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Consolidated Balance Sheets

Mitsui O.S.K. Lines, Ltd. March 31, 2018 and 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Current assets:			
Cash and cash equivalents (Note 3)	¥ 189,591	¥ 186,844	\$ 1,784,553
Trade receivables (Note 3)	125,851	130,420	1,184,591
Inventories (Note 5)	38,679	36,358	364,071
Deferred and prepaid expenses	61,918	60,888	582,812
Deferred tax assets (Note 14)	1,334	1,273	12,556
Other current assets (Notes 3 and 6)	63,063	66,121	593,589
Allowance for doubtful accounts	(401)	(428)	(3,774)
Total current assets	480,036	481,477	4,518,411
Vessels, property and equipment, net of accumulated depreciation (Notes 7 and 12):			
Vessels	776,554	756,930	7,309,431
Buildings and structures	148,598	153,767	1,398,701
Machinery, equipment and vehicles	31,581	26,630	297,260
Furniture and fixtures	4,137	5,366	38,940
Land	221,045	221,342	2,080,619
Vessels and other property under construction	106,128	156,935	998,945
Others	2,884	2,693	27,146
Net vessels, property and equipment	1,290,929	1,323,665	12,151,063
Investments, intangibles and other assets:			
Intangible assets	30,163	31,287	283,913
Investment securities (Notes 3, 4 and 7)	274,527	231,978	2,584,026
Long-term loans receivable (Note 3)	73,403	62,796	690,916
Long-term prepaid expenses	6,388	6,824	60,128
Net defined benefit assets (Note 15)	18,811	15,390	177,061
Deferred tax assets (Note 14)	3,212	3,535	30,233
Other non-current assets (Note 6)	50,583	62,661	476,120
Allowance for doubtful accounts	(2,421)	(2,089)	(22,788)
Total investments, intangibles and other assets	454,669	412,385	4,279,640
Total assets	¥2,225,636	¥2,217,528	\$20,949,134

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Current liabilities:			
Trade payables (Note 3)	¥ 131,405	¥ 125,118	\$ 1,236,869
Bonds due within one year (Notes 3 and 7)	31,872	20,000	300,000
Short-term bank loans (Notes 3 and 7)	180,539	133,155	1,699,350
Commercial paper (Notes 3 and 7)	5,000	—	47,063
Accrued income taxes (Note 14)	6,395	6,642	60,193
Advances received	34,409	32,258	323,879
Deferred tax liabilities (Note 14)	590	1,188	5,553
Allowance for bonuses	4,567	4,402	42,987
Allowance for directors' bonuses	186	153	1,750
Provision for loss on business liquidation	—	2,753	—
Provision for contract loss	15,879	1,239	149,463
Provision for loss related to business restructuring	7,068	—	66,528
Other current liabilities (Note 6)	60,372	56,544	568,260
Total current liabilities	478,287	383,456	4,501,948
Non-current liabilities:			
Bonds due after one year (Notes 3 and 7)	175,748	210,595	1,654,254
Long-term bank loans (Notes 3 and 7)	706,944	738,163	6,654,216
Lease obligations	15,977	18,371	150,385
Deferred tax liabilities (Note 14)	55,225	56,678	519,813
Net defined benefit liabilities (Note 15)	12,909	12,445	121,507
Directors' and corporate auditors' retirement benefits	1,487	1,459	13,996
Reserve for periodic drydocking	20,647	18,566	194,342
Provision for contract loss	50,933	226	479,414
Provision for environmental measures	620	620	5,835
Other non-current liabilities (Note 6)	78,810	93,325	741,810
Total non-current liabilities	1,119,304	1,150,450	10,535,617
Total liabilities	1,597,591	1,533,907	15,037,565
Commitments and contingent liabilities (Note 8)			
Net assets (Note 9):			
Owners' equity:			
Common stock as of March 31, 2018:			
Authorized —315,400,000 shares			
Issued —120,628,611 shares	65,400	65,400	615,587
Capital surplus	45,385	45,382	427,193
Retained earnings	306,642	355,263	2,886,314
Treasury stock, at cost	(6,807)	(6,820)	(64,071)
Total owners' equity	410,620	459,226	3,865,022
Accumulated other comprehensive income			
Unrealized holding gains on available-for-sale securities, net of tax	33,400	28,353	314,382
Unrealized gains on hedging derivatives, net of tax	37,873	54,326	356,485
Foreign currency translation adjustments	23,442	27,178	220,651
Remeasurements of defined benefit plans, net of tax	5,905	2,898	55,581
Total accumulated other comprehensive income	100,620	112,757	947,110
Share subscription rights	2,026	2,447	19,070
Non-controlling interests	114,776	109,190	1,080,346
Total net assets	628,044	683,621	5,911,558
Total liabilities and net assets	¥2,225,636	¥2,217,528	\$20,949,134

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2018 and 2017

(CONSOLIDATED STATEMENTS OF OPERATIONS)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Shipping and other revenues (Note 13)	¥1,652,393	¥1,504,373	\$15,553,397
Shipping and other expenses	1,513,736	1,388,264	14,248,268
Gross operating income	138,656	116,109	1,305,120
Selling, general and administrative expenses	115,972	113,551	1,091,603
Operating income	22,684	2,558	213,516
Non-operating income:			
Interest income	7,976	5,918	75,075
Dividend income	6,661	6,021	62,697
Equity in earnings of affiliated companies	—	5,543	—
Foreign exchange gain	16,834	24,179	158,452
Others	3,930	3,875	36,991
Total non-operating income	35,402	45,538	333,226
Non-operating expenses:			
Interest expense	20,413	19,037	192,140
Equity in losses of affiliated companies	3,428	—	32,266
Others	2,771	3,633	26,082
Total non-operating expenses	26,613	22,670	250,498
Ordinary income	31,473	25,426	296,244
Other gains:			
Gain on sales of vessels, property, equipment and others	16,979	6,125	159,817
Others	4,587	29,080	43,175
Total other gains	21,566	35,206	202,993
Other losses:			
Loss on sales and disposals of vessels, property, equipment and others	1,310	1,259	12,330
Loss related to business restructuring (Note 10)	73,476	—	691,603
Impairment loss	—	22,273	—
Costs of business structural reforms	—	6,490	—
Others	6,962	7,304	65,530
Total other losses	81,748	37,328	769,465
Income (Loss) before income taxes	(28,709)	23,303	(270,227)
Income taxes (Note 14):			
Current	10,729	13,323	100,988
Deferred	2,002	(625)	18,844
Net income (loss)	(41,440)	10,605	(390,060)
Income attributable to non-controlling interests	5,939	5,348	55,901
Income (loss) attributable to owners of parent	¥ (47,380)	¥ 5,257	\$ (445,971)

(CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net income (loss)	¥(41,440)	¥10,605	\$ (390,060)
Other comprehensive income (Note 17):			
Unrealized holding gains on available-for-sale securities, net of tax	5,839	8,768	54,960
Unrealized gains on hedging derivatives, net of tax	(22,402)	13,070	(210,862)
Foreign currency translation adjustments	(773)	2,463	(7,275)
Remeasurements of defined benefit plans, net of tax	3,007	2,944	28,303
Share of other comprehensive income (loss) of associates accounted for using equity method	3,501	4,100	32,953
	(10,828)	31,347	(101,920)
Comprehensive income	¥(52,268)	¥41,952	\$ (491,980)
Comprehensive income attributable to owners of parent	¥(59,516)	¥35,183	\$ (560,203)
Comprehensive income attributable to non-controlling interests	7,247	6,769	68,213

(AMOUNTS PER SHARE OF COMMON STOCK) (*1)

	Yen		U.S. dollars (Note 1)
	2018	2017	2018
Net income (loss)	¥(396.16)	¥43.95	\$ (3.72)
Diluted net income (Note 2)	—	40.61	—
Cash dividends applicable to the year	20.00	20.00	0.18

See accompanying notes.

*1 The Company consolidated its common shares (ten shares into one shares), effective October 1, 2017.

Accordingly, net income, diluted net income and cash dividends applicable to the year per share have been recalculated on the assumption that the share consolidation took place at the beginning of the year ended March 31, 2017.

