Financial Section

Contents

Consolidated Balance Sheets

Mitsui O.S.K. Lines, Ltd. March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2016**	2015	**2016**
Current assets:			
Cash and cash equivalents (Note 3)	**¥ 159,450**	¥ 128,802	**$ 1,415,069**
Trade receivables (Note 3)	**130,293**	178,845	**1,156,310**
Inventories (Note 5)	**27,860**	49,026	**247,249**
Deferred and prepaid expenses	**66,101**	75,937	**586,626**
Deferred tax assets (Note 15)	**1,449**	2,107	**12,859**
Other current assets	**72,297**	78,617	**641,614**
Allowance for doubtful accounts	**(975)**	(1,538)	**(8,653)**
Total current assets	**456,475**	511,796	**4,051,074**
Vessels, property and equipment, net of accumulated depreciation (Notes 7 and 13):			
Vessels	**822,270**	906,984	**7,297,391**
Buildings and structures	**159,483**	165,930	**1,415,362**
Machinery, equipment and vehicles	**22,828**	21,387	**202,591**
Furniture and fixtures	**4,482**	5,928	**39,776**
Land	**221,614**	221,993	**1,966,755**
Vessels and other property under construction	**143,342**	173,279	**1,272,116**
Others	**2,413**	2,527	**21,415**
Net vessels, property and equipment	**1,376,432**	1,498,028	**12,215,406**
Investments, intangibles and other assets:			
Intangible assets	**33,483**	37,068	**297,151**
Investment securities (Notes 3, 4 and 7)	**215,056**	268,811	**1,908,555**
Long-term loans receivable (Note 3)	**49,015**	74,959	**434,993**
Long-term prepaid expenses	**3,565**	3,692	**31,638**
Net defined benefit assets (Note 16)	**13,292**	24,063	**117,962**
Deferred tax assets (Note 15)	**4,422**	3,954	**39,244**
Other non-current assets	**69,908**	203,184	**620,413**
Allowance for doubtful accounts	**(2,061)**	(1,505)	**(18,291)**
Total investments, intangibles and other assets	**386,680**	614,226	**3,431,665**
Total assets	**¥2,219,587**	¥2,624,050	**$19,698,145**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2016**	2015	**2016**
Current liabilities:			
Trade payables (Note 3)	**¥ 127,172**	¥ 167,002	**$ 1,128,612**
Bonds due within one year (Notes 3 and 7)	**45,000**	15,000	**399,361**
Short-term loans (Notes 3 and 7)	**107,976**	179,389	**958,253**
Accrued income taxes (Note 15)	**4,872**	7,639	**43,237**
Advances received	**29,327**	36,280	**260,268**
Deferred tax liabilities (Note 15)	**712**	593	**6,319**
Allowance for bonuses	**4,485**	4,764	**39,803**
Allowance for directors' bonuses	**130**	242	**1,154**
Provision for loss on business liquidation	**71,008**	—	**630,174**
Provision for contract loss	**8,604**	—	**76,358**
Commercial paper (Notes 3 and 7)	**—**	5,500	**—**
Other current liabilities	**64,508**	88,938	**572,489**
Total current liabilities	**463,794**	505,347	**4,116,028**
Non-current liabilities:			
Bonds due after one year (Notes 3 and 7)	**220,840**	270,185	**1,959,886**
Long-term bank loans (Notes 3 and 7)	**648,117**	688,332	**5,751,837**
Lease obligations	**20,948**	22,928	**185,907**
Deferred tax liabilities (Note 15)	**81,553**	109,043	**723,758**
Directors' and corporate auditors' retirement benefits	**1,659**	1,803	**14,723**
Reserve for periodic drydocking	**14,854**	15,803	**131,825**
Net defined benefit liabilities (Note 16)	**13,442**	13,660	**119,294**
Other non-current liabilities	**107,445**	104,514	**953,629**
Total non-current liabilities	**1,108,868**	1,226,268	**9,840,859**
Total liabilities	**1,572,662**	1,731,615	**13,956,887**
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	**580,405**
Capital surplus	**45,389**	44,469	**402,813**
Retained earnings	**354,180**	533,485	**3,143,237**
Treasury stock, at cost	**(6,848)**	(6,823)	**(60,774)**
Total owners' equity	**458,121**	636,531	**4,065,681**
Accumulated other comprehensive income			
Unrealized holding gains on available-for-sale securities, net of tax	**20,950**	44,261	**185,925**
Unrealized gains on hedging derivatives, net of tax	**35,034**	68,770	**310,916**
Foreign currency translation adjustments	**26,886**	27,673	**238,605**
Remeasurements of defined benefit plans, net of tax	**(40)**	5,322	**(355)**
Total accumulated other comprehensive income	**82,830**	146,026	**735,091**
Share subscription rights	**2,682**	2,553	**23,802**
Non-controlling interests	**103,292**	107,325	**916,684**
Total net assets	**646,925**	892,435	**5,741,258**
Total liabilities and net assets	**¥2,219,587**	¥2,624,050	**$19,698,145**

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2016 and 2015

(Consolidated Statements of Operations)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Shipping and other revenues (Note 14)	¥1,712,223	¥1,817,070	$15,195,447
Shipping and other expenses	1,594,569	1,683,795	14,151,304
Gross operating income	117,654	133,275	1,044,143
Selling, general and administrative expenses	115,330	116,025	1,023,518
Operating income	2,324	17,250	20,625
Non-operating income:			
Interest income	4,079	2,705	36,200
Dividend income	6,131	6,920	54,411
Equity in earnings of affiliated companies	9,178	4,930	81,452
Foreign exchange gain	23,908	25,523	212,176
Others	7,452	8,688	66,134
Total non-operating income	50,748	48,766	450,373
Non-operating expenses:			
Interest expense	14,576	12,556	129,357
Others	2,227	2,130	19,765
Total non-operating expenses	16,803	14,686	149,122
Ordinary income	36,269	51,330	321,876
Other gains:			
Gain on sales of vessels, property, equipment and others	9,431	16,225	83,697
Gain on sales of marketable securities	12,934	135	114,785
Gain on cancellation fee for chartered ships	4,060	2,229	36,031
Others	3,587	7,563	31,834
Total other gains	30,012	26,152	266,347
Other losses:			
Loss on sales and disposals of vessels, property, equipment and others	629	897	5,582
Loss on valuation of shares of subsidiaries and associates	26,228	—	232,765
Impairment loss (Note 10)	—	10,198	—
Costs of business structural reforms (Note 11)	179,291	—	1,591,152
Others	14,518	8,055	128,843
Total other losses	220,666	19,150	1,958,342
Income (Loss) before income taxes	(154,385)	58,332	(1,370,119)
Income taxes (Note 15):			
Current	11,134	12,440	98,811
Deferred	261	(2,577)	2,316
Net income (loss)	(165,780)	48,469	(1,471,246)
Net income attributable to non-controlling interests	4,668	6,113	41,427
Net income (loss) attributable to owners of parent	¥ (170,448)	¥ 42,356	$ (1,512,673)

(Consolidated Statements of Comprehensive Income)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net income (loss)	¥(165,780)	¥ 48,469	$(1,471,246)
Other comprehensive income (Note 18):			
Unrealized holding gains (losses) on available-for-sale securities, net of tax	(24,187)	12,892	(214,652)
Unrealized gains (losses) on hedging derivatives, net of tax	(31,368)	46,674	(278,381)
Foreign currency translation adjustments	(1,520)	20,802	(13,490)
Remeasurements of defined benefit plans, net of tax	(5,369)	4,134	(47,648)
Share of other comprehensive loss of associates accounted for using equity method	(3,475)	(9,981)	(30,840)
	(65,919)	74,521	(585,011)
Comprehensive income (loss)	¥(231,699)	¥122,990	$(2,056,257)
Comprehensive income (loss)			
Comprehensive income (loss) attributable to owners of parent	¥(233,644)	¥114,990	$(2,073,518)
Comprehensive income attributable to non-controlling interests	1,945	8,000	17,261

(Amounts per share of common stock)	Yen		U.S. dollars (Note 1)
Net income (loss)	¥(142.50)	¥35.42	$(1.26)
Diluted net income (Note 2)	—	32.98	—
Cash dividends applicable to the year	5.00	7.00	0.04

