

# Financial Highlights

## Brief Report for 1st Half FY2006

10 November 2006

Kawasaki Kisen Kaisha, Ltd.

# Agenda

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- Financial Highlights for 1st Half FY2006
  - Financial Results for 1st Half FY2006
  - Key Points for 1st Half FY2006
  - Outline of Division-wise Results
- Prospects for FY2006
  - Prospects for FY2006
  - Business-wise Revenues Profits
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  - Outline of Division-wise Prospects
  - Cost Reduction
  - Fleet Upgrading Plan
  - Progress of “K”Line Vision 2008<sup>+</sup>

## A. Financial Results for 1st Half FY2006

# A-1. Financial Results for 1H FY2006

(Unit: billion yen)

		1H 06F Results (a)	1H 05F Results	YoY Comparison	YoY Comparison (%)	Prospects as of August '06 (b)	Comparison (a)-(b)
Operating Revenues	Consoli	<b>518.0</b>	454.8	63.3	13.9%	515.0	3.0
	Non	<b>410.0</b>	362.9	47.1	13.0%	405.0	5.0
Operating Income	Consoli	<b>23.5</b>	50.2	▲ 26.7	-53.2%	26.0	▲ 2.5
	Non	<b>8.9</b>	35.1	▲ 26.2	-74.6%	10.5	▲ 1.6
Ordinary Income	Consoli	<b>24.6</b>	49.6	▲ 25.0	-50.4%	26.5	▲ 1.9
	Non	<b>12.0</b>	35.9	▲ 23.9	-66.6%	13.0	▲ 1.0
Net Income	Consoli	<b>20.6</b>	34.9	▲ 14.3	-41.0%	21.0	▲ 0.4
	Non	<b>10.2</b>	22.8	▲ 12.6	-55.3%	8.5	1.7
Dividend	Non	<b>¥9/share</b>	¥9/share	-	-	¥9/share	-
Exchange Rate	average	<b>¥115</b>	¥109	¥6	-	¥115	-
Bunker Price	average	<b>\$337</b>	\$261	\$76	-	\$344	▲\$7

Fall 6 Yen/US\$ in exchange rate resulted by approx. +2.4 billion yen, YoY.

Increase of fuel oil prices \$76 per met. Tons resulted by approx. -10.3 billion yen, YoY.

## A-2. Key Points for 1H FY2006

[YoY comparison] Revenues increase +63.3 billion yen,

Profits decrease -25.0 billion yen

[Comparison with Prospects as of August '06]

Both revenues and profits decrease

Revenues increase factor: Business expansion in all divisions, weakened yen, etc.

Profits decrease factor:

- Freight rate fall in containership trades
  - Bulk market slack for 1Q
  - Cost increase inc. fuel oil price hike, etc.
- > Business expansion/rationalization

(05F 1H 49.6 billion yen : 06F 1H as of August 26.5 billion yen >>>24.6 billion yen)

Variation Factors	Comparison with as of August Prospects	Comparison with 05FY result (YoY)
Fluctuation in Exchange Rate	0.1	2.4
Bunker Oil Price	0.9	▲ 10.3
Market Volatility	0.1	▲ 19.3
Business Expansion, etc.	▲ 3.0	2.2
Total	▲ 1.9	▲ 25.0

# A-3. Outline of Division-wise Results 1H 2006F (for Container Business)

YoY comparison : Revenues increase / profits decrease.

(Operating revenues 243.9, Ordinary Income -3.2 billion yen),

Comparison with prospects as of August: Both revenues and profits slightly decrease.

- Business expansion:
    - All of 5 × 5500TEU type new buildings completed to deliver into Asia/U.S. Pacific North-West trade instead of 4000 TEU type. Strengthening in Asia/U.S. East Coast trade, and Asia/Middle East trade.
  - Total loaded cargo volume(1,460 thousand TEU) : Steady cargo movements(+10.3%(YoY)),  
Load factor for trunk lines to the U.S. & E.U. over 90%
  - Freight rates : (Declined YoY basis, Almost flat compared to projection)
    - Asia/North America trades : East Bound -5%, West Bound flat
    - Asia/Europe trades : West Bound -16%, East Bound -4%
    - Trans-Atlantic trades : West Bound +9%, East Bound +13%
    - Intra-Asia trades : South Bound -2%, North Bound -6%
    - ‘North-South’ trades : South Bound -14%, North Bound -6%
  - Cost increase and decrease
    - ‘Tran-ship’ cost increase by ship allocation change
    - Variation cost increase , inc. feeder, track
    - Booking expense for purchase of containers one-time
- Cost decrease by navigation with most economical speed, etc.