Consolidated Statements of Changes in Net Assets

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2018 and 2017

	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	Remeasurements of defined benefit plans, net of tax	Share subscription rights	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥65,400	¥45,388	¥354,179	¥(6,847)	¥20,950	¥35,033	¥26,885	¥ (39)	¥2,681	¥103,292	¥646,924
Issuance of new shares—exercise of subscription rights to shares	—	—	—	4	—	—	—	—	(4)	—	—
Dividends paid	—	—	(4,186)	—	—	—	—	—	—	—	(4,186)
Net income (loss) attributable to owners of parent	—	—	5,257	—	—	—	—	—	—	—	5,257
Due to change in consolidated subsidiaries	—	—	36	—	—	—	—	—	—	—	36
Purchases of treasury stock	—	—	—	(23)	—	—	—	—	—	—	(23)
Disposal of treasury stock	—	—	(23)	45	—	—	—	—	—	—	22
Purchases of shares of consolidated subsidiaries	—	(6)	—	—	—	—	—	—	—	—	(6)
Net changes of items other than owner's equity during the year	—	—	—	—	7,403	19,292	292	2,938	(228)	5,898	35,596
Balance at March 31 and April 1, 2017	¥65,400	¥45,382	¥355,263	¥(6,820)	¥28,353	¥54,326	¥27,178	¥2,898	¥2,447	¥109,190	¥683,621
Issuance of new shares—exercise of subscription rights to shares	—	—	—	12	—	—	—	—	(12)	—	—
Dividends paid	—	—	(1,196)	—	—	—	—	—	—	—	(1,196)
Net income (loss) attributable to owners of parent	—	—	(47,380)	—	—	—	—	—	—	—	(47,380)
Due to change in consolidated subsidiaries	—	—	3	—	—	—	—	—	—	—	3
Purchases of treasury stock	—	—	—	(98)	—	—	—	—	—	—	(98)
Disposal of treasury stock	—	—	(47)	98	—	—	—	—	—	—	51
Purchases of shares of consolidated subsidiaries	—	2	—	—	—	—	—	—	—	—	2
Net changes of items other than owner's equity during the year	—	—	—	—	5,046	(16,453)	(3,735)	3,006	(408)	5,585	(6,959)
Balance at March 31, 2018	¥65,400	¥45,385	¥306,642	¥(6,807)	¥33,400	¥37,873	¥23,442	¥5,905	¥2,026	¥114,776	¥628,044

	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	Remeasurements of defined benefit plans, net of tax	Share subscription rights	Non-controlling interests	Total net assets
Balance at April 1, 2017	\$615,587	\$427,164	\$3,343,966	\$ (64,194)	\$266,876	\$511,351	\$255,817	\$27,277	\$23,032	\$1,027,767	\$6,434,685
Issuance of new shares—exercise of subscription rights to shares	—	—	—	112	—	—	—	—	(112)	—	—
Dividends paid	—	—	(11,257)	—	—	—	—	—	—	—	(11,257)
Net income (loss) attributable to owners of parent	—	—	(445,971)	—	—	—	—	—	—	—	(445,971)
Due to change in consolidated subsidiaries	—	—	28	—	—	—	—	—	—	—	28
Purchases of treasury stock	—	—	—	(922)	—	—	—	—	—	—	(922)
Disposal of treasury stock	—	—	(442)	922	—	—	—	—	—	—	480
Purchases of shares of consolidated subsidiaries	—	18	—	—	—	—	—	—	—	—	18
Net changes of items other than owner's equity during the year	—	—	—	—	47,496	(154,866)	(35,156)	28,294	(3,840)	52,569	(65,502)
Balance at March 31, 2018	\$615,587	\$427,193	\$2,886,314	\$ (64,071)	\$314,382	\$356,485	\$220,651	\$55,581	\$19,070	\$1,080,346	\$5,911,558

See accompanying notes.

Consolidated Statements of Cash Flows

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Income (loss) before income taxes	¥ (28,709)	¥ 23,303	\$ (270,227)
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities			
Depreciation and amortization	86,629	87,190	815,408
Impairment loss	—	22,273	—
Costs of business structural reforms	—	6,490	—
Loss related to business restructuring	73,476	—	691,603
Equity in losses (earnings) of affiliated companies, net	3,428	(5,543)	32,266
Various provisions (reversals)	1,021	(20,053)	9,610
Decrease (Increase) in net defined benefit assets	785	1,996	7,388
Increase (Decrease) in net defined benefit liabilities	539	(755)	5,073
Interest and dividend income	(14,637)	(11,939)	(137,772)
Interest expense	20,413	19,037	192,140
Loss (Gain) on sales and disposal of vessels, property and equipment and intangible assets, net	(13,471)	(3,938)	(126,797)
Foreign exchange loss (gain)	(17,480)	(25,818)	(164,533)
Changes in operating assets and liabilities:			
Trade receivables	4,690	(1,683)	44,145
Inventories	(2,423)	(8,691)	(22,806)
Trade payables	6,218	(573)	58,527
Others, net	(6,549)	(51,690)	(61,643)
Sub total	113,934	29,602	1,072,420
Interest and dividend income received	18,662	15,351	175,658
Interest expenses paid	(21,208)	(18,778)	(199,623)
Income taxes paid	(13,007)	(8,551)	(122,430)
Net cash provided by (used in) operating activities	98,380	17,623	926,016
Cash flows from investing activities:			
Purchase of investment securities	(41,288)	(14,533)	(388,629)
Proceeds from sales and redemption of investment securities	2,029	27,738	19,098
Purchase of vessels, property and equipment and intangible assets	(142,570)	(143,177)	(1,341,961)
Proceeds from sales of vessels, property and equipment and intangible assets	89,446	71,350	841,923
Net decrease (increase) in short-term loans receivables	(28)	(6,652)	(263)
Disbursements for long-term loans receivables	(29,866)	(21,374)	(281,118)
Collections of long-term loans receivables	22,092	9,832	207,944
Others, net	(666)	2,876	(6,268)
Net cash provided by (used in) investing activities	(100,851)	(73,941)	(949,275)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	60,125	9,907	565,935
Net increase (decrease) in commercial paper	5,000	—	47,063
Proceeds from long-term bank loans	96,812	239,075	911,257
Repayments of long-term bank loans	(127,272)	(119,252)	(1,197,966)
Proceeds from issuance of bonds	—	10,000	—
Redemption of bonds	(20,000)	(45,000)	(188,253)
Cash dividends paid by the Company	(1,214)	(4,258)	(11,426)
Cash dividends paid to non-controlling interests	(1,450)	(1,018)	(13,648)
Others, net	(2,757)	(2,323)	(25,950)
Net cash provided by (used in) financing activities	9,243	87,129	87,001
Effect of foreign exchange rate changes on cash and cash equivalents	(4,025)	(3,454)	(37,885)
Net increase (decrease) in cash and cash equivalents	2,746	27,357	25,847
Cash and cash equivalents at beginning of year	186,844	159,449	1,758,697
Net cash increase (decrease) from new consolidation/de-consolidation of subsidiaries	—	37	—
Cash and cash equivalents at end of year	¥ 189,591	¥ 186,844	\$ 1,784,553

See accompanying notes.

Notes to Consolidated Financial Statements

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2018 and 2017

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, 2018, which was ¥106.24 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.

Yen figures less than a million yen are rounded down to the nearest million yen, except for per share data. U.S. dollar figures less than a thousand dollars are rounded down to the nearest thousand dollars, except for per share data. And, therefore, the totals shown in tables do not necessarily agree with the sums of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(1) PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of the Company and 369 subsidiaries for the year ended March 31, 2018 (368 subsidiaries for the year ended March 31, 2017). 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 80 affiliated companies for the year ended March 31, 2018 (76 affiliated companies for the year ended March 31, 2017). 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. Available-for-sale securities of which fair value is not readily determinable are stated at moving-average cost.

(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 an estimated residual is zero.

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

Bond issue expense and stock issue expense are charged to income as incurred.

(9) INTEREST CAPITALIZATION

In cases where a vessel's construction period is long and the amount of interest accruing during this period is significant, such interest expenses are capitalized as a part of the acquisition cost which amounted to ¥1,462 million (\$13,761 thousand) for the year ended March 31, 2018.

(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 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.

(14) PROVISION FOR LOSS RELATED TO BUSINESS RESTRUCTURING

Provision for loss related to business restructuring is recorded for estimated losses arising from business restructurings to be carried out.

(15) DIRECTORS' AND CORPORATE AUDITORS' RETIREMENT BENEFITS

Some 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) PROVISION FOR ENVIRONMENTAL MEASURES

Provision for environmental measures is based on the estimated amounts of future obligations associated with polychlorinated biphenyl (PCB) waste.

(18) 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 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.

(19) 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.

(20) 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, 2018 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.

(21) 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	Charterage and foreign currency loans payable
Interest rate swap contracts	Interest on loans and bonds payable
Interest rate cap contracts	Interest on loans
Fuel oil swap contracts	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.