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2016 and 2015

	Millions of yen										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gains on available-for-sale securities, net of tax	Unrealized gains on hedging derivatives, net of tax	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of tax	Share subscription rights	Non-controlling interests	Total net assets
Balance at April 1, 2014	¥65,400	¥44,517	¥502,833	¥(6,982)	¥ 32,810	¥ 39,711	¥ (315)	¥1,186	¥2,391	¥101,998	¥783,549
Cumulative effects of changes in accounting policies	—	—	(4,567)	—	—	—	—	—	—	—	(4,567)
Restated balance	¥65,400	¥44,517	¥498,266	¥(6,982)	¥ 32,810	¥ 39,711	¥ (315)	¥1,186	¥2,391	¥101,998	¥778,982
Issuance of new shares—exercise of subscription rights to shares	—	—	—	19	—	—	—	—	(19)	—	—
Dividends paid	—	—	(7,172)	—	—	—	—	—	—	—	(7,172)
Net income (loss) attributable to owners of parent	—	—	42,356	—	—	—	—	—	—	—	42,356
Due to change in consolidated subsidiaries	—	—	205	—	—	—	—	—	—	—	205
Due to change in affiliated companies accounted for by the equity method	—	—	(121)	—	—	—	—	—	—	—	(121)
Purchases of treasury stock	—	—	—	(56)	—	—	—	—	—	—	(56)
Disposal of treasury stock	—	(48)	(49)	196	—	—	—	—	—	—	99
Purchases of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than owner's equity during the year	—	—	—	—	11,451	29,059	27,988	4,136	181	5,327	78,142
Balance at March 31 and April 1, 2015	¥65,400	¥44,469	¥533,485	¥(6,823)	¥ 44,261	¥ 68,770	¥27,673	¥5,322	¥2,553	¥107,325	¥892,435
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Restated balance	¥65,400	¥44,469	¥533,485	¥(6,823)	¥ 44,261	¥ 68,770	¥27,673	¥5,322	¥2,553	¥107,325	¥892,435
Issuance of new shares—exercise of subscription rights to shares	—	—	—	7	—	—	—	—	(7)	—	—
Dividends paid	—	—	(8,971)	—	—	—	—	—	—	—	(8,971)
Net income (loss) attributable to owners of parent	—	—	(170,448)	—	—	—	—	—	—	—	(170,448)
Due to change in consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—
Due to change in affiliated companies accounted for by the equity method	—	—	141	—	—	—	—	—	—	—	141
Purchases of treasury stock	—	—	—	(47)	—	—	—	—	—	—	(47)
Disposal of treasury stock	—	—	(27)	15	—	—	—	—	—	—	(12)
Purchases of shares of consolidated subsidiaries	—	920	—	—	—	—	—	—	—	—	920
Net changes of items other than owner's equity during the year	—	—	—	—	(23,311)	(33,736)	(787)	(5,362)	136	(4,033)	(67,093)
Balance at March 31, 2016	¥65,400	¥45,389	¥354,180	¥(6,848)	¥ 20,950	¥ 35,034	¥26,886	¥ (40)	¥2,682	¥103,292	¥646,925

	Thousands of U.S. dollars (Note 1)										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gains on available-for-sale securities, net of tax	Unrealized gains on hedging derivatives, net of tax	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of tax	Share subscription rights	Non-controlling interests	Total net assets
Balance at April 1, 2015	$580,405	$394,648	$4,734,514	$(60,552)	$ 392,803	$ 610,312	$245,589	$47,231	$22,657	$952,476	$7,920,083
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Restated balance	$580,405	$394,648	$4,734,514	$(60,552)	$ 392,803	$ 610,312	$245,589	$47,231	$22,657	$952,476	$7,920,083
Issuance of new shares—exercise of subscription rights to shares	—	—	—	62	—	—	—	—	(62)	—	—
Dividends paid	—	—	(79,615)	—	—	—	—	—	—	—	(79,615)
Net income (loss) attributable to owners of parent	—	—	(1,512,673)	—	—	—	—	—	—	—	(1,512,673)
Due to change in consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—
Due to change in affiliated companies accounted for by the equity method	—	—	1,251	—	—	—	—	—	—	—	1,251
Purchases of treasury stock	—	—	—	(417)	—	—	—	—	—	—	(417)
Disposal of treasury stock	—	—	(240)	133	—	—	—	—	—	—	(107)
Purchases of shares of consolidated subsidiaries	—	8,165	—	—	—	—	—	—	—	—	8,165
Net changes of items other than owner's equity during the year	—	—	—	—	(206,878)	(299,396)	(6,984)	(47,586)	1,207	(35,792)	(595,429)
Balance at March 31, 2016	$580,405	$402,813	$3,143,237	$(60,774)	$ 185,925	$ 310,916	$238,605	$ (355)	$23,802	$916,684	$5,741,258

See accompanying notes.

Consolidated Statements of Cash Flows

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Income (loss) before income taxes	¥(154,385)	¥ 58,332	$(1,370,119)
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities			
Depreciation and amortization	92,772	87,804	823,323
Impairment loss	—	10,198	—
Costs of business structural reforms	179,291	—	1,591,152
Equity in losses (earnings) of affiliated companies, net	(9,178)	(4,930)	(81,452)
Various provisions (reversals)	(1,096)	2,356	(9,727)
Decrease (Increase) in net defined benefit assets	(454)	(1,560)	(4,029)
Increase (Decrease) in net defined benefit liabilities	(233)	377	(2,068)
Interest and dividend income	(10,210)	(9,625)	(90,611)
Interest expense	14,576	12,556	129,357
Loss (Gain) on sales of investment securities	(12,915)	(134)	(114,617)
Loss (Gain) on sales and disposal of vessels, property and equipment	(8,643)	(13,380)	(76,704)
Loss on valuation of shares of subsidiaries and associates	26,228	—	232,765
Foreign exchange loss (gain)	(25,084)	(24,801)	(222,613)
Changes in operating assets and liabilities:			
Trade receivables	47,462	(28,223)	421,211
Inventories	21,185	11,750	188,010
Trade payables	(38,943)	19,756	(345,607)
Changes in other non-current assets	91,997	13,417	816,445
Others, net	12,627	(25,161)	112,062
Sub total	224,997	108,732	1,996,778
Interest and dividend income received	14,099	12,411	125,124
Interest expenses paid	(14,306)	(13,107)	(126,961)
Income taxes paid	(15,600)	(15,541)	(138,445)
Net cash provided by operating activities	209,190	92,495	1,856,496
Cash flows from investing activities:			
Purchase of investment securities	(7,919)	(14,594)	(70,279)
Proceeds from sales and redemption of investment securities	16,371	1,770	145,288
Purchase of vessels, property and equipment and intangible assets	(123,840)	(186,317)	(1,099,042)
Proceeds from sales of vessels, property and equipment and intangible assets	69,202	74,184	614,146
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(6,258)	—
Proceeds from sales of shares of subsidiaries	11,137	8,706	98,837
Net decrease (increase) in short-term loans receivables	(5,459)	(4,526)	(48,447)
Disbursements for long-term loans receivables	(32,984)	(59,942)	(292,723)
Collections of long-term loans receivables	49,311	27,957	437,620
Others, net	(2,500)	(131)	(22,186)
Net cash used in investing activities	(26,681)	(159,151)	(236,786)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(40,010)	59,030	(355,076)
Net increase (decrease) in commercial paper	(5,500)	5,500	(48,811)
Proceeds from long-term bank loans	80,885	107,951	717,829
Repayments of long-term bank loans	(152,552)	(203,117)	(1,353,852)
Proceeds from issuance of bonds	—	95,280	—
Redemption of bonds	(15,600)	(45,000)	(138,445)
Purchase of treasury stock	(47)	(57)	(417)
Sales of treasury stock	29	68	257
Cash dividends paid by the Company	(8,928)	(7,177)	(79,233)
Cash dividends paid to non-controlling interests	(1,116)	(3,959)	(9,904)
Others, net	(5,896)	(2,008)	(52,325)
Net cash provided by (used in) financing activities	(148,735)	6,511	(1,319,977)
Effect of foreign exchange rate changes on cash and cash equivalents	(3,126)	8,006	(27,742)
Net increase (decrease) in cash and cash equivalents	30,648	(52,139)	271,991
Cash and cash equivalents at beginning of year	128,802	180,126	1,143,078
Net cash increase from new consolidation/de-consolidation of subsidiaries	—	815	—
Cash and cash equivalents at end of year	¥ 159,450	¥ 128,802	$ 1,415,069

See accompanying notes.

Notes to Consolidated Financial Statements

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2016 and 2015

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, 2016, which was ¥112.68 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

The consolidated financial statements include the accounts of the Company and 362 subsidiaries for the year ended March 31, 2016 (371 subsidiaries for the year ended March 31, 2015). All significant inter-company balances, transactions and all material unrealized profit within the consolidated group have been eliminated in consolidation.