## A-4. Outline of Division-wise Results 1H 2006F (for Dry Bulk Carriers)

(Dry Bulk Carriers) Revenues increase / profits decrease (YoY)

- Business expansion with delivery of new ships (10 Vessels (1H))  
(Operating Tonnage : 84.5 mil. Ton >>> 92.5 mil. Ton, +9.4% (YoY))
- Market

Large-size Vessel : After market condition adjustment of 1Q, market stable

Medium-size vessel : Steady demand, rising trend without seasonal slack in summer

Small-sized vessel : Positive with strong demand for cement, steel products, etc.

	05F	06F		06F		Comparison for 1H	
	1H Results	1Q Results	2Q Results	1H Results	YoY	YoY(%)	
Cape size	\$37,333	\$30,000	\$54,333	\$42,167	\$4,833	12.9%	
Panamax	\$18,583	\$18,450	\$28,417	\$23,434	\$4,850	26.1%	
Handymax	\$17,200	\$22,100	\$26,300	\$24,200	\$7,000	40.7%	

Because market conditions from January to April 2006 are weaker than the last year profit for this, 1st half decreased YoY basis.

## A-5. Outline of Division-wise Results 1H 2006F (for Car Carriers)

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### (Car Carriers) Revenues increase / Profits increase (YoY)

- Loaded volume increase (including intra-Europe service) :
  - 1,308 thousand >>> 1,522 thousand units (YoY +16.4%)
  - Cargo movements rise for North America and Europe from Far East incl. Japan
  - 8 ships delivered in '05F have started to fully contribute to increase loading volume,
    - 2 new buildings have delivered in 1H
  - Expansion in intra-Europe service (+25%, YoY)
- Burden on profit improvement
  - Supply/demand situation continuously tight in spite of new buildings added into fleet
  - Bunker oil price hike, Vessel related cost increase (Dock related costs)



## A-6. Outline of Division-wise Results 1H 2006F (for Energy Transportation)

(Energy Transportation) Revenues increase / profits increase (YoY),

Comparison with prospects as of August: Both revenues and profits almost flat

- LNG Carrier : Stable operation in each project (total 31 vessels)
- Tanker : Stable operation of 10 AFRAMAX fleet and business expansion  
(Operating Tonnage : 14.68 => 15.60 mil. Ton +6.3%)

Supported by positive oil demand, market level is solid

	05F	06F			Comparison for 1H	
	1H Results	1Q Results	2Q Results	1H Results	YoY	YoY (%)
VLCC(Mideast/Japan) (WS)	78	80	130	105	27	34.0%
AFRAMAX (Southeast Asia/Japan) (WS)	138	145	215	180	42	30.1%
CLEAN 70,000 type (Mideast/Japan)(WS)	203	193	217	205	2	0.8%

## A-7. Outline of Division-wise Results 1H 2006F (for Other businesses)

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- Short Sea/Coastal Shipping : Revenues increase / Profits decrease (YoY)  
Secured stable cargo volume but affected by bunker price
- Logistics: Revenues & Profits increase (YoY)  
Steady cargo movements in both marine and air transportation  
Aiming at business expansion by way of setting up “K” Line Logistics, Ltd. which the former “K” Line Air Service, Ltd. and “K” Logistics Corp. merged into.

## B. Prospects for FY2006

# B-1. Prospects for FY2006

(Unit : billion yen)

		1H Results	2H Prospects	06FY Prospects (a)	Prospects as of August (b)	Comparison (a)-(b)
Operating Revenues	Consoli	<b>518.0</b>	532.0	<b>1,050.0</b>	1,020.0	30.0
	Non	<b>410.0</b>	420.0	<b>830.0</b>	810.0	20.0
Operating Income	Consoli	<b>23.5</b>	36.5	<b>60.0</b>	56.0	4.0
	Non	<b>8.9</b>	20.1	<b>29.0</b>	27.5	1.5
Ordinary Income	Consoli	<b>24.6</b>	36.4	<b>61.0</b>	57.0	4.0
	Non	<b>12.0</b>	20.0	<b>32.0</b>	31.0	1.0
Net Income	Consoli	<b>20.6</b>	30.4	<b>51.0</b>	42.0	9.0
	Non	<b>10.2</b>	15.8	<b>26.0</b>	21.0	5.0
Dividend	Non	<b>¥9</b>	¥9	<b>¥18</b>	¥18	-
Exchange Rate	Average	<b>¥115</b>	¥115	<b>¥115</b>	¥113	¥2
Bunker Price	Average	<b>\$337</b>	\$315	<b>\$326</b>	\$347	▲\$21