(22) STANDARDS AND GUIDANCE NOT YET ADOPTED

The following standards and guidance were issued but not yet adopted.

(Revenue Recognition)

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

I. Overview

The above standard and guidance provide comprehensive principles for revenue recognition. As a basic policy in developing the above standard, ASBJ adopted the basic principle of IFRS 15 from the viewpoint of comparability between financial statements, which is one of the benefits of convergence with IFRS 15.

II. Effective date

The Company will apply this standard and guidance from the beginning of the fiscal year ending March 31, 2022.

III. Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

(Tax Effect Accounting)

"Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018 (hereinafter, "Guidance No. 28"))

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 (revised 2018), February 16, 2018 (hereinafter, "Guidance No. 26"))

I. Overview

The above guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as 'Type1' according to the guidance.

II. Effective date

The Company will apply this standard and guidance from the beginning of the fiscal year ending March 31, 2019.

III. Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

(23) RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2018 presentation.

(24) ADDITIONAL INFORMATION

(Establishment of Holding Company and Operating Company for New Integrated Container Shipping Business)

The Company, Kawasaki Kisen Kaisha, Ltd., and Nippon Yusen Kabushiki Kaisha established the below holding company and operating company, based on the business integration contract and the shareholders agreement on October 31, 2016 to integrate the container shipping businesses (including worldwide terminal operation businesses outside Japan) of all three companies.

These two companies started their services on April 1, 2018.

Overview of New Companies

I. Holding Company

Company name	Ocean Network Express Holdings, Ltd.	
Amount of Capital	¥50 million (\$470 thousand)	
Shareholders/Contribution Ratio	Kawasaki Kisen Kaisha, Ltd.	31%
	Nippon Yusen Kabushiki Kaisha	38%
	The Company	31%
Location	Tokyo, Japan	
Date of Establishment	July 7, 2017	

II. Operating Company

Company name	Ocean Network Express Pte. Ltd.	
Amount of Capital	US\$800 million	
Shareholders/Contribution Ratio	Kawasaki Kisen Kaisha, Ltd.	31%
	Nippon Yusen Kabushiki Kaisha	38%
	The Company (including indirect investment)	31%
Location	Singapore	
Date of Establishment	July 7, 2017	

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 bank loans and commercial papers are primarily used for raising short-term operating funds, while long-term bank 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 or interest rate caps.

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 bank loans, and corporate bonds.

* Interest rate swap contracts / Interest rate cap contracts:

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

* Fuel oil swap contracts:

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 (21) 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, bank 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, 2018 were the following;

	Millions of yen		
	Book value	Fair value	Difference
Assets			
Cash and cash equivalents	¥ 189,591	¥ 189,591	¥ —
Time deposits with a maturity of more than three months	3,705	3,705	—
Trade receivables	125,851	125,851	—
Short-term loans receivable	16,735	16,735	—
Investment securities			
Available-for-sale securities	106,775	106,775	—
Investments in unconsolidated subsidiaries and affiliated companies	2,915	3,099	184
Long-term loans receivable ^{(*)1}	74,661	76,789	2,128
Total	¥ 520,236	¥ 522,549	¥ 2,313
Liabilities			
Trade payables	¥ 131,405	¥ 131,405	¥ —
Short-term bank loans	98,589	98,589	—
Commercial paper	5,000	5,000	—
Bonds ^{(*)2}	207,620	209,668	2,048
Long-term bank loans ^{(*)3}	788,895	801,041	12,146
Total	¥1,231,509	¥1,245,705	¥14,195
Derivative financial instruments ^{(*)4}	¥ 8,615	¥ 8,484	¥ (131)

	Thousands of U.S. dollars (Note 1)		
	Book value	Fair value	Difference
Assets			
Cash and cash equivalents	\$ 1,784,553	\$ 1,784,553	\$ —
Time deposits with a maturity of more than three months	34,873	34,873	—
Trade receivables	1,184,591	1,184,591	—
Short-term loans receivable	157,520	157,520	—
Investment securities			
Available-for-sale securities	1,005,035	1,005,035	—
Investments in unconsolidated subsidiaries and affiliated companies	27,437	29,169	1,731
Long-term loans receivable ^{(*)1}	702,757	722,788	20,030
Total	\$ 4,896,799	\$ 4,918,571	\$ 21,771
Liabilities			
Trade payables	\$ 1,236,869	\$ 1,236,869	\$ —
Short-term bank loans	927,983	927,983	—
Commercial paper	47,063	47,063	—
Bonds ^{(*)2}	1,954,254	1,973,531	19,277
Long-term bank loans ^{(*)3}	7,425,592	7,539,919	114,326
Total	\$11,591,763	\$11,725,385	\$133,612
Derivative financial instruments ^{(*)4}	\$ 81,089	\$ 79,856	\$ (1,233)

*1 The book value of long-term loans receivable includes current portion amounting to ¥1,257 million (\$11,831 thousand).

*2 The book value of bonds includes current portion amounting to ¥31,872 million (\$300,000 thousand).

*3 The book value of long-term bank loans includes current portion amounting to ¥81,950 million (\$771,366 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, 2017 were the following;

	Millions of yen		
	Book value	Fair value	Difference
Assets			
Cash and cash equivalents	¥ 186,844	¥ 186,844	¥ —
Time deposits with a maturity of more than three months	3,101	3,101	—
Trade receivables	130,420	130,420	—
Short-term loans receivable	17,262	17,262	—
Investment securities			
Available-for-sale securities	98,675	98,675	—
Long-term loans receivable ^{(*)1}	70,799	74,695	3,896
Total	¥ 507,103	¥ 510,999	¥ 3,896
Liabilities			
Trade payables	¥ 125,118	¥ 125,118	¥ —
Short-term bank loans	39,163	39,163	—
Bonds ^{(*)2}	230,595	231,949	1,354
Long-term bank loans ^{(*)3}	832,154	849,862	17,708
Total	¥1,227,031	¥1,246,094	¥19,063
Derivative financial instruments ^{(*)4}	¥ 18,745	¥ 18,592	¥ (153)

*1 The book value of long-term loans receivable includes current portion amounting to ¥8,002 million.

*2 The book value of bonds includes current portion amounting to ¥20,000 million.

*3 The book value of long-term bank loans includes current portion amounting to ¥93,991 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 at 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 at the end of the years.

Long-term loans receivable

The fair value of long-term loans receivable with variable interest rates 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 and Short-term bank loans

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 is evaluated on their market price.

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 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 rate in a short term.

Derivative financial instruments

Please refer to Note 6 to the consolidated financial statements.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Book value 2018	Book value 2017	Book value 2018
Unlisted stocks	¥ 7,782	¥ 7,662	\$ 73,249
Investments in unconsolidated subsidiaries and affiliated companies	157,043	125,628	1,478,190
Others	9	11	84
Total	¥164,836	¥133,302	\$1,551,543

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, 2018, 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	¥189,591	¥ —	¥ —	¥ —
Time deposits with a maturity of more than three months	3,705	—	—	—
Trade receivables	125,851	—	—	—
Short-term loans receivable	16,735	—	—	—
Marketable securities and investments securities				
Available-for-sale securities (Governmental/municipal bonds)	—	10	—	—
Available-for-sale securities (Corporate bonds)	—	200	—	—
Long-term loans receivable	1,257	2,787	11,048	59,568
Total	¥337,141	¥2,997	¥11,048	¥59,568

	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	\$1,784,553	\$ —	\$ —	\$ —
Time deposits with a maturity of more than three months	34,873	—	—	—
Trade receivables	1,184,591	—	—	—
Short-term loans receivable	157,520	—	—	—
Marketable securities and investments securities				
Available-for-sale securities (Governmental/municipal bonds)	—	94	—	—
Available-for-sale securities (Corporate bonds)	—	1,882	—	—
Long-term loans receivable	11,831	26,233	103,990	560,692
Total	\$3,173,390	\$28,209	\$103,990	\$560,692

At March 31, 2017, 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	¥186,844	¥ —	¥ —	¥ —
Time deposits with a maturity of more than three months	3,101	—	—	—
Trade receivables	130,420	—	—	—
Short-term loans receivable	17,262	—	—	—
Marketable securities and investments securities				
Available-for-sale securities (Governmental/municipal bonds)	—	10	—	—
Available-for-sale securities (Corporate bonds)	—	200	—	—
Long-term loans receivable	8,002	3,853	5,785	53,158
Total	¥345,631	¥4,063	¥5,785	¥53,158

4. SECURITIES

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values at March 31, 2018 and 2017.

