

Financial Highlights

Brief Report for 1st Half FY2004

12 November 2004

Kawasaki Kisen Kaisha, Ltd.

A. Financial Highlights for 1H FY2004

(unit: billion yen)

		04F 1H (Result) (a)	03F 1H (Result) (b)	Comparison (a)-(b)	Comparison (Ratio)	04F 1H (Prospect) * (c)	04F 1H (Comparison) (a)-(c)
Operating Revenues	Consolidated	413.6	362.1	51.5	+14%	397.0	+166 (4.2%)
	Non-consolidated	332.0	295.0	37.0	+13%	320.0	+120 (3.8%)
Operating Income	Consolidated	60.3	34.3	26.0	+76%	56.0	+43 (7.7%)
	Non-consolidated	48.3	28.2	20.1	+71%	45.0	+33 (7.3%)
Ordinary Income **	Consolidated	61.9	30.4	31.5	+104%	56.0	+59 (10.5%)
	Non-consolidated	50.0	25.1	24.9	+99%	45.0	+50 (11.1%)
Net Income	Consolidated	33.5	15.9	17.6	+111%	33.0	+5 (1.5%)
	Non-consolidated	27.2	12.5	14.7	+118%	28.0	-8 (-2.9%)
Dividend	Non-consolidated	¥7.5	¥5	+¥2.5	+50%	¥7.5	-
Exchange Rate	Average	¥109.43	¥119.24	+¥9.81	+8.2%	¥109	+¥0.43
Bunker Price	Average	\$184.24	\$171.06	+\$13.18	+7.7%	\$180	+\$4.24

*1H FY2004 prospect is as of 5 August 2004, the date of announcement of 1Q 2004F financial close.

** Ordinary income is income before income taxes and extra-ordinary items.

Extraordinary losses due to the early application of impairment accounting for fixed assets:

4.7 billion yen (Non-consolidated), 7 billion yen (Consolidated)

B. Business Environment for 1H 2004F

(Global Economy)

- U.S.: Increased capital investment and consumer spending,
Upward trend of the economy
- E.U.: Continued steady economic growth due to economic vitalization
within the enlarged EU
- Other Asia: Increased exports, Expanding domestic consumption,
Growing capital investment, Economic expansion
- Japan: Improvement in corporate profits, Increased capital investment,
Steady economic growth

(Our Business)

- Freight restoration in container services realized on South-North service routes
- Bulker and Tanker market positive
- PCTC increase in volume for U.S., Europe and Australia

C-1. Trend of Division-wise Results 1H 2004F (for Container Business)

Container: Sharp increase in profit compared with 1H 2003F

(Loaded cargo volume: 1.13 (1H'03F) >>>1.25 mil. TEU(1H'04F)(+10%)

- Positive cargo volume in Asia-North America/Europe trades mainly from China
- Large increases in number of containers carried in every trade (Asia-North America +4%, Asia-Europe +9%, inter-Asia +19%)
- Freight restoration realized in Asia-Europe/North America trades
- Start of the Asia-Aegean Sea trade, New service between the U.S. East Coast and the East Coast of South America, Increased frequency of services between Asia and Southeast Australia trade
- Ship-charter rate, Fuel-Oil Price staying higher, Rise in value of Japanese Yen against U.S. Dollar

C-2. Trend of Division-wise Results 1H FY2004 (for Bulker & Car Carrier Service)

Bulker & Car Carrier : Sharp increase in profit compared with 1H 2003F

- Bulker : Enjoyed favorable market freight level
High market freight rate at every type of bulkers after a short period of downward adjustment

(Operating Tonnage : 68.90 (1H'03F)

>>> 69.61 mil.tons (1H'04F) (Slight increase))

- Car Carrier : Increased volume for U.S.A. from Far East (+53%)
Positive cargo movement in Far East-Europe/Australia and intermediary trade
Operational cost reduction with efficient ship deployment

(Units carried: 774 (1H'03F)