Investments in unconsolidated subsidiaries and affiliated companies are accounted for by the equity method. Companies accounted for using the equity method include 76 affiliated companies for the year ended March 31, 2016, and 70 affiliated companies for the year ended March 31, 2015. Investments in other subsidiaries and affiliated companies were stated at cost since total revenues, total assets, the Company's equity in net income and retained earnings and others in such companies were not material.

The difference between acquisition cost and net assets acquired is treated as goodwill and is amortized principally over 5 years on a straight-line basis.

Amortized amount is included in "Selling, general and administrative expenses" of the consolidated statements of operations.

(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 held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method, and available-for-sale securities 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 AND AMORTIZATION

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. Amortization of intangible assets is computed by the straight-line method. Computer software is amortized by the straight-line method based principally on the length of period it can be used internally (five years).

Depreciation of finance lease that transfer ownership to lessees is computed mainly by the identical to depreciation method applied to self-owned non-current 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 the 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 are continuously 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 ¥2,847 million ($25,266 thousand) for the year ended March 31, 2016 and ¥5,139 million for the year ended March 31, 2015.

(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) ALLOWANCE FOR BONUSES

Allowance for bonuses to employees is based on the estimated amount of future payments attributed to the fiscal year.

(12) ALLOWANCE FOR DIRECTORS' BONUSES

The Company and several domestic consolidated subsidiaries record allowance for bonuses to directors based on the estimated amount of future payments.

(13) PROVISION FOR LOSS ON BUSINESS LIQUIDATION

Provision for loss on business liquidation is recorded for estimated losses arising from the business liquidations to be carried out by certain consolidated subsidiaries of the Company.

(14) PROVISION FOR CONTRACT LOSS

The Company recognizes provision for contract loss to cover potential losses with higher probability for the future performance of contract due to a decision made over contract, etc.

(15) DIRECTORS' AND CORPORATE AUDITORS' RETIREMENT BENEFITS

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

(16) RESERVE FOR PERIODIC DRYDOCKING

Reserve for periodic drydocking is based on the estimated amount of expenditures for periodic drydocking in the future.

(17) EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The Company and its consolidated subsidiaries (the "Group") recognized net defined benefit assets and net defined benefit liabilities for employees' severance and retirement benefits and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at end of the year. Projected benefit obligations are attributed to each period by the straight-line method.

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 costs are chiefly accounted for as expenses in lump-sum at the time of occurrence.

(18) 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.

(19) AMOUNTS PER SHARE OF COMMON STOCK

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

Fully diluted net income per share of common stock assumes exercise of the outstanding stock options at the beginning of the year or at the date of issuance. For the year ended March 31, 2016 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.

(20) 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 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.

(21) RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2016 presentation.

(22) CHANGES IN ACCOUNTING POLICIES

(Application of Accounting Standards for Business Combinations)

The Group adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013 (hereinafter, "Statement No.21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013 (hereinafter, "Statement No.22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013 (hereinafter, "Statement No.7")) (together, the "Business Combination Accounting Standards"), from the year ended March 31, 2016. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests". Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current fiscal year prospectively.

The effect of these changes on the consolidated financial statement is immaterial.

(23) ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26, March 28 , 2016).

1. Overview

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets", which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

2. Effective dates

This standard will be effective from the beginning of the year ending March 31, 2017.

3. Effect of application of the standard

The Group is currently under assessment of the effect of this new standard on the consolidated financial statements.

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 primarily through bank loans. Furthermore, we have established commitment line with Japanese banks to maintain a sufficient amount of working capital and prepare supplementary liquidity for 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 bank 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 bank loans and corporate bonds.
* Crude oil swap contracts / 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 Note 2 (20) 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 lines 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, 2016 were the following;

	Millions of yen		
	Book Value	Fair Value	Difference
Assets			
Cash and cash equivalents	**¥ 159,450**	**¥ 159,450**	**¥ —**
Time deposits with a maturity of more than three months	**6,810**	**6,810**	**—**
Trade receivables	**130,293**	**130,293**	**—**
Short-term loans receivable	**10,988**	**10,988**	**—**
Investment securities			
Available-for-sale securities	**87,319**	**87,319**	**—**
Long-term loans receivable(*1)	**59,132**	**64,561**	**5,429**
Total	**¥ 453,992**	**¥ 459,421**	**¥ 5,429**
Liabilities			
Trade payables	**¥ 127,172**	**¥ 127,172**	**¥ —**
Short-term loans	**30,275**	**30,275**	**—**
Bonds(*2)	**265,840**	**261,864**	**(3,976)**
Long-term bank loans(*3)	**725,818**	**746,600**	**20,782**
Total	**¥1,149,105**	**¥1,165,911**	**¥16,806**
Derivative financial instruments(*4)	**¥ 16,405**	**¥ 16,187**	**¥ (218)**

	Thousands of U.S. dollars (Note 1)		
	Book Value	Fair Value	Difference
Assets			
Cash and cash equivalents	**$ 1,415,069**	**$ 1,415,069**	**$ —**
Time deposits with a maturity of more than three months	**60,437**	**60,437**	**—**
Trade receivables	**1,156,310**	**1,156,310**	**—**
Short-term loans receivable	**97,515**	**97,515**	**—**
Investment securities			
Available-for-sale securities	**774,929**	**774,929**	**—**
Long-term loans receivable(*1)	**524,778**	**572,959**	**48,181**
Total	**$ 4,029,038**	**$ 4,077,219**	**$ 48,181**
Liabilities			
Trade payables	**$ 1,128,612**	**$ 1,128,612**	**$ —**
Short-term loans	**268,681**	**268,681**	**—**
Bonds(*2)	**2,359,247**	**2,323,962**	**(35,285)**
Long-term bank loans(*3)	**6,441,409**	**6,625,843**	**184,434**
Total	**$10,197,949**	**$10,347,098**	**$149,149**
Derivative financial instruments(*4)	**$ 145,589**	**$ 143,655**	**$ (1,934)**

*1 The book value of long-term loans receivable includes current portion amounting to ¥10,117 million ($89,785 thousand).
*2 The book value of bonds includes current portion amounting to ¥45,000 million ($399,361 thousand).
*3 The book value of long-term bank loans includes current portion amounting to ¥77,701 million ($689,572 thousand).
*4 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, 2015 were the following;

	Millions of yen		
	Book Value	Fair Value	Difference
Assets			
Cash and cash equivalents	¥ 128,802	¥ 128,802	¥ —
Time deposits with a maturity of more than three months	2,821	2,821	—
Trade receivables	178,845	178,845	—
Short-term loans receivable	5,556	5,556	—
Investment securities			
Available-for-sale securities	120,583	120,583	—
Long-term loans receivable(*1)	76,265	82,282	6,017
Total	¥ 512,872	¥ 518,889	¥ 6,017
Liabilities			
Trade payables	¥ 167,002	¥ 167,002	¥ —
Short-term loans	74,203	74,203	—
Commercial paper	5,500	5,500	—
Bonds(*2)	285,185	288,298	3,113
Long-term bank loans(*3)	793,518	807,099	13,581
Total	¥1,325,408	¥1,342,102	¥16,694
Derivative financial instruments(*4)	¥ 153,519	¥ 153,082	¥ (437)

*1 The book value of long-term loans receivable includes current portion amounting to ¥1,306 million.
*2 The book value of bonds includes current portion amounting to ¥15,000 million.
*3 The book value of long-term bank loans includes current portion amounting to ¥105,186 million.
*4 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

The fair value of above assets is evaluated at the book value because they are settled within a short term period and the fair value is almost equal to book value.

Investment securities

The fair value of stocks is evaluated at market prices at stock exchange as of the end of the years and the fair value of bonds is evaluated at market prices at the stock exchange or at the value provided by financial institutions as of the end of the 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 the fair value is almost equal to the book value, unless the creditworthiness of the borrower has changed significantly because the loan was made. The fair value of long-term loans receivable with fixed interest rates, for each category of loans based on the type of loans, and maturity length, is evaluated by discounting the total amount of principal and interest using the rate which would apply if similar loans were newly made.

Trade payables, Short-term loans and Commercial paper

The fair value of above liabilities is evaluated at the book value, because they are settled within a short term period and the fair value is almost equal to the book value.

Bonds

The fair value of corporate bonds with market price is evaluated 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.

