

# Intermediate-Term Management Plan {"K" LINE Vision 2008}

"K" LINE Vision 2008, our current and latest intermediate-term management plan, was mapped out back in April 2004. We have regarded the 5-year period from then to Fiscal 2008 as a run-way for making large strides and remarkable leaps that will ensure the future of both our business foundation and infrastructure in and after 2009, the year of "K" LINE's 90th anniversary.

We have concisely defined the basic grounds for our existence and view the image of the "K" LINE Group in 2008 as a shipping entity with regard to our corporate principles, vision and numerical targets. In light of this definition and vision, we are fully committed to coming to grips with the three assignments, giving top priority to sustainable growth and establishment of a stable profitability structure. We have been continuing with the cost restructuring campaign at an all-group level and seeking every opportunity for profit-making in new business related to shipping and services incidental to shipping as well as developing fields in any area of the world's remarkably developing markets.

(Billions of yen)

	2003F	2004F Planned	2004F Actual	2005F Revised Targets	2008F Original Targets
Operating Revenues	¥724.7	¥760.0	¥828.4	¥900.0	¥870.0
Operating Income	70.5	76	108.1	105.0	88.0
Income before Income Taxes and Extraordinary Items	62.6	74	107.2	105.0	87.0
Net Income	33.2	46	59.9	69.0	55.0
Return on Equity (ROE)	32.7%	33%	39.6%	33.0%	17%
Liabilities bearing Interest	281.8	260	239.2	242.0	260.0
Shareholders' Equity	121	160	181.3	239.0	340.0
Equity Ratio	21.60%	27%	29.9%	35.0%	43%
Debt Equity Ratio (DER)	233%	162%	132%	101%	77%
Capital Investment	51.8	73	34.4	70	135
Fleet Scale (Number)	361	368	390	410	461

Note: As for prospects from Fiscal 2006 through Fiscal 2008, we will be reviewing achievements and the policy on dividend payment within Fiscal 2005.

## Preconditions

	2003F	2004F Planned	2004F Actual	2005F Revised Targets	2008F Original Targets
Exchange Rate (US\$)	¥114	¥108	¥107	¥105	¥110
Fuel-oil Price (US\$/MT)	\$170	\$170	\$192	\$230	\$170

### Fundamental assignments

- a. To ensure stable profitability structure through reinforcing business base
- b. To create high-level, refined and more matured culture of the group companies with materialization of dreams and upgrading of the "K" LINE Brand
- c. To strengthen corporate governance and response to risk management

## Intermediate-Term Management Plan {"K" LINE Vision 2008}: How it developed during Fiscal 2004

### Numerical Targets

Fiscal 2004, the 1st year of the Plan, was characterized by continual and expanding briskness taking place in global sea-borne cargo movement. Analytically, this could be attributed to growth in exports/imports from/to BRICs (Brazil, Russia, India and China) centering on China and other Asian countries as well as stabilized economies in the two regions of Europe and the U.S.A. Against this strong backdrop in the economic situation, freight markets could proceed very favorably and could bring a measurable amount of benefit to all business sectors of "K" LINE.

This also enabled us to absorb some minus factors such as higher charterage, fuel prices and rapid/steep appreciation of the Japanese Yen, etc. Consequently, we could attain a third consecutive record high in financial achievements in

Fiscal 2004.

In April 2004 when "K" LINE Vision 2008 was mapped out, we set numerical targets to be achieved. Business circumstances, however, changed so much for the better during Fiscal 2004, the initial year of the Plan, than was anticipated that we have reviewed the Plan reflecting various improved factors in terms of prospected achievements for Fiscal 2005, which are being described in the following table.

As for prospects from Fiscal 2006 through Fiscal 2008, we will be reviewing achievements and the policy on dividend payment within Fiscal 2005.

### Upgrade of Credit Ratings

In consideration of steady progress of the Plan and improvement of financial conditions, etc., Japan Credit Rating Agency, Ltd. (JCR), Rating and

Investment Information, Inc. (R&I) and Standard & Poor's (S&P) upgraded credit ratings of "K" LINE bonds as follows:

*JCR December 2004*

*Bond Credit Rating:*

*upgraded from A- to A (A single flat)*

*Domestic CP Credit Rating:*

*J-1 (unchanged)*

JCR cited two major reasons for the upgrading:

- 1) "K" LINE is expected to post a record-high operating performance for the second consecutive fiscal year ending March 2005, against the background of brisk business. Profit in Fiscal 2004 will exceed the profit targeted for the final year of the medium-term management plan "K" LINE Vision 2008.