05FY		
05FY Results	Comparison	Comparison (%)
940.8	109.2	11.6%
742.6	87.4	11.8%
88.0	▲ 28.0	-31.8%
56.7	▲ 27.7	-48.9%
88.6	▲ 27.6	-31.2%
57.8	▲ 25.8	-44.6%
62.4	▲ 11.4	-18.3%
38.8	▲ 12.8	-33.0%
¥18	¥0	-
¥113	¥2	1.7%
\$286	\$40	14.1%

Fall/Rise 1Yen/US\$ in exchange rate affects Ordinary Income by approx. +/-0.3 billion yen, per this 2nd half year  
 Decrease/Increase of fuel oil prices at \$10 per met. Tons does by approx. +/-1.4 billion yen, per this 2nd half year

## B-2. Business-wise Operating Revenues/Ordinary Profit Loss

(Unit: billion yen)

		06FY			05FY			Yearly Comparison
		1H	2H	Yearly	1H	2H	Yearly	
Container Business	Operating Revenues	243.9	256.1	500.0	222.8	228.6	451.4	48.6
	Ordinary Profit & Loss	▲ 3.2	▲ 1.6	▲ 4.8	20.6	9.9	30.5	▲ 35.3
Others	Operating Revenues	274.1	275.9	550.0	231.9	257.5	489.4	60.6
	Ordinary Profit & Loss	27.8	38.0	65.8	29.0	29.1	58.1	7.7
Total	Operating Revenues	518.0	532.0	1,050.0	454.8	486.1	940.8	109.2
	Ordinary Profit & Loss	24.6	36.4	61.0	49.6	38.9	88.6	▲ 27.6

Container business includes agency and terminal business.

## B-3. Key Points for FY2006 Prospects

Revenues increase/Profit decrease (YoY), +4.0 bln. yen from estimation as of August,  
 (1st Half: -1.9, 2nd Half +5.9 bln. yen)

- Pre-conditions for 2nd half: Fuel oil price \$350 >>> \$315, Exchange rate ¥110 >>> ¥115
- Containership: Stable cargo movements, Freight rate level is almost as expected
- PCTC : Stable cargo movements
- Dry bulkers: Favorable market trend supported by strong cargo demand
- Tankers : Market level improves due to firm oil demand

Negative factors in containership business < favorable markets for dry bulkers and tankers,  
 fuel oil price down, weakened yen

(05F 88.6 billion yen, 06F as of August 57.0 billion yen >>> 06F 61.0 billion yen)

Variation Factors	as of August	Comparison with 05FY result (YoY)
Fluctuation in Exchange Rate	1.6	1.6
Bunker Oil Price	6.7	10.8
Market Volatility	6.1	17.1
Business Expansion	10.4	1.3
<b>Total</b>	<b>4.0</b>	<b>27.6</b>

# B-4. Outline of Division-wise 2006F Prospects

**(Container Business ) Revenues increase / profits decrease (YoY),**

**3.5 bln. yen down from estimation as of August (1H -1.4 bln. yen, 2H -2.1 bln. yen)**

- Stable cargo volume, Despite efforts to cost reduction including reorganization of service routes, total costs up due to inland cargo ratio increase etc.