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 Company's creditworthiness before and after such bank loans were made. The fair value of long-term bank loans with fixed interest rates, for each category of bank loans based on types of bank loans, and maturity length, is evaluated by discounting the total amount of principal and interest using the rate which would apply if similar bank loans were to be newly made. The fair value of long-term bank loans qualifying for allocation method of 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 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
	2016	2015	**2016**
Unlisted stocks	**¥ 7,063**	¥ 7,821	**$ 62,682**
Investments in unconsolidated subsidiaries and affiliated companies	**120,668**	140,395	**1,070,891**
Others	**6**	12	**53**
Total	**¥127,737**	¥148,228	**$1,133,626**

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, 2016, the aggregate annual maturity of monetary claims and securities was as follows;

	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	**¥159,450**	**¥ —**	**¥ —**	**¥ —**
Time deposits with a maturity of more than three months	**6,810**	**—**	**—**	**—**
Trade receivables	**130,293**	**—**	**—**	**—**
Short-term loans receivable	**10,988**	**—**	**—**	**—**
Marketable securities and investments securities				
Available-for-sale securities (Governmental/municipal bonds)	**—**	**10**	**—**	**—**
Available-for-sale securities (Corporate bonds)	**—**	**200**	**—**	**—**
Long-term loans receivable	**10,117**	**9,572**	**4,283**	**35,160**
Total	**¥317,658**	**¥9,782**	**¥4,283**	**¥35,160**

	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	**$1,415,069**	**$ —**	**$ —**	**$ —**
Time deposits with a maturity of more than three months	**60,437**	**—**	**—**	**—**
Trade receivables	**1,156,310**	**—**	**—**	**—**
Short-term loans receivable	**97,515**	**—**	**—**	**—**
Marketable securities and investments securities				
Available-for-sale securities (Governmental/municipal bonds)	**—**	**89**	**—**	**—**
Available-for-sale securities (Corporate bonds)	**—**	**1,775**	**—**	**—**
Long-term loans receivable	**89,785**	**84,949**	**38,010**	**312,034**
Total	**$2,819,116**	**$86,813**	**$38,010**	**$312,034**

At March 31, 2015, the aggregate annual maturity of monetary claims and securities was as follows;

	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	¥128,802	¥ —	¥ —	¥ —
Time deposits with a maturity of more than three months	2,821	—	—	—
Trade receivables	178,845	—	—	—
Short-term loans receivable	5,556	—	—	—
Marketable securities and investments securities				
Available-for-sale securities (Governmental/municipal bonds)	—	10	—	—
Available-for-sale securities (Corporate bonds)	—	200	—	—
Long-term loans receivable	1,306	44,390	2,805	27,764
Total	¥317,330	¥44,600	¥2,805	¥27,764

4. SECURITIES

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values at March 31, 2016 and 2015.

Available-for-sale securities:
Securities with book values exceeding acquisition costs at March 31, 2016

	Millions of yen		
Type	Acquisition cost	Book Value	Difference
Equity securities	**¥33,086**	**¥66,378**	**¥33,292**
Bonds	**210**	**225**	**15**
Total	**¥33,296**	**¥66,603**	**¥33,307**

	Thousands of U.S. dollars (Note 1)		
Type	Acquisition cost	Book Value	Difference
Equity securities	**$293,628**	**$589,084**	**$295,456**
Bonds	**1,864**	**1,997**	**133**
Total	**$295,492**	**$591,081**	**$295,589**

Securities with book values exceeding acquisition costs at March 31, 2015

	Millions of yen		
Type	Acquisition cost	Book Value	Difference
Equity securities	¥48,766	¥115,824	¥67,058
Bonds	200	215	15
Total	¥48,966	¥116,039	¥67,073

Securities with book values not exceeding acquisition costs at March 31, 2016

Type	Millions of yen Acquisition cost	Book Value	Difference
Equity securities	**¥23,494**	**¥20,716**	**¥(2,778)**
Total	**¥23,494**	**¥20,716**	**¥(2,778)**

Type	Thousands of U.S. dollars (Note 1) Acquisition cost	Book Value	Difference
Equity securities	**$208,502**	**$183,848**	**$(24,654)**
Total	**$208,502**	**$183,848**	**$(24,654)**

Securities with book values not exceeding acquisition costs at March 31, 2015

Type	Millions of yen Acquisition cost	Book Value	Difference
Equity securities	¥5,456	¥4,534	¥(922)
Bonds	10	10	0
Total	¥5,466	¥4,544	¥(922)

B. Total sales of available-for-sale securities sold in the years ended March 31, 2016 and 2015 and the related gains and losses were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Proceeds from sales	**¥15,279**	¥290	**$135,596**
Gross realized gains	**12,934**	135	**114,785**
Gross realized losses	**2**	—	**18**

C. Impairment losses of securities

For the year ended March 31, 2016, the Company reduced the book value on the securities and booked the reductions as impairment losses of ¥26,285 million ($233,271 thousand).

No impairment loss on the securities was recognized for the year ended March 31, 2015.

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, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Fuel and supplies	**¥26,603**	¥48,030	**$236,093**
Others	**1,257**	996	**11,156**
Total	**¥27,860**	¥49,026	**$247,249**

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, 2016 and 2015, for which hedge accounting has not been applied.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
(1) Currency related:			
Forward currency exchange contracts			
Sell (U.S. dollar):			
Contracts outstanding	**¥ 1**	¥ —	**$ 9**
Fair values	**0**	—	**0**
Buy (U.S. dollar):			
Contracts outstanding	**¥260**	¥467	**$2,307**
Fair values	**(9)**	1	**(80)**
Buy (Others):			
Contracts outstanding	**¥ 24**	¥ 24	**$ 213**
Fair values	**1**	0	**9**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
(2) Interest related			
Interest rate swaps			
Receive floating, pay fixed			
Contracts outstanding	**¥25,435**	¥40,183	**$225,728**
Fair values	**(2,090)**	(1,213)	**(18,548)**
Receive fixed, pay floating			
Contracts outstanding	**¥ 9,034**	¥ —	**$ 80,174**
Fair values	**200**	—	**1,775**

Note: Fair values are measured based on forward exchange rates prevailing at the end of the year and information provided by financial institutions, etc.

II. Hedge accounting applied

The following tables summarize the outstanding contract amounts and fair values of financial derivatives of the Group at March 31, 2016 and 2015, for which hedge accounting has been applied.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
(1) Deferral hedge accounting			
a. Forward currency exchange contracts to hedge the risk for the foreign currency transactions			
Sell (U.S. dollar):			
Contracts outstanding	¥ 49,932	¥ —	$ 443,131
Fair values	(854)	—	(7,579)
Buy (U.S. dollar):			
Contracts outstanding	¥ 55,421	¥ —	$ 491,844
Fair values	(2,323)	—	(20,616)
b. Currency swaps contracts to hedge the risk for charterages			
Sell (U.S. dollar):			
Contracts outstanding	¥ 6,458	¥ 7,669	$ 57,313
Fair values	(1,397)	(1,664)	(12,398)
Buy (U.S. dollar):			
Contracts outstanding	¥185,023	¥453,024	$1,642,022
Fair values	49,596	182,171	440,149
c. Interest rate swaps to hedge the risk for the long-term bank loans and charterages			
Receive floating, pay fixed			
Contracts outstanding	¥307,776	¥290,387	$2,731,416
Fair values	(25,858)	(21,451)	(229,482)
d. Crude oil swaps to hedge the risk for the fuel oil			
Receive floating, pay fixed			
Contracts outstanding	¥ 1,365	¥ —	$ 12,114
Fair values	(779)	—	(6,913)
e. Commodities futures to hedge the risk for the fuel oil			
Contracts outstanding	¥ 1,305	¥ 11,907	$ 11,581
Fair values	(83)	(4,324)	(737)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
(2) Special treatment			
Interest rate swaps to hedge the risk for the long-term bank loans			
Receive floating, pay fixed			
Contracts outstanding	¥20,758	¥20,550	$184,221
Fair values	(218)	(437)	(1,935)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
(3) Allocation method			
Currency swaps to hedge the risk for the foreign bonds and long-term bank loans			
Contracts outstanding	¥13,700	¥31,781	$121,583
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 allocation method are applied to 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 at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Short-term bank loans	¥30,275	¥74,203	$268,681
Commercial paper	—	5,500	—
Total	¥30,275	¥79,703	$268,681

Average interest rates on short-term bank loans at March 31, 2016 and 2015 were 0.46% and 0.55%, respectively. Average interest rate on commercial paper at March 31, 2015 was 0.09%.