>>>997 thousand units (1H'04F) (+29% Large increase))

C-3. Trend of Division-wise Results 1H FY2004 (for Energy Transportation)

Energy Transportation : Sharp increase in profit compared with 1H 2003F

- LNG Carrier : Stable progress in each project

(Operating Tonnage : 2.76 (1H'03F) >>> 2.60 mil.tons (1H'04F) (-6%))

- Thermal Coal Carrier : Newly built vessels >>> Large increase in cargo volume

Improvement of market freight rates >>> Elimination of the loss due to hike in charterage

(Operating Tonnage : 7.46 (1H'03F) >>> 7.60 mil.tons (1H'04F) (+2%))

- Tanker : Stable positive market

(Operating Tonnage : 12.65 (1H'03F) >>> 14.31 mil. (1H'04F) (+13%))

C-4. Trend of Division-wise Results 1H FY2004 (for Consolidated Subsidiaries)

- Short Sea/Coastal Shipping: Unchanged operating revenues and income
- Air Carriage: Increased operating revenues and income
- Freight Forwarding/Harbor Transportation: Increased operating revenues and income with increased container volume

D. Outline of Upward/Downward Profit Factors for 1H FY2004

(unit: billion yen)

Ordinary Income* : 1H FY2004 prospect**56.0, 1H FY2003 result 30.4

>>> 1H FY2004 result 61.9 billion yen

comparison with expected 1H FY2004**/1H FY2003

• Fluctuation in exchange rate	+1.0	-5.0
• Increase of Bunker Price	-0.5	-1.5
• Market improvement(Container, Bulker, Tanker)	+2.0	+21.7
• Business Expansion	+1.0	+7.6
• <u>Cost Reduction, others</u>	+2.4	+8.7
Total	+5.9	+31.5

* Ordinary Income is income before income taxes and extra-ordinary items

** 1H FY2004 prospect is as of 5 August 2004 upon announcement of 1Q 2004FY financial close

E. Prospects for FY2004

(unit: billion yen)

		04F 1H Results	04F 3Q Prospects	04F 4Q Prospects	04F 2H Prospects	04F Revised Prospects (a)	04F Previous Prospects (b)**	Comparison (a)-(b)	FY2003 Results
Operating Revenues	Consoli	413.6	202.0	204.4	406.4	820.0	790.0	3.8%	724.7
	Non	332.0	158.0	160.0	318.0	650.0	620.0	4.8%	585.0
Operating Income	Consoli	60.3	24.0	21.7	45.7	106.0	98.0	8.2%	70.5
	Non	48.3	18.0	16.7	34.7	83.0	75.0	10.7%	55.1
Ordinary Income*	Consoli	61.9	22.0	21.1	43.1	105.0	97.0	8.2%	62.6
	Non	50.0	17.0	17.0	34.0	84.0	75.0	12.0%	49.7
Net Income	Consoli	33.5	14.0	10.5	24.5	58.0	57.0	1.8%	33.2
	Non	27.2	11.0	8.8	19.8	47.0	46.0	2.2%	24.5
Dividend	Non	¥7.5	-	¥7.5	¥7.5	¥15	+¥15	-	¥10
Exchange Rate	Average	¥109	¥105	¥105	¥105	¥107	¥109	+¥2	¥113.97
Bunker Price	Average	\$184	\$200	\$200	\$200	\$192	\$185	+\$7	\$170.00

Assumption for 2H 2004F: Exchange rate ¥105/1\$, Bunker price \$200/Kton

* Ordinary income is income before income taxes and extra-ordinary items.