Available-for-sale securities:

Securities with book values exceeding acquisition costs at March 31, 2018

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥43,384	¥96,449	¥53,065
Bonds			
Governmental/municipal bonds	10	10	0
Corporate bonds	200	208	8
Total	¥43,594	¥96,668	¥53,073

Type	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Book value	Difference
Equity securities	\$408,358	\$907,840	\$499,482
Bonds			
Governmental/municipal bonds	94	94	0
Corporate bonds	1,882	1,957	75
Total	\$410,335	\$909,902	\$499,557

Securities with book values exceeding acquisition costs at March 31, 2017

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥43,974	¥89,266	¥45,291
Bonds			
Governmental/municipal bonds	10	10	0
Corporate bonds	200	211	11
Total	¥44,184	¥89,488	¥45,303

Securities with book values not exceeding acquisition costs at March 31, 2018

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥11,353	¥10,107	¥(1,245)
Total	¥11,353	¥10,107	¥(1,245)

Type	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Book value	Difference
Equity securities	\$106,861	\$95,133	\$(11,718)
Total	\$106,861	\$95,133	\$(11,718)

Securities with book values not exceeding acquisition costs at March 31, 2017

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥11,065	¥9,186	¥(1,878)
Total	¥11,065	¥9,186	¥(1,878)

B. Total sales of available-for-sale securities sold in the years ended March 31, 2018 and 2017 and the related gains and losses were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Proceeds from sales	¥1,145	¥3,346	\$10,777
Gross realized gains	687	2,249	6,466
Gross realized losses	3	406	28

C. Impairment losses of securities

For the year ended March 31, 2018, the Company reduced the book value on the securities and booked the reductions as impairment losses of ¥255 million (\$2,400 thousand).

For the year ended March 31, 2017, the Company reduced the book value on the securities and booked the reductions as impairment losses of ¥12 million.

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 at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Fuel and supplies	¥37,483	¥34,684	\$352,814
Others	1,196	1,674	11,257
Total	¥38,679	¥36,358	\$364,071

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, 2018 and 2017, for which hedge accounting has not been applied.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
(1) Currency related:			
Forward currency exchange contracts			
Sell (U.S. dollar):			
Contracts outstanding	¥749	¥1,563	\$7,050
Fair values	3	5	28
Buy (U.S. dollar):			
Contracts outstanding	¥ 32	¥ 41	\$ 301
Fair values	(0)	0	0
Buy (Others):			
Contracts outstanding	¥ 23	¥ 24	\$ 216
Fair values	0	(0)	0

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
(2) Interest related			
Interest rate swaps			
Receive floating, pay fixed			
Contracts outstanding	¥19,721	¥22,825	\$185,626
Fair values	(993)	(1,684)	(9,346)
Receive fixed, pay floating			
Contracts outstanding	¥14,202	¥15,590	\$133,678
Fair values	(881)	(615)	(8,292)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
(3) Others			
a. Fuel oil swaps			
Receive floating, pay fixed			
Contracts outstanding	¥ —	¥ 375	\$ —
Fair values	—	(167)	—
b. Freight futures			
Contracts outstanding	¥205	¥ 239	\$1,929
Fair values	28	(7)	263

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, 2018 and 2017, for which hedge accounting has been applied.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
(1) Deferred hedge accounting			
a. Forward currency exchange contracts to hedge the risk for the foreign currency transactions			
Sell (U.S. dollar):			
Contracts outstanding	¥ 48,752	¥ 67,676	\$ 458,885
Fair values	148	136	1,393
Buy (U.S. dollar):			
Contracts outstanding	¥ 32,175	¥ 62,955	\$ 302,852
Fair values	(398)	(989)	(3,746)
b. Currency swaps contracts to hedge the risk for charterages			
Sell (U.S. dollar):			
Contracts outstanding	¥ 3,126	¥ 5,078	\$ 29,423
Fair values	(441)	(906)	(4,150)
Buy (U.S. dollar):			
Contracts outstanding	¥183,823	¥164,416	\$1,730,261
Fair values	25,498	40,852	240,003
c. Interest rate swaps to hedge the risk for the long-term bank loans and charterages			
Receive floating, pay fixed			
Contracts outstanding	¥247,064	¥282,032	\$2,325,527
Fair values	(15,025)	(18,207)	(141,425)
d. Interest rate caps to hedge the risk for the long-term bank loans			
Buy			
Contracts outstanding	¥ 20,567	¥ 23,892	\$ 193,589
Fair values	77	(47)	724
e. Fuel oil swaps to hedge the risk for the fuel oil			
Receive floating, pay fixed			
Contracts outstanding	¥ 2,935	¥ 5,917	\$ 27,626
Fair values	593	378	5,581
f. Freight futures to hedge the risk for the freight			
Contracts outstanding	¥ 37	¥ —	\$ 348
Fair values	7	—	65

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
(2) Special treatment			
Interest rate swaps to hedge the risk for the long-term bank loans			
Receive floating, pay fixed			
Contracts outstanding	¥20,450	¥20,617	\$192,488
Fair values	—	—	—

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
(3) Allocation method			
Currency swaps to hedge the risk for the foreign bonds and long-term bank loans			
Contracts outstanding	¥1,943	¥6,285	\$18,288
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. Interest rate swaps which special treatment are applied to are recorded as the combined amount of such interest rate swaps and their hedge items. Therefore, their fair values are included in fair values of such hedge items.
3. 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, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Short-term bank loans	¥ 98,589	¥39,163	\$927,984
Commercial paper	5,000	—	47,063
Total	¥103,589	¥39,163	\$975,047

Average interest rates on short-term bank loans at March 31, 2018 and 2017 were 1.49% and 0.88%, respectively.

Average interest rates on commercial paper at March 31, 2018 were -0.02%.

(2) LONG-TERM DEBT

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Bonds:			
0.461% yen bonds due July 12, 2017	¥ —	¥ 20,000	\$ —
0.000% U.S. dollars bonds due April 24, 2018 ⁽¹⁾	31,872	33,657	300,000
1.999% yen bonds due May 27, 2019	18,500	18,500	174,134
1.673% yen bonds due September 13, 2019	10,000	10,000	94,126
0.000% U.S. dollars bonds due April 24, 2020 ⁽¹⁾	21,248	22,438	200,000
1.398% yen bonds due May 28, 2020	15,000	15,000	141,189
1.361% yen bonds due June 21, 2021	17,800	17,800	167,545
1.652% yen bonds due May 27, 2022	5,000	5,000	47,063
1.139% yen bonds due July 12, 2022	8,700	8,700	81,890
1.071% yen bonds due January 23, 2023	10,000	10,000	94,126
0.845% yen bonds due March 4, 2024	15,000	15,000	141,189
0.970% yen bonds due June 19, 2024	29,500	29,500	277,673
0.803% yen bonds due March 3, 2025	15,000	15,000	141,189
0.850% yen bonds due December 15, 2031	10,000	10,000	94,126
Long-term bank loans due within one year:			
Long-term bank loans due within one year at average interest rate of 1.50% and 1.22% at March 31, 2018 and 2017, respectively	81,950	93,991	771,367
Long-term bank loans due after one year:			
Long-term bank loans due through 2076 at average interest rate of 2.00% and 1.73% at March 31, 2018 and 2017, respectively	706,944	738,163	6,654,217
	996,514	1,062,749	9,379,838
Amount due within one year	113,822	113,991	1,071,367
	¥882,692	¥ 948,758	\$8,308,471

* 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.\$53.10 per share	U.S.\$47.80 per share

At March 31, 2018, 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)
2019	¥113,822	\$1,071,366
2020	120,299	1,132,332
2021	113,124	1,064,796
2022	111,673	1,051,138
2023	78,228	736,332
2024 and thereafter	459,365	4,323,842
Total	¥996,514	\$9,379,838

(3) ASSETS PLEDGED AND SECURED DEBT

At March 31, 2018 and 2017, 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)
	2018	2017	2018
Vessels	¥240,140	¥216,193	\$2,260,353
Vessels and other property under construction	16,042	—	150,997
Investment securities	55,779	83,029	525,028
Total	¥311,962	¥299,222	\$2,936,389

Secured debt	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Long-term bank loans due within one year	¥ 14,288	¥ 12,175	\$ 134,487
Long-term bank loans due after one year	185,856	160,119	1,749,397
Total	¥200,144	¥172,294	\$1,883,885

8. COMMITMENTS AND CONTINGENT LIABILITIES

(A) COMMITMENT

At March 31, 2018 and 2017, certain subsidiaries had loan commitment agreements. The nonexercised portion of loan commitments was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Total loan limits	¥15,404	¥16,267	\$144,992
Loan executions	15,404	16,267	144,992
The nonexercised portion of loan commitments	¥ —	¥ —	\$ —

(B) CONTINGENT LIABILITIES

At March 31, 2018 and 2017, 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 ¥132,844 million (\$1,250,414 thousand) and ¥159,430 million, respectively.