(2) LONG-TERM DEBT

Long-term debt at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Bonds:			
0.296% yen bonds due July 10, 2015	¥ —	¥ 15,000	$ —
0.573% yen bonds due June 21, 2016	10,000	10,000	88,747
2.070% yen bonds due September 30, 2016	15,000	15,000	133,120
1.106% yen bonds due December 17, 2016	20,000	20,000	177,494
0.461% yen bonds due July 12, 2017	20,000	20,000	177,494
0.000% U.S. dollars bonds due April 24, 2018*	33,804	36,051	300,000
1.999% yen bonds due May 27, 2019	18,500	18,500	164,182
1.673% yen bonds due September 13, 2019	10,000	10,000	88,747
1.398% yen bonds due May 28, 2020	15,000	15,000	133,120
0.000% U.S. dollars bonds due April 24, 2020*	22,536	24,034	200,000
1.361% yen bonds due June 21, 2021	17,800	17,800	157,969
1.652% yen bonds due May 27, 2022	5,000	5,000	44,373
1.139% yen bonds due July 12, 2022	8,700	9,200	77,210
1.071% yen bonds due January 23, 2023	10,000	10,000	88,747
0.845% yen bonds due March 4, 2024	15,000	15,000	133,120
0.970% yen bonds due June 19, 2024	29,500	29,600	261,804
0.803% yen bonds due March 3, 2025	15,000	15,000	133,120
Long-term bank loans due within one year:			
Long-term bank loans due within one year at average interest rate of 0.87% and 0.64% at March 31, 2016 and 2015, respectively	77,701	105,186	689,572
Long-term bank loans due after one year:			
Long-term bank loans due through 2034 at average interest rate of 1.50% and 1.20% at March 31, 2016 and 2015, respectively	648,117	688,332	5,751,837
	991,658	1,078,703	8,800,656
Amount due within one year	122,701	120,186	1,088,933
	¥868,957	¥ 958,517	$7,711,723

*Zero coupon convertible bonds, details are as follows.

	The 2018 Bonds	The 2020 Bonds
(1) Exercise period	From May 8, 2014 to April 10, 2018	From May 8, 2014 to April 9, 2020
(2) Conversion price	U.S.$ 5.31 per share	U.S.$ 4.78 per share

At March 31, 2016, 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)
2017	¥122,701	$1,088,933
2018	115,405	1,024,184
2019	142,326	1,263,099
2020	82,406	731,328
2021	115,366	1,023,837
2022 and thereafter	413,454	3,669,275
Total	¥991,658	$8,800,656

(3) ASSETS PLEDGED AND SECURED DEBT

At March 31, 2016 and 2015, 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)
	2016	2015	2016
Vessels	¥245,710	¥202,454	$2,180,600
Vessels and other property under construction	26,108	90,908	231,700
Investment securities	76,623	73,811	680,006
Total	¥348,441	¥367,173	$3,092,306

Secured debt	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Short-term bank debt	¥ —	¥ 10	$ —
Long-term bank debt due within one year	14,500	13,759	128,683
Long-term bank debt due after one year	158,772	156,237	1,409,052
Total	¥173,272	¥170,006	$1,537,735

8. COMMITMENTS AND CONTINGENT LIABILITIES

(A) COMMITMENT

At March 31, 2016 and 2015, the Company had loan commitment agreements with certain affiliated companies. The nonexercised portion of loan commitments was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Total loan limits	¥13,522	¥15,622	$120,000
Loan executions	9,578	—	85,000
The nonexercised portion of loan commitments	¥ 3,944	¥15,622	$ 35,000

(B) CONTINGENT LIABILITIES

At March 31, 2016 and 2015, 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 ¥148,653 million ($1,319,249 thousand) and ¥112,360 million, respectively.

9. NET ASSETS

Net assets comprises four sections, which are the owners' equity, accumulated other comprehensive income, share subscription rights and non-controlling 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, 2016 and 2015 were as follows:

	Shares of common stock (Thousands)	Shares of treasury stock (Thousands)
Balance at April 1, 2014	1,206,286	10,373
Increase during the year	—	150
Decrease during the year	—	(337)
Balance at March 31 and April 1, 2015	1,206,286	10,186
Increase during the year	—	140
Decrease during the year	—	(104)
Balance at March 31, 2016	1,206,286	10,222

(B) SHARE SUBSCRIPTION RIGHTS

Share subscription rights at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Stock options	¥2,682	¥2,553	$23,802
Total	¥2,682	¥2,553	$23,802

(C) DIVIDENDS

(1) Dividends paid for the year ended March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Approved at the shareholders' meeting held on June 23, 2015	¥4,785	$42,465
Approved at the board of directors held on October 30, 2015	¥4,186	$37,150
Total	¥8,971	$79,615

(2) Dividends included in the retained earnings at March 31, 2016 and to be paid in subsequent periods were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Approved at the shareholders' meeting held on June 21, 2016	¥1,794	$15,921
Total	¥1,794	$15,921

10. IMPAIRMENT LOSS

For the year ended March 31, 2015, 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	¥10,198

The Group grouped operating assets based on management accounting categories, and also grouped assets to be disposed of by sale and idle assets by structure.

For the year ended March 31, 2015, 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 was evaluated based on the asset's net selling price. And the asset's net selling price was appraised based on the target price of assets to be disposed of by sale.

11. BREAKDOWN OF COSTS OF BUSINESS STRUCTURAL REFORMS

The Company recognized costs of business structural reforms arising from the business structural reforms for bulk carriers and containerships which mainly consist of impairment loss and provision for loss on business liquidation.

A breakdown of the costs was as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Impairment loss	**¥ 90,308**	**$ 801,455**
Provision for loss on business liquidation	**71,008**	**630,174**
Loss on cancellation fee for chartered vessels	**9,459**	**83,946**
Others	**8,516**	**75,577**
Total	**¥179,291**	**$1,591,152**

(IMPAIRMENT LOSS)

For the year ended March 31, 2016, the Group recorded an impairment loss on the following asset group.

Application	Type	Millions of yen	Thousands of U.S. dollars (Note 1)
Assets for operations	Vessels and Other	**¥56,449**	**$500,967**
Assets to be disposed of by sale	Vessels and Other	**33,859**	**300,488**

The Group grouped operating assets based on management accounting categories, and also grouped assets to be disposed of by sale and idle assets by structure.

For the year ended March 31, 2016, since profitability of the assets related to Containerships segment for operations significantly deteriorated, the Group reduced the book value on these assets to recoverable amounts and booked the reductions as costs of business structural reforms.

For the year ended March 31, 2016, with regard to the target price of assets related to Bulkships segment 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 costs of business structural reforms.

The recoverable amount for this asset group was evaluated based on the asset's net selling price. And the asset's net selling price was appraised based on the appraisal value reasonably calculated by a third party and the target price of assets to be disposed of by sale.

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, 2016 of finance leases that do not transfer ownership to the lessee was as follows:

	Millions of yen		
	Furniture and fixtures	Machinery, equipment and vehicles	Total
Acquisition cost	**¥—**	**¥190**	**¥190**
Accumulated depreciation	**—**	**179**	**179**
Net book value	**¥—**	**¥ 11**	**¥ 11**

	Thousands of U.S. dollars (Note 1)		
	Furniture and fixtures	Machinery, equipment and vehicles	Total
Acquisition cost	**$—**	**$1,686**	**$1,686**
Accumulated depreciation	**—**	**1,588**	**1,588**
Net book value	**$—**	**$ 98**	**$ 98**

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2015 of finance leases that do not transfer ownership to the lessee was as follows:

	Millions of yen		
	Furniture and fixtures	Machinery, equipment and vehicles	Total
Acquisition cost	¥2,425	¥190	¥2,615
Accumulated depreciation	2,401	162	2,563
Net book value	¥ 24	¥ 28	¥ 52

(2) Future lease payments at March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Amount due within one year	**¥13**	¥123	**$115**
Amount due after one year	**—**	13	**—**
Total	**¥13**	¥136	**$115**

(3) Lease payments, depreciation equivalent and interest equivalent

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Lease payments	**¥126**	¥1,340	**$1,118**
Depreciation equivalent	**41**	385	**364**
Interest equivalent	**2**	41	**18**

(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, 2016 AND 2015:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Amount due within one year	**¥ 51,195**	¥ 54,586	**$ 454,339**
Amount due after one year	**286,547**	264,331	**2,543,016**
Total	**¥337,742**	¥318,917	**$2,997,355**

AS LESSOR:

(A) FUTURE LEASE INCOME UNDER OPERATING LEASES FOR ONLY NON-CANCELABLE CONTRACTS AT MARCH 31, 2016 AND 2015:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Amount due within one year	**¥14,146**	¥13,212	**$125,542**
Amount due after one year	**42,867**	46,912	**380,431**
Total	**¥57,013**	¥60,124	**$505,973**

13. RENTAL PROPERTIES

The Company and some 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 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the year ended March 31	**2016**	2015	**2016**
Book value			
Balance at beginning of the year	**¥317,018**	¥280,120	**$2,813,436**
Changes during the year	**(5,926)**	36,898	**(52,591)**
Balance at end of the year	**311,092**	317,018	**2,760,845**
Fair value at end of the year	**444,844**	432,440	**3,947,852**

Notes: 1. Book value is the acquisition cost, net of accumulated depreciation.
2. Fair value is mainly based on the amount appraised by outside independent real estate appraisers.
3. Of changes during the year ended March 31, 2015, the primary increase was mainly due to completion of the Shin-Daibiru Building (¥20,822 million), acquisition of the Corner Stone Building (¥11,135 million), and the acquisition of land near Akihabara Station from the Tokyo Metropolitan Government (¥7,151 million), while the primary decrease was mainly due to the depreciation of existing properties (¥6,176 million).
4. Of changes during the year ended March 31, 2016, the primary increase was mainly due to the renewal construction of office buildings (¥1,367 million ($12,132 thousand)), and the additional acquisition of land near Akihabara Station (¥724 million ($6,425 thousand)), while the primary decrease was mainly due to the depreciation of existing properties (¥7,782 million ($69,063 thousand)).