	2004F Actual (Planned)	2005F Revised (Original Targets)	2008F Original Targets
Operating Revenues	828.4 (760.0)	900.0 (790.0)	870.0
<i>Review of Fiscal 2004</i>	Attainment of numerical target of Fiscal 2005, one year ahead		
Operating Income	108.1 (76.0)	105.0 (77.0)	88.0
<i>Review of Fiscal 2004</i>	Attainment of numerical target of the final year, in the initial year		
Income before Income Taxes and Extraordinary Items	107.2 (74.0)	105.0 (75.0)	87.0
<i>Review of Fiscal 2004</i>	Attainment of numerical target of the final year, in the initial year		
Net Income	59.9 (46.0)	69.0 (47.0)	55.0
<i>Review of Fiscal 2004</i>	Attainment of numerical target of the final year, in the initial year		
Return on Equity	40% (33%)	33% (26%)	17%
<i>Review of Fiscal 2004</i>	Attainment of numerical target of the final year due to enormous improvement in achievements		
Shareholders' Equity	181.3 (160.0)	239.0 (200.0)	340.0
<i>Review of Fiscal 2004</i>	Exceeding significantly the earlier planned target due to accumulation of retained earnings		
Equity Ratio	30% (30%)	35% (33%)	43%
<i>Review of Fiscal 2004</i>	Realization of target due to accumulation of shareholders' equity		
Liabilities bearing Interest	239.2 (260.0)	242.0 (240.0)	260.0
<i>Review of Fiscal 2004</i>	Progress was made as per schedule due to favorable cash flows from operating activities		
Debt Equity Ratio	132% (162%)	101% (118%)	77%
<i>Review of Fiscal 2004</i>	Realization of target due to accumulation of shareholders' equity and reductions on liabilities bearing interest		

(Billions of yen)

2) The Company's profitability is being stabilized and consequently its financial conditions are to improve.

**R&I February 2005**

**Credit Rating of**

**Senior Long-Term Debt:**

*upgraded from BBB+ to A- (A single minus)*

**Domestic CP Credit Rating:**

*upgraded from a-2 to a-1 (a-one)*

R&I cited two major reasons for the upgrading:

- 1) In Containership Services, one of "K" LINE's strongest sectors, risk of fall in freight rates seems to be less with a view to stabilized balance of supply and demand.
- 2) In sectors other than Containership Services, the Company has been successful in developing new customers and concluding long-term transport agreements, all of which will contribute to stabilization of profitability and improvement of financial conditions.

**S&P June 2005**

**Long-term corporate credit:**

*upgraded from BB+ (positive) to BBB- (stable)*

**Senior unsecured bond ratings:**

*upgraded from BBB- to BB+*

S&P cited three reasons for the upgrading

- 1) Improvement in its financial profile as a result of reduced debt and increased capital.
- 2) Substantial fluctuations in supply and demand are unlikely, given cargo volume is expected to continue expanding over the medium to long term backed by lasting improvement in the horizontal division of labor worldwide and economic growth in China.
- 3) The company is becoming more resilient because of highly stable earnings contributions from bulk carrier and car carrier services, in addition to improved cost structures.

We will continue redoubling our efforts for maintaining the "A" credit ratings and upgrading them further through improvement and reinforcement of financial conditions under the stable profitability structure in compliance with the mandates of "K" LINE Vision 2008.

**Plans for Further Investments in Vessels**

As you are aware, "K" LINE Vision 2008 sets out a plan for investing in vessels relevant to strengthening our fleet for the time period through Fiscal 2008. It

envisages the Company's fleet increasing from 361 vessels as of the end of March 2004 to 461 vessels as of the end of March 2009, final year of the Plan.

As to the number of vessels involved, newbuildings will total 181 ships: 28 containerships; 64 bulk carriers; 30 car carriers; 50 energy transport carriers; and 9 for short-sea and coastal shipping services. Out of the 181 total, 81 ships are for substitute or replacements and 100 purely additional.

As to investment amounts, ¥195 billion (27%) is allocated to containerships; ¥107.5 billion (15%) to car carriers; ¥191.7 billion (26%) to bulk carriers; ¥219 billion (30%) to energy transport carriers; and ¥16.5 billion (2%) to short-sea and coastal ships. The present plan for investment in vessels is characterized by (a) investments reinforcing cost competitiveness of Containership Services and (b) investments for positive expansion of business scale in other sectors, especially Energy Transportation and Tanker Services.

At present, with 1st fiscal year of the Plan having passed, a total of 150 ships (more than 80%) equivalent to about ¥650 billion has already been determined officially or unofficially.

**Fiscal 2004 Delivered**

Type of Vessels	Number	Remark
Containerships	5	JOL x 5
Cape-size Bulk Carriers	3	Owned by Affiliates x 2, Chartered x 1
Handy-size Bulk Carrier	1	Chartered
Car Carriers	3	Chartered x 3
Thermal Coal Carrier	1	JOL
VLCC	1	JOL
Aframax Tanker	2	Owned by Affiliate x 1, Chartered x 1
LNG Carriers	2	Jointly Owned x 2
Total	18	

**Fiscal 2005 Delivery**

Type of Vessels	Number	Remark
Containerships	4	Owned by Affiliates x 2, Chartered x 2
Car Carriers	8	Chartered x 8
Cape-size Bulk Carriers	9	Owned by Affiliates x 4, Chartered x 5
Panamax Bulk Carriers	4	Owned by Affiliates x 2, Chartered x 2
Handy-size Bulk Carriers	2	Owned by Affiliates x 2
Thermal Coal Carrier	1	Chartered
Aframax Tanker	1	Chartered
LNG Carriers	4	Jointly Owned x 4
Total	33	

JOL: Japanese Operating Lease