U.S. dollars-denominated liabilities were included in the above amount, which were \$1,112,045 thousand and \$1,260,875 thousand 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, 2018 and 2017 were as follows:

	Shares of common stock (Thousands)	Shares of treasury stock (Thousands)
Balance at April 1, 2016	1,206,286	10,222
Increase during the year	—	84
Decrease during the year	—	(75)
Balance at March 31 and April 1, 2017	1,206,286	10,231
Increase during the year	—	72
Decrease during the year ^(*)	(1,085,657)	(9,269)
Balance at March 31, 2018	120,628	1,034

* The Company consolidated its common shares (ten shares into one shares), effective October 1, 2017.

(B) SHARE SUBSCRIPTION RIGHTS

Share subscription rights at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Stock options	¥2,026	¥2,447	\$19,070
Total	¥2,026	¥2,447	\$19,070

(C) DIVIDENDS

(1) Dividends paid for the year ended March 31, 2018 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Approved at the board of directors held on October 31, 2017	¥1,196	\$11,257
Total	¥1,196	\$11,257

(2) Dividends included in the retained earnings at March 31, 2018 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 26, 2018	¥1,195	\$11,248
Total	¥1,195	\$11,248

10. BREAKDOWN OF LOSS RELATED TO BUSINESS RESTRUCTURING

For the year ended March 31, 2018, in relation to the integration of the container shipping businesses, the Company recognized loss related to business restructuring, which was consisted of ¥4,412 million (\$41,528 thousand) for temporary cost relating to the liquidation of the Company's agencies, ¥64,280 million (\$605,045 thousand) for losses related to charter contracts, and ¥4,783 million (\$45,020 thousand) for other losses.

11. LEASES

AS LESSEE:

FUTURE LEASE PAYMENTS UNDER OPERATING LEASES FOR ONLY NON-CANCELABLE CONTRACTS AT MARCH 31, 2018 AND 2017:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Amount due within one year	¥ 34,784	¥ 45,021	\$ 327,409
Amount due after one year	255,730	284,385	2,407,097
Total	¥290,515	¥329,407	\$2,734,516

AS LESSOR:

FUTURE LEASE INCOME UNDER OPERATING LEASES FOR ONLY NON-CANCELABLE CONTRACTS AT MARCH 31, 2018 AND 2017:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Amount due within one year	¥16,008	¥17,716	\$150,677
Amount due after one year	34,630	34,958	325,960
Total	¥50,639	¥52,674	\$476,647

12. 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:

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Book value			
Balance at beginning of the year	¥304,566	¥311,092	\$2,866,773
Changes during the year	(4,963)	(6,525)	(46,714)
Balance at end of the year	299,603	304,566	2,820,058
Fair value at end of the year	471,023	458,710	4,433,574

- Notes: 1. Book value is the acquisition cost, net of accumulated depreciation.
2. Of changes during the year ended March 31, 2017, the primary decrease was mainly due to the depreciation of existing properties (¥7,292 million).
3. Of changes during the year ended March 31, 2018, the primary increase was mainly due to the additional acquisition of land for provisionally named "Akihabara project" (¥546 million (\$5,139 thousand)), while the primary decrease was mainly due to the depreciation of existing properties (¥6,834 million (\$64,326 thousand)).
4. Fair value is mainly based on the amount appraised by outside independent real estate appraisers.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Rental revenue	¥30,869	¥30,245	\$290,559
Rental expense	17,815	17,844	167,686
Difference	¥13,054	¥12,400	\$122,872

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."

13. SEGMENT AND RELATED INFORMATION

(A) SEGMENT INFORMATION:

For the year ended March 31, 2018:	Millions of yen										
	Reportable segment							Others	Total	Adjustment and elimination	Consolidated
	Dry Bulk Business	Energy Transport Business	Container Ships	Car Carries, Ferries and Coastal RoRo Ships	Associated businesses	Sub Total	Product Transport Business				
1. Revenues:											
(1) Revenues from customers	¥272,956	¥262,245	¥749,714	¥261,171	¥ 90,095	¥1,636,184	¥ 16,208	¥1,652,393	¥ —	¥1,652,393	
(2) Inter-segment revenues	3	8,712	1,909	234	28,366	39,226	6,305	45,531	(45,531)	—	
Total revenues	¥272,960	¥270,957	¥751,624	¥261,406	¥118,462	¥1,675,410	¥ 22,514	¥1,697,925	¥ (45,531)	¥1,652,393	
Segment income (loss)	¥ 15,414	¥ 13,633	¥ (10,691)	¥ 4,363	¥ 12,657	¥ 35,378	¥ 2,601	¥ 37,980	¥ (6,506)	¥ 31,473	
Segment assets	¥341,638	¥866,429	¥384,612	¥263,983	¥422,008	¥2,278,672	¥347,336	¥2,626,008	¥(400,372)	¥2,225,636	
2. Others											
Depreciation and amortization	¥ 11,749	¥ 37,105	¥ 11,525	¥ 15,758	¥ 9,143	¥ 85,282	¥ 361	¥ 85,644	¥ 985	¥ 86,629	
Amortization of goodwill	—	22	0	—	159	182	—	182	—	182	
Interest income	1,152	4,565	1,126	116	44	7,005	2,928	9,933	(1,957)	7,976	
Interest expense	2,863	13,190	1,581	1,221	1,331	20,189	1,951	22,141	(1,727)	20,413	
Equity in earnings (losses) of affiliated companies, net	(4,507)	8,240	(6,808)	377	277	(2,421)	(1,007)	(3,428)	—	(3,428)	
Loss related to business restructuring	—	—	73,476	—	—	73,476	—	73,476	—	73,476	
Investment in affiliates	15,784	84,547	35,751	2,776	2,218	141,078	369	141,448	—	141,448	
Increase in vessels, property and equipment and intangible assets	5,912	87,430	21,735	26,773	5,967	147,819	763	148,582	612	149,195	

For the year ended March 31, 2018:	Thousands of U.S. dollars (Note 1)										
	Reportable segment							Others	Total	Adjustment and elimination	Consolidated
	Dry Bulk Business	Energy Transport Business	Container Ships	Car Carries, Ferries and Coastal RoRo Ships	Associated businesses	Sub Total	Product Transport Business				
1. Revenues:											
(1) Revenues from customers	\$2,569,239	\$2,468,420	\$7,056,795	\$2,458,311	\$ 848,032	\$15,400,828	\$ 152,560	\$15,553,397	\$ —	\$15,553,397	
(2) Inter-segment revenues	28	82,003	17,968	2,202	266,999	369,220	59,346	428,567	(428,567)	—	
Total revenues	\$2,569,277	\$2,550,423	\$7,074,774	\$2,460,523	\$1,115,041	\$15,770,048	\$ 211,916	\$15,981,974	\$ (428,567)	\$15,553,397	
Segment income (loss)	\$ 145,086	\$ 128,322	\$ (100,630)	\$ 41,067	\$ 119,135	\$ 333,000	\$ 24,482	\$ 357,492	\$ (61,238)	\$ 296,244	
Segment assets	\$3,215,719	\$8,155,393	\$3,620,218	\$2,484,779	\$3,972,213	\$21,448,343	\$3,269,352	\$24,717,695	\$(3,768,561)	\$20,949,134	
2. Others											
Depreciation and amortization	\$ 110,589	\$ 349,256	\$ 108,480	\$ 148,324	\$ 86,059	\$ 802,729	\$ 3,397	\$ 806,137	\$ 9,271	\$ 815,408	
Amortization of goodwill	—	207	0	—	1,496	1,713	—	1,713	—	1,713	
Interest income	10,843	42,968	10,598	1,091	414	65,935	27,560	93,495	(18,420)	75,075	
Interest expense	26,948	124,152	14,881	11,492	12,528	190,032	18,364	208,405	(16,255)	192,140	
Equity in earnings (losses) of affiliated companies, net	(42,422)	77,560	(64,081)	3,548	2,607	(22,788)	(9,478)	(32,266)	—	(32,266)	
Loss related to business restructuring	—	—	691,603	—	—	691,603	—	691,603	—	691,603	
Investment in affiliates	148,569	795,811	336,511	26,129	20,877	1,327,917	3,473	1,331,400	—	1,331,400	
Increase in vessels, property and equipment and intangible assets	55,647	822,948	204,583	252,004	56,165	1,391,368	7,181	1,398,550	5,760	1,404,320	