In addition, information for rental revenue and expense from rental properties was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Rental revenue	**¥28,492**	¥27,058	**$252,858**
Rental expense	**17,917**	16,041	**159,008**
Difference	**¥10,575**	¥11,017	**$ 93,850**

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, 2016:	Bulkships	Container-ships	Ferry & Domestic transport	Associated business	Sub Total	Others	Total	Adjustment	Consolidated
1. Revenues:									
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies	¥ 838,893	¥719,109	¥49,618	¥ 96,606	¥1,704,226	¥ 7,997	¥1,712,223	¥ —	¥1,712,223
(2) Inter-segment revenues	251	2,026	188	30,373	32,838	5,312	38,150	(38,150)	—
Total revenues	¥ 839,144	¥721,135	¥49,806	¥126,979	¥1,737,064	¥ 13,309	¥1,750,373	¥ (38,150)	¥1,712,223
Segment income (loss)	¥ 54,857	¥ (29,831)	¥ 4,424	¥ 10,172	¥ 39,622	¥ 3,550	¥ 43,172	¥ (6,903)	¥ 36,269
Segment assets	¥1,526,583	¥397,081	¥44,097	¥416,454	¥2,384,215	¥162,725	¥2,546,940	¥(327,353)	¥2,219,587
2. Others									
(1) Depreciation and amortization . .	¥ 62,112	¥ 16,907	¥ 2,022	¥ 10,091	¥ 91,132	¥ 273	¥ 91,405	¥ 1,367	¥ 92,772
(2) Amortization of goodwill	12	63	—	132	207	1	208	—	208
(3) Interest income	2,761	665	21	74	3,521	1,785	5,306	(1,227)	4,079
(4) Interest expense	12,934	2,022	143	1,738	16,837	1,034	17,871	(3,295)	14,576
(5) Equity in earnings (losses) of affiliated companies, net	7,813	706	453	255	9,227	(49)	9,178	—	9,178
(6) Costs of business structural reforms	117,411	61,880	—	—	179,291	—	179,291	—	179,291
(7) Investment in affiliates	91,287	14,131	2,094	2,083	109,595	1,896	111,491	—	111,491
(8) Increase in vessels, property and equipment and intangible assets .	87,116	15,526	5,866	5,177	113,685	124	113,809	1,903	115,712

	Thousands of U.S. dollars (Note 1)								
	Reportable segment								
For the year ended March 31, 2016:	Bulkships	Container-ships	Ferry & Domestic transport	Associated business	Sub Total	Others	Total	Adjustment	Consolidated
1. Revenues:									
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies	$ 7,444,915	$6,381,869	$440,344	$ 857,348	$15,124,476	$ 70,971	$15,195,447	$ —	$15,195,447
(2) Inter-segment revenues	2,227	17,980	1,669	269,551	291,427	47,143	338,570	(338,570)	—
Total revenues	$ 7,447,142	$6,399,849	$442,013	$1,126,899	$15,415,903	$ 118,114	$15,534,017	$ (338,570)	$15,195,447
Segment income (loss)	$ 486,839	$ (264,741)	$ 39,262	$ 90,273	$ 351,633	$ 31,505	$ 383,138	$ (61,262)	$ 321,876
Segment assets	$13,547,950	$3,523,971	$391,347	$3,695,900	$21,159,168	$1,444,133	$22,603,301	$(2,905,156)	$19,698,145
2. Others									
(1) Depreciation and amortization . .	$ 551,225	$ 150,044	$ 17,945	$ 89,554	$ 808,768	$ 2,423	$ 811,191	$ 12,132	$ 823,323
(2) Amortization of goodwill	107	559	—	1,171	1,837	9	1,846	—	1,846
(3) Interest income	24,503	5,902	186	657	31,248	15,841	47,089	(10,889)	36,200
(4) Interest expense	114,785	17,945	1,269	15,424	149,423	9,177	158,600	(29,243)	129,357
(5) Equity in earnings (losses) of affiliated companies, net	69,338	6,266	4,020	2,263	81,887	(435)	81,452	—	81,452
(6) Costs of business structural reforms	1,041,986	549,166	—	—	1,591,152	—	1,591,152	—	1,591,152
(7) Investment in affiliates	810,144	125,408	18,584	18,486	972,622	16,826	989,448	—	989,448
(8) Increase in vessels, property and equipment and intangible assets .	773,127	137,788	52,059	45,945	1,008,919	1,101	1,010,020	16,888	1,026,908

	Millions of yen								
	Reportable segment								
For the year ended March 31, 2015:	Bulkships	Container-ships	Ferry & Domestic transport	Associated business	Sub Total	Others	Total	Adjustment	Consolidated
1. Revenues:									
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies	¥ 857,290	¥787,068	¥56,032	¥108,389	¥1,808,779	¥ 8,291	¥1,817,070	¥ —	¥1,817,070
(2) Inter-segment revenues	526	2,063	272	39,775	42,636	5,920	48,556	(48,556)	—
Total revenues	¥ 857,816	¥789,131	¥56,304	¥148,164	¥1,851,415	¥ 14,211	¥1,865,626	¥ (48,556)	¥1,817,070
Segment income (loss)	¥ 54,105	¥ (24,147)	¥ 4,462	¥ 10,925	¥ 45,345	¥ 4,183	¥ 49,528	¥ 1,802	¥ 51,330
Segment assets	¥1,719,714	¥496,487	¥40,535	¥426,130	¥2,682,866	¥346,183	¥3,029,049	¥(404,999)	¥2,624,050
2. Others									
(1) Depreciation and amortization . .	¥ 59,234	¥ 16,109	¥ 2,279	¥ 8,511	¥ 86,133	¥ 283	¥ 86,416	¥ 1,388	¥ 87,804
(2) Amortization of goodwill, net . . .	(307)	17	45	130	(115)	(9)	(124)	—	(124)
(3) Interest income	2,019	261	3	62	2,345	1,390	3,735	(1,030)	2,705
(4) Interest expense	10,632	2,314	170	1,780	14,896	723	15,619	(3,063)	12,556
(5) Equity in earnings (losses) of affiliated companies, net	3,286	1,096	225	269	4,876	54	4,930	—	4,930
(6) Investment in affiliates	110,452	4,873	1,694	1,971	118,990	1,967	120,957	—	120,957
(7) Increase in vessels, property and equipment and intangible assets .	138,059	21,783	3,193	32,341	195,376	182	195,558	587	196,145

(Segment income (loss))
Segment income (loss) is calculated by adjusting ordinary income (loss).