** FY2004 previous prospects is as of 5 August 2004, the date of announcement of 1Q 2004F financial close.

F-1. Trend of division-wise prospects for 2H FY2004 (for Container Business)

<Container Business>

Business Environment: Increased imports from Asia (China etc.) due to shifting production (Ex. Import restrictions on apparel under the WTO scheduled to be lifted), Economic vitalization within the enlarged EU, Hikes in fuel prices, Cost increase due to labor shortage in the West Coast of North America

Business Strategy: Deployment of a fleet of 8 newly built 4,000TEU containerships (Expanding capacity of PNW, AW)

Number of containers carried: Steady cargo volume in Asia-North America/Europe despite slack season, Growth in homeward-bound trades from North America and Europe to Asia due to export boom

Average freight: Possibility of slight downward adjustment in Asia-Europe trade because of seasonal decrease in demand, Continuing freight restoration on South-North service routes

>>Exceeding 2H FY2003 results, although falling below 1H FY2004 results due to the slack period

F-2. Trend of division-wise prospects for 2H FY2004 (for Bulker & Car Carrier Service)

<Bulker>

Business Environment: Stable market VS Steep rise in charterage

Increase in demand for materials >>> Lack of the capacity due to demand increase

Prolonged congestion at ports >>> Decline in the shipping operation rate

Charter vessels >>> Loss due to hike in charterage (Decline in profit)

Increased vessels under long-term contracts compared with 1H FY2004, Profit reduced

>>Same level as 2H FY2004 previous prospects, much better than 2H FY2003 results

<Car carrier>

Business Environment: Continuing growth in car sales in the world, Trend of lack of the capacity due to demand increase

F-3. Trend of division-wise prospects for 2H FY2004 (for Energy Transportation)

<Energy Transport Service>

- LNG Carrier : Improvement in 2H due to change of dockage and demurrage settlement
 - Start of new project contributory
- Thermal Coal Carrier : Stable demands from customers in Japan
 - Concerns about heavy congestion in loading ports in Australia
- Tanker : Market freight level staying very high
 - >> AFRAMAX & LR2 type tankers affected favorably
 - >>> Stable in general

G. Outline of Upward/Downward Factors Affecting Profit Prospects for 2004F

Ordinary Income* : 2004F prospect 97.0, 2003F result 62.6**
>>> 105.0 billion yen

(unit: billion yen)

comparison with 2004F prospect/2003F result

• Fluctuation in exchange rate	-1.0	-7.0
• Bunker Oil Price	-0.8	-4.8
• Market volatility(Container, Bulker, Tanker)	+7.5	+35.6
• Business Expansion	+0.5	+7.5
• Cost Reduction, others	+1.8	+11.1
Total	+8.0	+42.4

Rise/Fall 1 Yen/US\$ in exchange rate affects the level of Ordinary Income* by -/+ 1 billion Yen annually.
Increase/Decrease of fuel oil prices at \$10 per metric tons is around 2.3 billion Yen annually.

*Ordinary income is income before income taxes and extra-ordinary items.

**2004F prospect is as of 5 August 2004 upon announcement of 1Q 2004FY financial close.

H. Cost Curtailing Campaign

Target for FY2004 : 5 Billion Yen

(unit:billion yen)

Cost saving items	1H'04	2H'04	Total
Vessel cost reduction	0.5	0.4	0.9
Various cargo charges reduction	1.3	0.8	2.1
Service rationalization	0.3	0.8	1.1
Subsidiary company's various cost reduction	0.4	0.8	1.2
Administrative cost reduction	0.2	0.2	0.4
Container equipment related cost reduction	0.8	0.5	1.3
Total	3.5	3.5	7.0
(Division wise result/prospect)			
Container Business (Inc. overseas subsidiaries)	2.4	2.0	4.4
Others (Inc. overseas subsidiaries)	0.7	0.7	1.4
Subsidiaries in Japan	0.4	0.8	1.2

I. Investment and Cash Flows

(unit: billion yen)

	F Y 2 0 0 3 R e s u l t s	FY2004 1H R e s u l t s	F Y 2 0 0 4 R e v i s e d P r o s p e c t s	F Y 2 0 0 4 P r e v i o u s P r o s p e c t s
Investment*	53.8	43.5	80.5	69.4
Vessel	42.6	30.0	54.7	56.1
Others	11.2	13.5	26.9	13.3
(Non-consolidated)	11.8	5.0	8.5	4.2
Operating Cash Flow	78.6	45.4	84.0	83.0
(Depreciation)	(25.6)	(12.2)	(24.5)	(24.5)
Investment Cash Flow	-51.8	-21.5	-55.0	-52.0
Free Cash Flow	26.8	23.9	29.0	31.0

* Investment for Vessel is amounted based on completion day of each vessel, including those even financed in operating lease scheme eventually. Therefore, total of Investment is not equal to Investment Cash Flow.