For the year ended March 31, 2017:	Millions of yen										
	Reportable segment									Adjustment and elimination	Consolidated
	Product Transport Business					Sub Total	Others	Total			
Dry Bulk Business	Energy Transport Business	Container Ships	Car Carries, Ferries and Coastal RoRo Ships	Associated businesses							
1. Revenues:											
(1) Revenues from customers	¥267,864	¥257,834	¥620,714	¥250,648	¥ 90,025	¥1,487,087	¥ 17,286	¥1,504,373	¥ —	¥1,504,373	
(2) Inter-segment revenues	14	8,378	1,816	181	27,518	37,909	6,658	44,568	(44,568)	—	
Total revenues	¥267,879	¥266,212	¥622,531	¥250,830	¥117,543	¥1,524,997	¥ 23,944	¥1,548,941	¥ (44,568)	¥1,504,373	
Segment income (loss)	¥ 11,977	¥ 26,499	¥ (32,864)	¥ 4,839	¥ 12,337	¥ 22,789	¥ 2,051	¥ 24,840	¥ 585	¥ 25,426	
Segment assets	¥371,411	¥845,984	¥388,029	¥265,906	¥415,399	¥2,286,731	¥371,328	¥2,658,060	¥(440,531)	¥2,217,528	
2. Others											
Depreciation and amortization	¥ 12,944	¥ 36,958	¥ 12,130	¥ 14,134	¥ 9,395	¥ 85,564	¥ 433	¥ 85,997	¥ 1,192	¥ 87,190	
Amortization of goodwill	—	21	0	—	164	185	0	186	—	186	
Interest income	846	3,295	895	36	43	5,117	2,119	7,236	(1,318)	5,918	
Interest expense	3,163	11,589	1,728	1,279	1,436	19,197	1,076	20,274	(1,237)	19,037	
Equity in earnings (losses) of affiliated companies, net	(4,550)	10,341	(4)	360	226	6,373	(829)	5,543	—	5,543	
Investment in affiliates	19,053	75,474	12,635	2,448	2,139	111,750	1,049	112,799	—	112,799	
Increase in vessels, property and equipment and intangible assets	13,709	63,617	28,307	30,011	4,937	140,584	253	140,838	955	141,793	

*1. "Others" primarily consists of business segments that are not included in reportable segments, such as the ship operations business, the ship management business, the ship chartering business, the financing business and the shipbuilding business.

*2. (1) Adjustment in Segment income (loss) of ¥6,506 million (\$61,238 thousand) include the following: ¥11,610 million (-\$109,280 thousand) of corporate profit which is not allocated to segments, ¥5,998 million (\$56,457 thousand) of adjustment for management accounting and ¥895 million (-\$8,424 thousand) of inter-segment transaction elimination.

(2) Adjustment in Segment assets of ¥400,372 million (-\$3,768,561 thousand) include the following: ¥12,378 million (\$116,509 thousand) of assets which are not allocated to segments and ¥412,750 million (-\$3,885,071 thousand) of inter-segment transaction elimination.

(3) Adjustment in Depreciation and amortization of ¥985 million (\$9,271 thousand) include the following: ¥985 million (\$9,271 thousand) of depreciation of assets which are not allocated to segments.

(4) Adjustment in Interest income of ¥1,957 million (-\$18,420 thousand) include the following: ¥3,263 million (\$30,713 thousand) of interest income which is not allocated to segments and ¥5,221 million (-\$49,143 thousand) of inter-segment transaction elimination.

(5) Adjustment in Interest expenses of ¥1,727 million (-\$16,255 thousand) include the following: ¥7,270 million (\$68,429 thousand) of interest expenses which are not allocated to segments, ¥3,773 million (-\$35,513 thousand) of adjustment for management accounting and ¥5,223 million (-\$49,162 thousand) of inter-segment transaction elimination.

(6) Adjustment in Increase of tangible / intangible fixed assets of ¥612 million (\$5,760 thousand) is increase of tangible / intangible fixed assets which are not allocated to segments.

*3. Management has decided not to allocate liabilities to segments. Therefore segment information regarding liabilities is not disclosed.

*4. Segment income (loss) corresponds to Ordinary income in the consolidated statements of operations.

*5. (1) Adjustment in Segment income (loss) of ¥585 million include the following: ¥4,578 million of corporate profit which is not allocated to segments, ¥6,312 million of adjustment for management accounting and ¥1,148 million of inter-segment transaction elimination.

(2) Adjustment in Segment assets of ¥440,531 million include the following: ¥14,715 million of assets which are not allocated to segments and ¥455,246 million of inter-segment transaction elimination.

(3) Adjustment in Depreciation and amortization of ¥1,192 million include the following: ¥1,192 million of depreciation of assets which are not allocated to segments.

(4) Adjustment in Interest income of ¥1,318 million include the following: ¥2,522 million of interest income which is not allocated to segments and ¥3,840 million of inter-segment transaction elimination.

(5) Adjustment in Interest expenses of ¥1,237 million include the following: ¥5,604 million of interest expenses which are not allocated to segments, ¥2,999 million of adjustment for management accounting and ¥3,842 million of inter-segment transaction elimination.

(6) Adjustment in Increase of tangible/intangible fixed assets of ¥955 million is increase of tangible/intangible fixed assets which are not allocated to segments.

*6. As a result of the reorganization implemented on April 1, 2017, we changed the business domains from "Bulkships," "Containerships," "Ferries and Coastal RoRo Ships" and "Associated Businesses" to "Dry Bulk Business," "Energy Transport Business," "Product Transport Business" and "Associated Businesses." The following figures for the fiscal year ended March 31, 2017 are restated by performing reclassification to conform to the business domains in the fiscal year ended March 31, 2018.

(B) RELATED INFORMATION:

(1) Information about geographic areas:

In our core marine transportation business, the areas which services are provided are not necessarily consistent with the location of our customers.

Therefore, revenues by geographic areas are revenues by geographic areas of each company's registration.

For the year ended March 31, 2018:	Millions of yen					
	Japan	North America	Europe	Asia	Others	Consolidated
Revenues	¥1,442,585	¥31,806	¥39,369	¥136,530	¥ 2,101	¥1,652,393
Vessels, property and equipment	¥ 984,611	¥45,382	¥ 2,955	¥219,260	¥38,720	¥1,290,929

For the year ended March 31, 2018:	Thousands of U.S. dollars (Note 1)					
	Japan	North America	Europe	Asia	Others	Consolidated
Revenues	\$13,578,548	\$299,378	\$370,566	\$1,285,109	\$ 19,775	\$15,553,397
Vessels, property and equipment	\$ 9,267,799	\$427,164	\$ 27,814	\$2,063,817	\$364,457	\$12,151,063

For the year ended March 31, 2017:	Millions of yen					
	Japan	North America	Europe	Asia	Others	Consolidated
Revenues	¥1,264,121	¥27,570	¥32,195	¥180,063	¥ 422	¥1,504,373
Vessels, property and equipment	¥1,020,253	¥43,966	¥ 2,975	¥220,888	¥35,581	¥1,323,665

(2) Information about impairment loss by reportable segment:

For the year ended March 31, 2017:	Millions of yen									
	Reportable segment								Adjustment and elimination	Consolidated
	Product Transport Business					Sub total	Others			
Dry Bulk Business	Energy Transport Business	Container Ships	Car Carries, Ferries and Coastal RoRo Ships	Associated Businesses						
Impairment loss	¥896	¥370	¥21,007	¥—	¥—	¥22,273	¥—	¥—	¥22,273	

Note: There was no material impairment loss for the year ended March 31, 2018.

(3) Information about goodwill by reportable segment:

For the year ended March 31, 2018:	Millions of yen									
	Reportable segment								Adjustment and elimination	Consolidated
	Product Transport Business					Sub total	Others			
Dry Bulk Business	Energy Transport Business	Container Ships	Car Carries, Ferries and Coastal RoRo Ships	Associated Businesses						
Goodwill at the end of current year	¥—	¥44	¥—	¥—	¥1,845	¥1,890	¥—	¥—	¥1,890	

For the year ended March 31, 2018:	Thousands of U.S. dollars (Note 1)									
	Reportable segment								Adjustment and elimination	Consolidated
	Product Transport Business					Sub total	Others			
Dry Bulk Business	Energy Transport Business	Container Ships	Car Carries, Ferries and Coastal RoRo Ships	Associated Businesses						
Goodwill at the end of current year	\$—	\$414	\$—	\$—	\$17,366	\$17,789	\$—	\$—	\$17,789	

For the year ended March 31, 2017:	Millions of yen									
	Reportable segment								Adjustment and elimination	Consolidated
	Dry Bulk Business	Energy Transport Business	Container Ships	Car Carries, Ferries and Coastal RoRo Ships	Associated Businesses	Sub total	Others			
Goodwill at the end of current year	¥—	¥66	¥0	¥—	¥2,073	¥2,140	¥—	¥—	¥2,140	

14. 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 28.8% for the years ended March 31, 2017 and 2018.