(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, 2016:	Japan	North America	Europe	Asia	Others	Consolidated
Revenues	¥1,432,969	¥28,185	¥35,759	¥214,875	¥ 435	¥1,712,223
Vessels, property and equipment	¥1,082,305	¥41,748	¥ 3,455	¥214,263	¥34,661	¥1,376,432

	Thousands of U.S. dollars (Note 1)					
For the year ended March 31, 2016:	Japan	North America	Europe	Asia	Others	Consolidated
Revenues	$12,717,155	$250,133	$317,350	$1,906,949	$ 3,860	$15,195,447
Vessels, property and equipment	$ 9,605,121	$370,501	$ 30,662	$1,901,517	$307,605	$12,215,406

	Millions of yen					
For the year ended March 31, 2015:	Japan	North America	Europe	Asia	Others	Consolidated
Revenues	¥1,538,042	¥25,044	¥37,939	¥215,453	¥ 592	¥1,817,070
Vessels, property and equipment	¥1,229,237	¥42,750	¥ 4,055	¥197,392	¥24,594	¥1,498,028

(2) Information about impairment loss by reportable segment:

	Millions of yen							
	Reportable segment							
For the year ended March 31, 2016:	Bulkships	Container-ships	Ferry & Domestic transport	Associated business	Sub Total	Others	Adjustment and elimination	Consolidated
Impairment loss	¥33,859	¥56,449	¥—	¥—	¥90,308	¥—	¥—	¥90,308

For the year ended March 31, 2016:	Reportable segment: Bulkships	Container-ships	Ferry & Domestic transport	Associated business	Sub Total	Others	Adjustment and elimination	Consolidated
	Thousands of U.S. dollars (Note 1)							
Impairment loss	$300,488	$500,967	$—	$—	$801,455	$—	$—	$801,455

Note: Above Impairment loss for the year ended March 31, 2016 was included in Costs of business structural reforms (other losses) in consolidated statements of operations.

For the year ended March 31, 2015:	Reportable segment: Bulkships	Container-ships	Ferry & Domestic transport	Associated business	Sub Total	Others	Adjustment and elimination	Consolidated
	Millions of yen							
Impairment loss	¥10,049	¥ —	¥50	¥ —	¥10,099	¥ —	¥99	¥10,198

(3) Information about goodwill by reportable segment:

For the year ended March 31, 2016:	Reportable segment: Bulkships	Container-ships	Ferry & Domestic transport	Associated business	Sub Total	Others	Adjustment and elimination	Consolidated
	Millions of yen							
Goodwill at the end of current year	¥89	¥14	¥—	¥2,317	¥2,420	¥0	¥—	¥2,420

For the year ended March 31, 2016:	Reportable segment: Bulkships	Container-ships	Ferry & Domestic transport	Associated business	Sub Total	Others	Adjustment and elimination	Consolidated
	Thousands of U.S. dollars (Note 1)							
Goodwill at the end of current year	$790	$124	$—	$20,563	$21,477	$0	$—	$21,477

For the year ended March 31, 2015:	Reportable segment: Bulkships	Container-ships	Ferry & Domestic transport	Associated business	Sub Total	Others	Adjustment and elimination	Consolidated
	Millions of yen							
Goodwill at the end of current year	¥128	¥364	¥ —	¥2,508	¥3,000	¥1	¥ —	¥3,001

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 29.8% for the year ended March 31, 2016 and 31.8% for the year ended March 31, 2015.

(A) Significant components of deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Deferred tax assets:			
Operating loss carried forward	¥ 53,931	¥ 53,557	$ 478,621
Write-down of securities and other investments	1,519	1,861	13,481
Reserve for bonuses expenses	1,412	1,546	12,531
Impairment loss	26,346	661	233,813
Excess bad debt expenses	892	1,011	7,916
Net defined benefit liabilities	4,651	2,386	41,276
Retirement allowances for directors	559	526	4,961
Unrealized gain on sale of fixed assets	1,435	1,548	12,735
Provision for loss on business liquidation	20,237	—	179,597
Provision for contract loss	1,204	—	10,685
Others	5,911	4,750	52,458
Total deferred tax assets	118,097	67,846	1,048,074
Valuation allowance	(110,911)	(61,414)	(984,300)
Net deferred tax assets	7,186	6,432	63,774
Deferred tax liabilities:			
Reserve deductible for tax purposes when appropriated for deferred gain on real properties	(1,749)	(1,897)	(15,522)
Reserve deductible for tax purposes when appropriated for special depreciation	(604)	(555)	(5,360)
Unrealized holding gains on available-for-sale securities	(11,806)	(22,760)	(104,775)
Gain on securities contributed to employee retirement benefit trust	(2,714)	(2,809)	(24,086)
Revaluation reserve	(17,179)	(15,436)	(152,458)
Retained earnings of consolidated subsidiaries	(8,496)	(10,073)	(75,399)
Unrealized gains on hedging derivatives	(39,531)	(53,880)	(350,826)
Others	(1,501)	(2,597)	(13,322)
Total deferred tax liabilities	(83,580)	(110,007)	(741,748)
Net deferred tax liabilities	¥(76,394)	¥(103,575)	$ (677,974)

On March 29, 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 are changed from 29.5% for the year ended March 31, 2016 to 28.8% and 28.5%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates, net deferred tax liabilities (after deducting the deferred tax assets) decreased by ¥1,520 million ($13,490 thousand) as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016 decreased by ¥521 million ($4,624 thousand), unrealized holding gains on available-for-sale securities increased by ¥464 million ($4,118 thousand) , unrealized gains on hedging derivatives increased by ¥531 million ($4,712 thousand) and remeasurements of defined benefit plans increased by ¥3 million ($27 thousand).

(B) Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2015, was as follow:

	2015
Statutory tax rate	31.8%
Non-deductible expenses	0.5%
Tax exempt revenues	(7.8)%
Effect on tonnage tax system	(12.2)%
Effect on elimination of dividend income	22.9%
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(2.3)%
Effect on elimination of loss on valuation of stocks of subsidiaries and affiliates	(5.0)%
Effect on difference of effective tax rate for consolidated subsidiaries	(10.3)%
Others	(0.7)%
Effective tax rate	16.9%

*Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2016, is not stated as the Company recorded loss before income taxes.

16. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

(A) OUTLINE OF EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The Group has funded and un-funded defined benefit pension plans and defined contribution pension plans.

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

The Company has a retirement benefit trust.

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

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

(B) DEFINED BENEFIT PLANS

(1) MOVEMENTS IN RETIREMENT BENEFIT OBLIGATIONS EXCEPT PLAN APPLIED SIMPLIFIED METHOD

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance at beginning of the year	¥45,500	¥41,743	$403,798
Cumulative effect of changes in accounting policies	—	4,565	—
Service cost	1,694	1,723	15,034
Interest cost	485	496	4,304
Actuarial loss (gain)	4,934	(733)	43,788
Benefits paid	(5,844)	(2,294)	(51,864)
Balance at end of the year	¥46,769	¥45,500	$415,060

(2) MOVEMENTS IN PLAN ASSETS EXCEPT PLAN APPLIED SIMPLIFIED METHOD

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance at beginning of the year	¥66,169	¥59,906	$587,229
Expected return on plan assets	1,323	1,198	11,741
Actuarial loss (gain)	(1,550)	5,845	(13,756)
Contributions paid by the employer	—	1,293	—
Benefits paid	(5,584)	(2,073)	(49,556)
Return of assets of retirement benefit trust	(3,581)	—	(31,780)
Balance at end of the year	¥56,777	¥66,169	$503,878

(3) MOVEMENTS IN NET LIABILITY FOR RETIREMENT BENEFITS BASED ON THE SIMPLIFIED METHOD

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance at beginning of the year	¥10,264	¥ 9,899	$91,090
Retirement benefit costs	2,158	1,824	19,152
Benefits paid	(1,510)	(267)	(13,401)
Contributions paid by the employer	(753)	(1,192)	(6,683)
Balance at end of the year	¥10,159	¥10,264	$90,158

(4) RECONCILIATION FROM RETIREMENT BENEFIT OBLIGATIONS AND PLAN ASSETS TO LIABILITY (ASSET) FOR RETIREMENT BENEFITS INCLUDING PLAN APPLIED SIMPLIFIED METHOD

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Funded retirement benefit obligations	¥ 55,188	¥ 53,665	$489,776
Plan assets	(66,745)	(75,930)	(592,341)
	(11,557)	(22,265)	(102,565)
Unfunded retirement benefit obligations	11,707	11,862	103,897
Total net liability (asset) for retirement benefits at end of the year	150	(10,403)	1,332
Liability for retirement benefits	13,442	13,660	119,294
Asset for retirement benefits	(13,292)	(24,063)	(117,962)
Total net liability (asset) for retirement benefits at end of the year	¥ 150	¥ (10,403)	$ 1,332

(5) RETIREMENT BENEFIT COSTS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Service cost	¥ 1,694	¥ 1,723	$ 15,034
Interest cost	485	497	4,304
Expected return on plan assets	(1,323)	(1,198)	(11,741)
Net actuarial loss amortization	(1,192)	(715)	(10,579)
Retirement benefit costs calculated by the simplified method	2,158	1,476	19,152
Other	221	157	1,961
Total retirement benefit costs for the fiscal year	¥ 2,043	¥ 1,940	$ 18,131

(6) REMEASUREMENTS OF DEFINED BENEFIT PLANS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Actuarial loss (gain)	¥7,675	¥(5,863)	$68,113

(7) ACCUMULATED REMEASUREMENTS OF DEFINED BENEFIT PLANS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Unrecognized actuarial differences	¥49	¥(7,626)	$435

(8) PLAN ASSETS

1. Plan assets comprise

	2016	2015
Equity securities	34%	47%
Bonds	23%	22%
Jointly invested assets	36%	18%
Cash and cash equivalents	7%	13%
Other	0%	0%
Total	100%	100%
Retirement benefit trust	27%	37%

2. Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) ACTUARIAL ASSUMPTIONS

The discount rates were mainly 0.5%–1.1% for the year ended March 31, 2016 and 0.6%–1.2% for the year ended March 31, 2015. Also, the rates of expected return on plan assets were mainly 2.0% for the year ended March 31, 2016 and 2015.