J. Updated Status of “K”Line Vision2008

Fundamental Assignments

<Fundamental Assignments>

- **Ensuring a stable profitability structure through reinforcing business base**
- **Creation of a high-level, refined and more matured culture of the group companies with materialization of dreams and upgrading of the “K” LINE Brand**
- **Strengthening corporate governance and response to risk management**

J-1. <Fundamental Assignments-1>

Ensuring a stable profitability structure through reinforcing business base

Positive efforts for addressing strategic domain/areas

(Iron Ore Carrier)

Won new long-term contracts with Jiangsu Shagang Group Co., Ltd (China), Nippon Steel Corporation (Japan), and ILVA S.p.A. (Italy).

(LNG Carrier)

10 year contracts with J&S Cheniere for newly built LNG Carriers

(Container Business)

Setting up own agency in the Czech Republic, and the Philippines

Basic agreement with port authority to enhance Container Terminal in Tacoma

(Logistic Business)

Our 3rd Distribution Center opens in Thailand

New logistics company at Waigaoqiao Free Trade Zone in the City of Shanghai starts, and 6th logistic representative office opens in China at Hangzhou. 17

J-2. <Fundamental Assignments-1>

Ensuring a stable profitability structure through reinforcing business base

Efforts for spreading and rooting a cost curtailment campaign to the K"LINE Group as a gene of corporate

Cost curtailment achievement is expected 7 Billion Yen, over the target for this year 5 Billion Yen

Development of transport technology and upgrading navigation technology

Working for SOLAS treaty and ISPS codes

Strengthening of financial constitution and establishment of a stable dividend payment structure

FY2004 Revised Prospects exceeded considerably FY2004 Previous Prospects. (See the next page)

J-3. Vision2008 Achievement Goals (Management Indices)

(unit: billion yen)

	FY2003 Results	FY2004 1H Results	FY2004 Revised Prospects	FY2004 Previous Prospects	FY2008 Final Target
Operating Revenue	724.7	413.6	820.0	790.0	870.0
Ordinary Income*	62.6	61.9	105.0	97.0	87.0
Shareholders' Equity	121.0	155.2	175.0	172.0	340.0
Interest Bearing L i a b i l i t i e s	281.8	261.6	260.0	260.0	260.0
R O E	32.7%	48.6%	39%	39%	17%
R O A	11.6%	21.6%	19%	18%	11%
Equity Ratio	21.6%	26.3%	29%	30%	43%
Cash Flows From Operating Activities	78.6	45.4	84.0	83.0	55.0
Free Cash Flows	26.8	23.9	29.0	31.0	10.0
Debt Equity Ratio	233%	169%	149%	151%	77%

*Ordinary income is income before income taxes and extra-ordinary items.

J-4. <Fundamental Assignments-2> Creation of a high-level, refined and more matured culture, and upgrading of the “K” LINE Brand

<Fundamental Assignments-3> Reinforcement of corporate governance and response to risk management

Creation of a high-level, refined and more matured culture, and upgrading of the “K” LINE Brand

Reform in personnel systems commenced

Efforts to upgrade “K”Line Brand expanded to subsidiaries

Reinforcement of corporate governance and response to risk management

Ship Safety Promotion Committee, Disaster Response Committee, Management Risk Committee, and Compliance Committee start in full swing

The Internal Audit Office to self-check internal control system launched

Issued and distributed the “Compliance Manual”