(A) Significant components of deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Deferred tax assets:			
Operating loss carried forward	¥ 76,701	¥ 70,898	\$ 721,959
Write-down of securities and other investments	1,038	757	9,770
Reserve for bonuses expenses	1,414	1,338	13,309
Impairment loss	16,423	20,873	154,583
Excess bad debt expenses	784	585	7,379
Net defined benefit liabilities	4,327	4,696	40,728
Retirement allowances for directors	497	486	4,678
Unrealized gain on sale of fixed assets	1,397	1,302	13,149
Provision for loss on business liquidation	—	784	—
Provision for contract loss	19,461	390	183,179
Provision for loss related to business restructuring	1,827	—	17,196
Unrealized gains on hedging derivatives	17,115	20,207	161,097
Transfer of charters from subsidiaries and affiliates	5,542	8,694	52,164
Deemed dividends	11,223	11,223	105,638
Others	8,876	7,162	83,546
Total deferred tax assets	166,632	149,402	1,568,448
Valuation allowance	(158,808)	(141,743)	(1,494,804)
Net deferred tax assets	7,823	7,659	73,635
Deferred tax liabilities:			
Reserve deductible for tax purposes when appropriated for deferred gain on real properties	(2,523)	(2,564)	(23,748)
Reserve deductible for tax purposes when appropriated for special depreciation	(837)	(722)	(7,878)
Unrealized holding gains on available-for-sale securities	(17,828)	(15,332)	(167,808)
Gain on securities contributed to employee retirement benefit trust	(2,713)	(2,713)	(25,536)
Revaluation reserve	(16,991)	(17,059)	(159,930)
Retained earnings of consolidated subsidiaries	(6,910)	(7,706)	(65,041)
Unrealized gains on hedging derivatives	(8,493)	(11,968)	(79,941)
Others	(2,793)	(2,648)	(26,289)
Total deferred tax liabilities	(59,092)	(60,716)	(556,212)
Net deferred tax liabilities	¥ (51,268)	¥ (53,056)	\$ (482,567)

(B) Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2017, was as follows:

	2017
Statutory tax rate	28.8%
Non-deductible expenses	1.5
Tax exempt revenues	(9.0)
Effect on tonnage tax system	(11.5)
Changes in valuation allowance	63.1
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(6.8)
Effect on difference of effective tax rate for consolidated subsidiaries	(10.0)
Others	(1.6)
Effective tax rate	54.5%

*1 Changes in valuation allowance of effect on net loss carried forward for foreign subsidiaries are included in Effect on difference of effective tax rate for consolidated subsidiaries.

*2 Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2018, is not stated as the Company recorded loss before income taxes.

15. 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)
	2018	2017	2018
Balance at beginning of the year	¥46,752	¥46,769	\$440,060
Service cost	1,776	1,768	16,716
Interest cost	409	407	3,849
Actuarial loss (gain)	(520)	(193)	(4,894)
Benefits paid	(2,057)	(1,998)	(19,361)
Balance at end of the year	¥46,361	¥46,752	\$436,379

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Balance at beginning of the year	¥58,956	¥56,777	\$554,932
Expected return on plan assets	1,179	1,135	11,097
Actuarial loss (gain)	2,265	2,773	21,319
Contributions paid by the employer	1,294	28	12,179
Benefits paid	(1,757)	(1,757)	(16,538)
Balance at end of the year	¥61,939	¥58,956	\$583,010

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Balance at beginning of the year	¥9,259	¥10,158	\$87,151
Retirement benefit costs	1,574	1,750	14,815
Benefits paid	(482)	(1,979)	(4,536)
Contributions paid by the employer	(676)	(682)	(6,362)
Increase in retirement benefit obligations from change of scope of consolidation	—	12	—
Balance at end of the year	¥9,676	¥ 9,259	\$91,076

(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)
	2018	2017	2018
Funded retirement benefit obligations	¥ 54,642	¥ 54,257	\$ 514,326
Plan assets	(72,310)	(68,910)	(680,628)
Unfunded retirement benefit obligations	11,766	11,707	110,749
Total net liability (asset) for retirement benefits at end of the year	(5,902)	(2,944)	(55,553)
Liability for retirement benefits	12,909	12,445	121,507
Asset for retirement benefits	(18,811)	(15,390)	(177,061)
Total net liability (asset) for retirement benefits at end of the year	¥ (5,902)	¥ (2,944)	\$ (55,553)

(5) RETIREMENT BENEFIT COSTS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Service cost	¥ 1,776	¥ 1,768	\$ 16,716
Interest cost	409	407	3,849
Expected return on plan assets	(1,179)	(1,135)	(11,097)
Net actuarial loss amortization	1,420	1,153	13,365
Retirement benefit costs calculated by the simplified method	1,574	1,750	14,815
Other	(79)	(23)	(743)
Total retirement benefit costs for the fiscal year	¥ 3,922	¥ 3,919	\$ 36,916

(6) REMEASUREMENTS OF DEFINED BENEFIT PLANS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Actuarial loss (gain)	¥4,206	¥4,118	\$39,589

(7) ACCUMULATED REMEASUREMENTS OF DEFINED BENEFIT PLANS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Unrecognized actuarial differences	¥8,276	¥4,070	\$77,899

(8) PLAN ASSETS

1. Plan assets comprise:

	2018	2017
Equity securities	33%	31%
Bonds	22	26
Jointly invested assets	38	35
Cash and cash equivalents	7	8
Other	0	0
Total	100%	100%
Retirement benefit trust	29%	27%

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, 2018 and 2017.

The rates of expected return on plan assets were mainly 2.0% for the years ended March 31, 2018 and 2017.

The expected rate of salary increase were mainly 0.5%–5.7% for the years ended March 31, 2018 and 2017.

(C) DEFINED CONTRIBUTION PLANS

The amounts of contributions to defined contribution plans were ¥689 million (\$6,489 thousand) at March 31, 2018 and ¥649 million at March 31, 2017.

16. STOCK OPTIONS

(A) EXPENSED AMOUNT

Expensed amounts on stock options for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Selling, general and administrative expenses	¥171	¥88	\$1,609
Total	¥171	¥88	\$1,609

(B) TERMS AND CONDITIONS

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

	2007	2008	2009	2010
Number of grantees	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 subsidiaries: 36	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
Number of stock options	Common stock 171,000	Common stock 176,000	Common stock 165,000	Common stock 171,000
Grant date	August 10, 2007	August 8, 2008	August 14, 2009	August 16, 2010
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, 2008 to June 21, 2017	From July 25, 2009 to June 24, 2018	From July 31, 2011 to June 22, 2019	From July 31, 2012 to June 21, 2020

	2011	2012	2013	2014
Number of grantees	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	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
Number of stock options	Common stock 173,000	Common stock 164,000	Common stock 160,000	Common stock 148,000
Grant date	August 9, 2011	August 13, 2012	August 16, 2013	August 18, 2014
Vesting conditions	No provisions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions	No provisions
Exercise period	From July 26, 2013 to June 22, 2021	From July 28, 2014 to June 21, 2022	From August 2, 2015 to June 20, 2023	From August 2, 2016 to June 23, 2024

	2015	2016	2017
Number of grantees	Directors: 8 Executive officers: 18 Employees: 37 Presidents of the Company's domestic consolidated subsidiaries: 32	Directors: 9 Executive officers: 18 Employees: 32 Presidents of the Company's domestic consolidated subsidiaries: 37	Directors: 9 Executive officers: 18 Employees: 33 Presidents of the Company's domestic consolidated subsidiaries: 35
Number of stock options	Common stock 155,000	Common stock 158,000	Common stock 15,700
Grant date	August 17, 2015	August 15, 2016	August 15, 2017
Vesting conditions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions
Exercise period	From August 1, 2017 to June 20, 2025	From August 1, 2018 to June 19, 2026	From August 1, 2019 to June 25, 2027

Note: The Company consolidated its common shares (ten shares into one shares), effective October 1, 2017. The figures have been converted to the number after the consolidation.