**(Bulk Carriers) Revenues increase / profits increase (YoY),**

**Revenues increase / profits increase (from estimation as of August)**

**Dry Bulkers :** Stable market situation, business expansion (new building 22 ships in 2H) => Profit increase

	Premises as of August	Current Market	2H Prospects	Yearly Prospects
Cape Size	\$33,000	\$69,000	\$55,000	\$48,583
Panamax	\$18,000	\$36,000	\$30,000	\$26,717
Handymax	\$16,000	\$29,000	\$26,500	\$25,350

**Car carriers:** 6 new ships in 2H business expansion & service enhancement => Stable profitability, profit increase

**(Energy Transportation)**

**LNG Carriers :** With 2 new ships fleet total to 32 vessels

**Tanker :** Freight market stable , 4 new ships => Stable profitability

	Premises as of August	Current Market	2H Prospects	Yearly Prospects
VLCC(Mideast/Japan)(WS)	80	69	100	103
AFRAMAX(Southeast Asia/Japan)(WS)	150	133	200	190
CLEAN 70,000 type (Mideast/Japan)(WS)	185	120	210	208

## B-5. Cost Reduction

(Unit: billion yen)

Cost saving items	06FY		
	1H	2H	Yearly
Operating Cost reduction	3.4	4.7	8.1
Container equipment related cost reduction	0.7	0.4	1.0
Vessel cost reduction	0.2	0.5	0.7
Group Companies sales-related cost	-0.1	0.4	0.3
Administrative cost reduction	0.1	0.1	0.2
<b>Total</b>	<b>4.3</b>	<b>6.0</b>	<b>10.3</b>
(Division wise result/prosect)			
Container Business (Inc. overseas subsidiaries)	4.2	5.0	9.2
Other divisions (Inc. overseas subsidiaries)	0.1	0.9	1.1



# B-6. Progress of “K”LINE Vision2008<sup>+</sup> Fleet Upgrading Plan

No. of vessels to be received in FY2005,  
and 2006

“K”Line Vision2008<sup>+</sup> = Fleet upgrading  
plan to establish fleet of 500 ships =

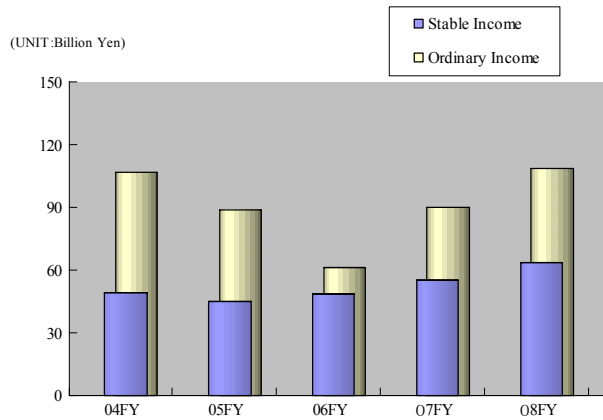
In FY2006, 47 new ships to be delivered.

	FY2005	FY2006		
		1H	2H	Total
<b>Containership</b>	<b>5</b>			<b>6</b>
4000TEU	3			
5500TEU	2	3		3
8000TEU			3	3
<b>Dry Bulkers</b>	<b>19</b>			<b>22</b>
Capesize	8	3	6	9
Panamax	3	4		4
Handymax	5	2	2	4
SmallHandy	1		2	2
Chip/Pulp			1	1
Corona	2	1	1	2
<b>PCTC</b>	<b>8</b>			<b>8</b>
2000 cars	2		2	2
3800 cars			2	2
4300 cars	1	1	1	2
5000 cars	3	1		1
6000 cars	2		1	1
<b>LNG</b>	<b>4</b>			<b>2</b>
Snøhvit	1	1		1
Rasgas II	3		1	1
<b>Tanker</b>	<b>1</b>			<b>4</b>
VLCC			1	1
AFRAMAX	1		1	1
LR II			2	2
Coastal	1	4	1	5
<b>Total</b>	<b>38</b>	<b>20</b>	<b>27</b>	<b>47</b>

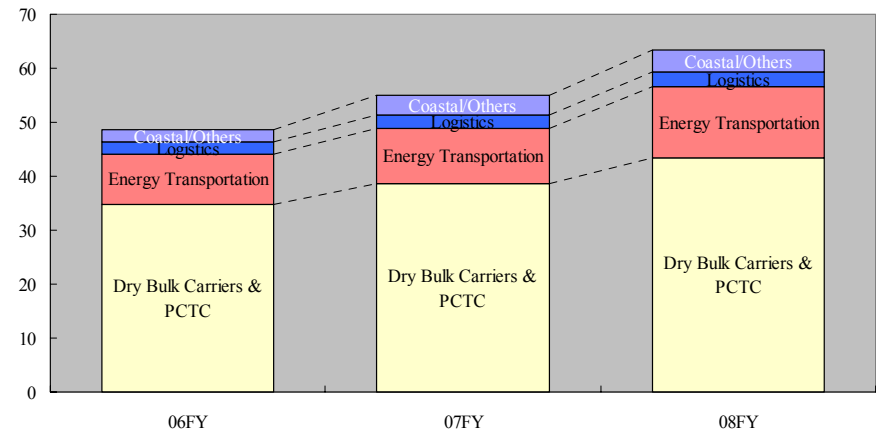
# B-7. Progress of “K”LINE Vision2008<sup>+</sup>

