,000 | 10,000 | 10,000 | – | – |
| Balance at March 31, 2012 | 20,000 | 14,000 | 286,000 | 878,000 | 1,443,000 | 1,680,000 | 1,750,000 | 1,630,000 | – | – |

(2) Unit prices of stock options exercised during the year

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Exercise price | ¥264 | ¥377 | ¥644 | ¥762 | ¥841 | ¥1,962 | ¥1,569 | ¥639 | ¥642 | ¥468 |
| Average market price of share at exercise | – | – | – | – | – | – | – | – | – | – |
| Fair value per stock option at grant date | – | – | – | – | ¥219 | ¥ 352 | ¥ 217 | ¥136 | ¥208 | ¥ 87 |

### (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:

| | 2011 |
|---|---|
| Stock price volatility | 44.0% |
| Expected remaining term of the option | 5 years and 11 months |
| Expected dividends | ¥10 per share |
| Risk-free interest rate | 0.48% |

## 18. MATERIAL NON-CASH TRANSACTIONS

Amount of lease assets and lease obligations recognized for the years ended March 31, 2012 and 2011 were ¥3,817 million ($46,441 thousand) and ¥3,916 million, respectively.

## 19. BUSINESS COMBINATIONS

(1) Name and business description of companies subject to business combination

Surviving company: Utoc Corporation (business: harbor and transport business and other activities)

Absorbed company: International Container Terminal Co., Ltd. (business: harbor and transport business and other activities)

(2) Date of business combination (effective date)

April 1, 2011

(3) Legal form of business combination

Merger in which Utoc Corporation is the surviving company

(4) Name of company after business combination

Utoc Corporation

(5) Outline of transaction including its purpose

The merger was conducted between Utoc Corporation, which is engaged in a wide range of business activities including plant construction, warehousing and logistics in addition to harbor and transport business, and International Container Terminal Co., Ltd., which has made achievements as a high-quality container terminal operator. This merger thus promotes effective use of management resources and expanded service menus in pursuing aggressive business activities not only in the harbor and transport business but also in the logistics and plant businesses. By so doing, the Company will work to enhance the service quality that is well recognized by customers in various sectors in an aim to grow, expand and maximize corporate value.

The transaction underlying the business combination entails allotment of 1.04 shares of common stock of Utoc Corporation for every 1 share of common stock of International Container Terminal Co., Ltd.

(6) Overview of accounting treatment of transaction

The transfer was accounted for as a transaction under common control as per Accounting Standard for Business Combinations (ASBJ Statement No. 21, December 26, 2008) and the Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, December 26, 2008).

## 20. COMPREHENSIVE INCOME

For the fiscal year ended March 31, 2012, the amounts reclassified to net loss that were recognized in other comprehensive income and tax effects for each component of other comprehensive income are as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2012 | 2012 |
| **Unrealized holding gains on available-for-sale securities, net of tax:** | | |
| Decrease during the year | ¥ (7,682) | $ (93,466) |
| Reclassification adjustments | 8,891 | 108,176 |
| Sub-total, before tax | 1,209 | 14,710 |
| Tax benefit | 1,295 | 15,756 |
| | 2,504 | 30,466 |
| **Unrealized gains on hedging derivatives, net of tax:** | | |
| Increase during the year | 19,784 | 240,710 |
| Reclassification adjustments | 9,894 | 120,380 |
| Adjustments of acquisition cost | 6,316 | 76,846 |
| Sub-total, before tax | 35,994 | 437,936 |
| Tax expense | (17,263) | (210,037) |
| | 18,731 | 227,899 |
| **Foreign currency translation adjustments:** | | |
| Decrease during the year | (2,569) | (31,256) |
| Reclassification adjustments | 1,266 | 15,403 |
| | (1,303) | (15,853) |
| **Share of other comprehensive loss of associates accounted for using equity method:** | | |
| Decrease during the year | (15,672) | (190,680) |
| Reclassification adjustments | 5,621 | 68,390 |
| | (10,051) | (122,290) |
| Total other comprehensive income | ¥ 9,881 | $ 120,222 |

## 21. SUBSEQUENT EVENT

There are no applicable matters to report.

# Independent Auditor's Report

KPMG

**Independent Auditor's Report**

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

We have audited the accompanying consolidated financial statements of Mitsui O.S.K. Lines, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditor's Responsibility**

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mitsui O.S.K. Lines, Ltd. and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 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 LLC

June 22, 2012
Tokyo, Japan