(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	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Balance at March 31, 2017	—	—	—	—	—	—	—	—	155,000	158,000	—
Options granted during the year	—	—	—	—	—	—	—	—	—	—	157,000
Options expired during the year	—	—	—	—	—	—	—	—	—	—	—
Options vested during the year	—	—	—	—	—	—	—	—	155,000	—	—
Balance at March 31, 2018	—	—	—	—	—	—	—	—	—	158,000	157,000

Vested stock options	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Balance at March 31, 2017	164,000	171,000	163,000	170,000	171,000	129,800	156,800	146,000	—	—	—
Options vested during the year	—	—	—	—	—	—	—	—	155,000	—	—
Options exercised during the year	—	—	—	—	—	13,000	—	2,000	800	—	—
Options expired during the year	164,000	—	—	—	—	—	—	2,000	—	—	—
Balance at March 31, 2018	—	171,000	163,000	170,000	171,000	116,800	156,800	142,000	154,200	—	—

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Exercise price	¥19,620	¥15,690	¥6,390	¥6,420	¥4,680	¥2,770	¥4,470	¥4,120	¥4,270	¥2,420	¥3,780
Average market price of share at exercise	—	—	—	—	—	¥3,642	—	¥3,100	¥3,100	—	—
Fair value per stock option at grant date	¥ 3,520	¥ 2,170	¥1,360	¥2,030	¥ 870	¥ 670	¥1,720	¥1,320	¥ 940	¥ 560	¥1,090

Note: The Company consolidated its common shares (ten shares into one shares), effective October 1, 2017. The figures have been converted to the number after the consolidation.

(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:

Stock price volatility	2017 40.39%
Expected remaining term of the option	5 years and 11 months
Expected dividends	¥2 per share
Risk-free interest rate	(0.05)%

17. COMPREHENSIVE INCOME

For the years ended March 31, 2018 and 2017, 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)
	2018	2017	2018
Unrealized holding gains on available-for-sale securities, net of tax:			
Increase (Decrease) during the year	¥ 9,035	¥ 13,932	\$ 85,043
Reclassification adjustments	(690)	(1,413)	(6,494)
Sub-total, before tax	8,344	12,518	78,539
Tax effect	(2,505)	(3,750)	(23,578)
	5,839	8,768	54,960
Unrealized gains on hedging derivatives, net of tax:			
Increase (Decrease) during the year	(5,972)	30,282	(56,212)
Reclassification adjustments	(19,954)	(19,502)	(187,820)
Adjustments of acquisition cost	(201)	166	(1,891)
Sub-total, before tax	(26,128)	10,945	(245,933)
Tax effect	3,725	2,124	35,062
	(22,402)	13,070	(210,862)
Foreign currency translation adjustments:			
Increase (Decrease) during the year	(767)	3,148	(7,219)
Reclassification adjustments	(5)	(684)	(47)
	(773)	2,463	(7,275)
Remeasurements of defined benefit plans:			
Increase (Decrease) during the year	2,785	2,965	26,214
Reclassification adjustments	1,420	1,153	13,365
Sub-total, before tax	4,206	4,118	39,589
Tax effect	(1,199)	(1,174)	(11,285)
	3,007	2,944	28,303
Share of other comprehensive income (loss) of associates accounted for using equity method:			
Decrease during the year	(1,997)	(1,521)	(18,797)
Reclassification adjustments	5,499	5,569	51,760
Adjustments of acquisition cost	—	52	—
	3,501	4,100	32,953
Total other comprehensive income (loss)	¥(10,828)	¥ 31,347	\$ (101,920)

18. RELATED PARTY TRANSACTIONS

For the year ended March 31, 2018

Category	Name of company	Address	Paid-in capital	Business description	Ratio of the Group's voting rights	Relation with related party	Millions of yen			Thousands of U.S. dollars (Note 1)		
							Description of transaction ⁽¹⁾	Transacted amount	Account	Amount	Transactions during the year ended March 31, 2018	Balance at March 31, 2018
Affiliated company	TARTARUGA MV29 B.V.	NETHERLANDS	US\$110,000	Energy Transport Business	20.60%	Interlocking directorate Debt guarantee	Debt guarantee	¥35,170	—	—	\$331,042	—
Affiliated company	Ocean Network Express Pte. Ltd.	SINGAPORE	US\$800,000,000	Container-ships	— ⁽²⁾	Interlocking directorate	Underwriting of capital increase	27,456	—	—	258,433	—

*1 Transaction conditions and policies to decide transaction conditions, etc.

(1) Transaction terms and the policy are decided based on the form of guarantees and other conditions.

(2) Underwriting of capital increase was carried out at US\$10,000 per share.

*2 The Company owns 31% of the voting rights of Ocean Network Express Holdings, Ltd. and the said company is a holding company that owns 100% of the common shares of Ocean Network Express Pte. Ltd.

For the year ended March 31, 2017

Category	Name of company	Address	Paid-in capital	Business description	Ratio of the Group's voting rights	Relation with related party	Millions of yen			
							Description of transaction (Note)	Transacted amount	Account	Amount
Affiliated company	TARTARUGA MV29 B.V.	NETHERLANDS	US\$110,000	Energy Transport Business	20.60%	Interlocking directorate Debt guarantee	Debt guarantee	¥29,235	—	—
Affiliated company	T.E.N. GHANA MV25 B.V.	NETHERLANDS	€100,000	Energy Transport Business	20.00%	Interlocking directorate Debt guarantee	Debt guarantee	28,741	—	—
Affiliated company	CARIOCA MV27 B.V.	NETHERLANDS	€100,000	Energy Transport Business	20.60%	Interlocking directorate Debt guarantee	Debt guarantee	28,706	—	—

Note: Transaction terms and the policy are decided based on the form of guarantees and other conditions.

Note about significant related parties

A significant affiliated company to be disclosed for the year ended March 31, 2018 was Ocean Network Express Pte. Ltd. and the summary of its financial statements was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017 ^(*)	2018
Total current assets	¥ 53,642	—	\$ 504,913
Total non-current assets	25,924	—	244,013
Total current liabilities	12,668	—	119,239
Total non-current liabilities	5,231	—	49,237
Total net assets	61,666	—	580,440
Shipping and other revenues	26	—	244
Income (Loss) before income taxes	(23,325)	—	(219,550)
Net income (loss)	(23,325)	—	(219,550)

*1 Ocean Network Express Pte. Ltd. was a newly established company. Therefore the Company recognized Ocean Network Express Pte. Ltd. as a significant affiliated company from the year ended March 31, 2018.

Independent Auditor's Report

19. SUBSEQUENT EVENT

(Additional investments in an equity-method affiliate of the Company)

As initially planned, the Company made an additional investment in its equity-method affiliate, Ocean Network Express Pte. Ltd. on April 2, 2018.

1. Overview of the equity-method affiliate of the Company

- (1) Company name: Ocean Network Express Pte. Ltd.
- (2) Amount of Capital: (before additional investments) US\$800 million
(after additional investments) US\$3,000 million
- (3) Shareholders/Contribution Ratio: Kawasaki Kisen Kaisha, Ltd. 31%
Nippon Yusen Kabushiki Kaisha 38%
The Company 31%
(including indirect investment)
There has been no change in contribution ratios between before and after the additional contribution of capital.

(4) Location: Singapore

(5) Date of Establishment: July 7, 2017

2. Details of additional investments

- (1) Amount of additional investments US\$2,200 million
- (2) Amount of Capital after additional investments US\$3,000 million
- (3) Execution date of additional investments April 2, 2018

20. OTHERS

(1) Litigation

On January 10, 2014, the Company filed a lawsuit against Mitsubishi Heavy Industries, Ltd. (hereinafter "MHI") at Tokyo District Court seeking compensation for damages in association with a maritime accident caused by a vessel constructed by MHI. In response, MHI filed a countersuit at Tokyo District Court seeking payment for reinforcement of the strength of the ship's hull of the same type of ship, and the legal dispute is continuing.

The Company recognizes the claims of the countersuit by MHI has no legitimate basis, and intends to assert the propriety of the Company in addition to upholding the claims for damages under the lawsuit.

(2) Others

Since 2012, the Group has been the subject of investigations by the antitrust authorities in the U.S. and other countries, on the suspicion of violations of each country's competition laws with respect to ocean transport services of completed build-up vehicles. In addition, a class-action lawsuit was filed in the U.S. and other countries against the Group, for damage claims, 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

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, 2018, 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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, 2018, 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, 2018 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 26, 2018
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.