(C) DEFINED CONTRIBUTION PLANS

The estimated amounts of contributions to defined contribution plans were ¥816 million ($7,242 thousand) at March 31, 2016 and ¥747 million at March 31, 2015.

17. STOCK OPTIONS

(A) EXPENSED AMOUNT

Expensed amounts on stock options for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Selling, general and administrative expenses	¥146	¥195	$1,296
Total	¥146	¥195	$1,296

(B) TERMS AND CONDITIONS

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

	2005	2006	2007	2008
Number of grantees	Directors: 11 Executive officers: 17 Employees: 38 Presidents of the Company's domestic consolidated subsidiaries: 34	Directors: 11 Executive officers: 17 Employees: 37 Presidents of the Company's domestic consolidated subsidiaries: 37	Directors: 11 Executive officers: 20 Employees: 33 Presidents of the Company's domestic consolidated subsidiaries: 36	Directors: 11 Executive officers: 20 Employees: 38 Presidents of the Company's domestic consolidated ssubsidiaries: 36
Number of stock options	Common stock 1,650,000	Common stock 1,700,000	Common stock 1,710,000	Common stock 1,760,000
Grant date	August 5, 2005	August 11, 2006	August 10, 2007	August 8, 2008
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, 2006 to June 23, 2015	From June 20, 2007 to June 22, 2016	From June 20, 2008 to June 21, 2017	From July 25, 2009 to June 24, 2018

	2009	2010	2011	2012
Number of grantees	Directors: 11 Executive officers: 20 Employees: 34 Presidents of the Company's domestic consolidated subsidiaries: 35	Directors: 10 Executive officers: 21 Employees: 36 Presidents of the Company's domestic consolidated subsidiaries: 33	Directors: 10 Executive officers: 22 Employees: 35 Presidents of the Company's domestic consolidated subsidiaries: 33	Directors: 9 Executive officers: 22 Employees: 33 Presidents of the Company's domestic consolidated subsidiaries: 30
Number of stock options	Common stock 1,650,000	Common stock 1,710,000	Common stock 1,730,000	Common stock 1,640,000
Grant date	August 14, 2009	August 16, 2010	August 9, 2011	August 13, 2012
Vesting conditions	No provisions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions	No provisions
Exercise period	From July 31, 2011 to June 22, 2019	From July 31, 2012 to June 21, 2020	From July 26, 2013 to June 22, 2021	From July 28, 2014 to June 21, 2022

	2013	2014	2015
Number of grantees	Directors: 9 Executive officers: 18 Employees: 38 Presidents of the Company's domestic consolidated subsidiaries: 33	Directors: 9 Executive officers: 19 Employees: 33 Presidents of the Company's domestic consolidated subsidiaries: 32	Directors: 8 Executive officers: 18 Employees: 37 Presidents of the Company's domestic consolidated subsidiaries: 32
Number of stock options	Common stock 1,600,000	Common stock 1,480,000	Common stock 1,550,000
Grant date	August 16, 2013	August 18, 2014	August 17, 2015
Vesting conditions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions
Exercise period	From August 2, 2015 to June 20, 2023	From August 2, 2016 to June 23, 2024	From August 1, 2017 to June 20, 2025

(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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Balance at March 31, 2015	—	—	—	—	—	—	—	—	1,600,000	1,480,000	—
Options granted during the year	—	—	—	—	—	—	—	—	—	—	1,550,000
Options expired during the year	—	—	—	—	—	—	—	—	—	—	—
Options vested during the year	—	—	—	—	—	—	—	—	1,600,000	—	—
Balance at March 31, 2016	—	—	—	—	—	—	—	—	—	1,480,000	1,550,000

Vested stock options	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Balance at March 31, 2015	878,000	1,443,000	1,660,000	1,730,000	1,630,000	1,710,000	1,720,000	1,357,000	—	—	—
Options vested during the year	—	—	—	—	—	—	—	—	1,600,000	—	—
Options exercised during the year	—	—	—	—	—	—	—	28,000	32,000	—	—
Options expired during the year	878,000	10,000	10,000	10,000	—	10,000	10,000	—	—	—	—
Balance at March 31, 2016	—	1,423,000	1,650,000	1,720,000	1,630,000	1,700,000	1,710,000	1,329,000	1,568,000	—	—

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Exercise price	¥762	¥841	¥1,962	¥1,569	¥639	¥642	¥468	¥277	¥447	¥412	¥427
Average market price of share at exercise	—	—	—	—	—	—	—	¥369	¥309	—	—
Fair value per stock option at grant date	—	¥219	¥ 352	¥ 217	¥136	¥203	¥ 87	¥ 67	¥172	¥132	¥94

(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:

	2015
Stock price volatility	37.29%
Expected remaining term of the option	5 years and 11 months
Expected dividends	¥7 per share
Risk-free interest rate	0.15%

18. COMPREHENSIVE INCOME

For the years ended March 31, 2016 and 2015, the amounts reclassified to net income (loss) that were recognized in other comprehensive income and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Unrealized holding gains (losses) on available-for-sale securities, net of tax:			
Increase (Decrease) during the year	**¥(22,226)**	¥ 16,331	**$(197,249)**
Reclassification adjustments	**(12,791)**	(57)	**(113,516)**
Sub-total, before tax	**(35,017)**	16,274	**(310,765)**
Tax effect	**10,830**	(3,382)	**96,113**
	(24,187)	12,892	**(214,652)**
Unrealized gains (losses) on hedging derivatives, net of tax:			
Increase (Decrease) during the year	**(31,038)**	97,875	**(275,453)**
Reclassification adjustments	**(13,985)**	(18,834)	**(124,112)**
Adjustments of acquisition cost	**0**	(9,136)	**0**
Sub-total, before tax	**(45,023)**	69,905	**(399,565)**
Tax effect	**13,655**	(23,231)	**121,184**
	(31,368)	46,674	**(278,381)**
Foreign currency translation adjustments:			
Increase (Decrease) during the year	**(5,247)**	20,635	**(46,565)**
Reclassification adjustments	**3,727**	167	**33,075**
	(1,520)	20,802	**(13,490)**
Remeasurements of defined benefit plans:			
Increase (Decrease) during the year	**(6,483)**	6,578	**(57,534)**
Reclassification adjustments	**(1,192)**	(715)	**(10,579)**
Sub-total, before tax	**(7,675)**	5,863	**(68,113)**
Tax effect	**2,306**	(1,729)	**20,465**
	(5,369)	4,134	**(47,648)**
Share of other comprehensive loss of associates accounted for using equity method:			
Decrease during the year	**(8,186)**	(12,827)	**(72,648)**
Reclassification adjustments	**3,091**	3,680	**27,431**
Adjustments of acquisition cost	**1,620**	(834)	**14,377**
	(3,475)	(9,981)	**(30,840)**
Total other comprehensive income (loss)	**¥(65,919)**	¥ 74,521	**$(585,011)**

19. RELATED PARTY TRANSACTIONS

For the years ended March 31, 2016 and 2015, there are no applicable matters to report.

20. SUBSEQUENT EVENT

There is no applicable matter.

21. OTHERS

The Group is subject to investigations by overseas competition law authorities including those of the U.S. and Europe for violation of competition laws of those countries regarding price control negotiations for ocean transport services of completely built-up vehicles. In addition, a class-action lawsuit was filed in the U.S. and other countries against the Group for damage claims and for a cease and desist order for the questioned conduct. Meanwhile, the effect of these investigations and lawsuit on the financial results of the Group is uncertain as its financial impact is not estimable at this stage.

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 sheet as at March 31, 2016, and the consolidated statement of operations, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year 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 audit. We conducted our audit 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, 2016, and their financial performance and cash flows for the year 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, 2016 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

KPMG AZSA LLC
June 21, 2016