## Progress to Stabilize Profits

### Accumulation of stable profits



### Division-wise stable profits



Premises for FY2007/8: Exchange Rate ¥110/\$, Fuel Oil Price \$300/KT

'Stable Profits' mean profits supposed to be almost guaranteed with contracts, or to be highly stabilized on other grounds.

Those from car carrier business, energy transportation division except for some spot contracts, and dedicated ship contracts and middle-term COA in dry bulk business are counted.

### New buildings to contribute to stable profits

	06FY	07FY	08FY
Bulker	22	10	13
PCTC	8	4	5
LNG	2	3	13
Tanker	4	4	3
Coastal	5	2	1
<b>Total</b>	<b>41</b>	<b>23</b>	<b>35</b>

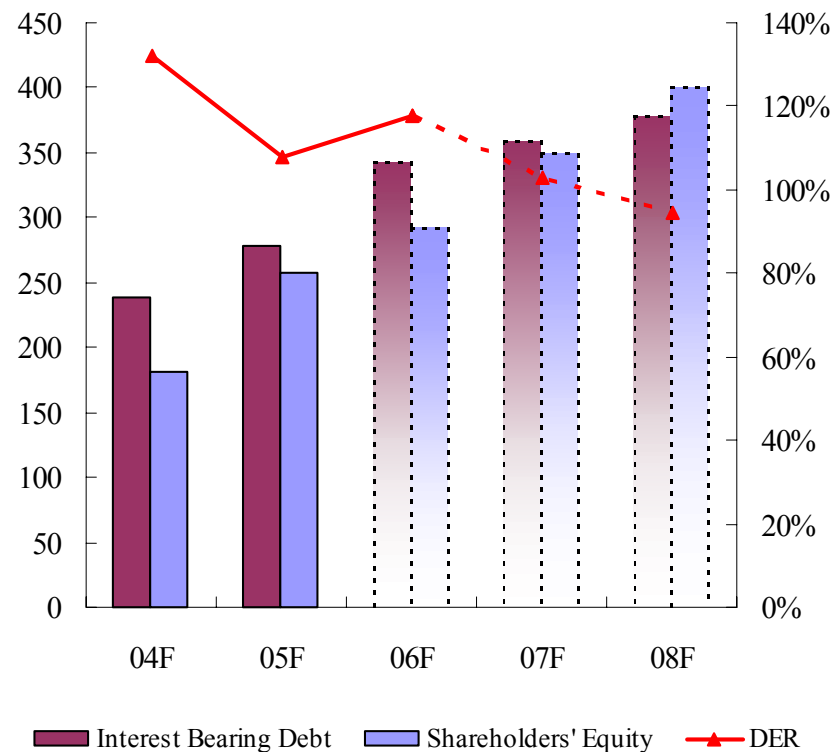
# B-8. Progress of “K”LINE Vision2008<sup>+</sup>

## Major Financial Indices

(Unit: billion yen)

	05FY Results	06F 1H Results	06FY Prospects
Cash Flows from Operating Activities	72.3	20.8	63.0
(Depreciation)	(28.6)	(15.2)	(31.2)
Cash flows from Investment Activities	△ 83.3	△ 60.2	△ 100.0
Free Cash Flows	△ 11.0	△ 39.5	△ 37.0
Investment Amount	83.3	60.2	100.0
Vessels	102.5	73.6	150.0
Others	12.5	6.9	30.0
Asset disposition	△ 31.7	△ 20.3	△ 80.0
Shareholders' Equity *	257.8	285.5	292.0
Interest Bearing Liabilities	278.2	321.8	327.0
ROE	28%	15%	18%
ROA	13%	6%	7%
Equity Ratio	34%	35%	33%
DER	1.08	1.13	1.12

(Unit: billion yen)



\* Shareholders' Equity = Net assets except for minority interests in consolidated subsidiaries.