

# Financial Highlights Brief Report for FY2006

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Kawasaki Kisen Kaisha, Ltd.

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# A. Financial Highlights for FY2006

# A-1. Financial Results for FY2006

(Unit: billion yen)

		FY2006	FY2005	YoY Comparison	YoY Comparison (%)	Prospects	Comparison
Operating Revenues	Cons.	<b>1,085.5</b>	<b>940.8</b>	144.7	15.4%	<b>1,080.0</b>	5.5
	Non.	<b>857.3</b>	<b>742.6</b>	114.7	15.4%	<b>840.0</b>	17.3
Operating Income	Cons.	<b>61.4</b>	<b>88.0</b>	▲ 26.6	-30.3%	<b>61.0</b>	0.4
	Non.	<b>28.1</b>	<b>56.7</b>	▲ 28.6	-50.4%	<b>28.0</b>	0.1
Ordinary Income	Cons.	<b>63.9</b>	<b>88.6</b>	▲ 24.7	-27.9%	<b>63.0</b>	0.9
	Non.	<b>31.9</b>	<b>57.8</b>	▲ 25.9	-44.7%	<b>30.0</b>	1.9
Net Income	Cons.	<b>51.5</b>	<b>62.4</b>	▲ 10.9	-17.4%	<b>51.5</b>	-
	Non.	<b>25.3</b>	<b>38.8</b>	▲ 13.6	-34.9%	<b>24.0</b>	1.3
Dividend	Cons.	<b>¥18</b>	<b>¥18</b>	-	-	<b>¥18</b>	-
Exchange Rate	Average	<b>¥117</b>	<b>¥113</b>	¥4	-	<b>¥116</b>	¥1
Bunker Price	Average	<b>\$319</b>	<b>\$286</b>	\$33	-	<b>\$317</b>	-

Fall 4 Yen/US\$ in exchange rate resulted in approx. +2.5 billion yen, YoY

Increase of fuel oil price \$33 per met. Ton resulted in approx. -8.8 billion yen, YoY

# A-2. Key Points for FY2006

<YoY comparison> Revenues increase +144.7 billion yen,  
 Profits decrease ▲24.7 billion yen

Revenue increase factors:

- Business expansion in all divisions  
     47 new buildings delivered
- Steep rise in bulk market
- Weakened yen, etc

Profit decrease factors:

- Freight rate declined in containership trades
- Cost increase inc. fuel oil price hike, etc

➤ Business expansion /Cost Reduction

<Comparison with forecast>

Revenues increase(+5.5 billion yen)

Profits increase(0.9 billion yen)

(05F 88.6 bil. yen: 06F prospects 63.0 bil. yen=>63.9 bil. Yen)

Variation Factors	Comparison with 05F result(YoY)	Comparison with prospects as of Feb'06
Fluctuation in Exchange Rate	2.5	0.5
Bunker Oil Price	▲ 8.8	▲ 0.6
Market Volatility	▲ 17.9	1.0
Business Expansion	39.8	0.7
Cost Increase or Decrease	▲ 36.4	▲ 0.8
Others	▲ 3.9	0.1
Total	▲ 24.7	0.9

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

<YoY comparison> Operating Revenues 503.5 billion yen  
(Revenues increase +52.1 billion yen)  
Gain and Loss ▲7.8 billion yen  
(Profits decrease ▲38.3 billion yen)

Revenue increase factors:

- Business expansion :
  - Three 8,000TEU-type ships, the largest in our fleet, delivered
  - Start-up new service from South East Asia, India, to U.S. East Coast via Suez Canal
  - Enhancement in Pacific North-West service, etc.
- Total loaded cargo volume(2,938 thousand TEU):
  - Steady cargo movements( +10.9%(YoY))
  - Load factor for trunk lines to the U.S. & E.U. over 90%

Profit decrease factors:

Freight rates (YoY)	Asia- N.America	Asia- Europe	Trans- Atlantic	Intra-Asia	'North- South'
Dominant	▲5%	▲9%	+2%	▲2%	▲4%
Return	+3%	▲7%	+10%	▲6%	▲6%

- Cost increase and decrease
    - Transshipment cost increase by ship allocation change
    - Variation cost increase, inc. feeder, track, etc.
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- Cost decrease by navigation with most economical speed, etc.

# A-3. Outline of Division-wise Results for FY 2006 ( for Dry Bulk Carriers)

<YoY Comparison> Revenues increase/ Profits increase

Revenue increase factors:

- Business expansion: Delivery of 22 new ships  
(Operating Tonnage: 168.8 mil. Ton => 187.4 mil. Ton, +11.0%(YoY))

Profit increase factors:

- Market for large-size: After market level adjustment in 1Q '06F, rising trend
- Market for mid-size: Demand steady, rising trend
- Market for small-size: Rising trend with demand increase for cement, steel products, etc.

Dry Bulk Market (Pacific Round)	2005F			2006F			YoY Comparison
	1H	2H	Yearly Results	1H	2H	Yearly Results	
170 type	\$37,333	\$38,333	\$37,833	\$42,167	\$66,833	\$54,500	44%
74 type	\$18,583	\$17,900	\$18,242	\$23,434	\$34,708	\$29,071	59%
53 type	\$17,200	\$16,800	\$17,000	\$24,200	\$30,592	\$27,396	61%

## A-3. Outline of Division-wise Results for FY2006 (for Car Carriers)

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<YoY comparison> Revenues increase/ Profits increase

Revenue increase factors:

- Business expansion: Delivery of 8 new ships
- Total units carried (inc. intra-Europe): 2710 => 3120 thousand(+15%, YoY)
  - From Japan/Far East to North America and Europe, cargo movement increase
  - Increase cargo to Middle East and Africa

Profit increase factors:

- Loaded volume growth with reinforcement in transport capacity
- Proper allotment of ships depending on cargo movement for each trade



## A-3. Outline of Division-wise Results for FY2006 (for Energy Transportation)

<YoY comparison> Revenues increase/ Profits flat

Revenue increase factors:

- LNG Carrier: Stable operation in each project (total 31 vessels)
- Tanker: One new VLCC delivered
- Stable operation of AFRAMAX fleet  
(Operating Tonnage: 30.98 mil. Ton => 32.40 mil. Ton, +4.6%(YoY))

Profit flat factors:

- Weakened Tanker market

Tanker Market(WS)	2005F			2006F			YoY Comparison
	1H	2H	Yearly Results	1H	2H	Yearly Results	
VLCC(Gulf/Jpn)	78	138	108	105	67	86	-21%
AFRAMAX(South Asia/Japan)	138	245	192	180	148	164	-14%
Clean 70,000 type(Gulf/Jpn)	203	256	230	205	149	177	-23%

## A-3. Outline of Division-wise Results for FY2006 (for Other business)

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- Short sea/Coastal Shipping

<YoY comparison> Revenues increase/ Profits decrease

- Strong demand and business expansion
- Bunker price hike

- Logistics

<YoY comparison> Revenues increase/ Profits increase

- Steady cargo movements in both marine and air transportation
- Intermodal transport service by marine, land and air

## B. Prospects for FY2007

# B-1. Prospects for FY2007H

(Unit: billion yen)

		<b>07FY 1H Prospects</b>	<b>07FY Prospects</b>	06FY Prospects	Yearly Comparison	Yearly Comparison (%)
Operating Revenues	Cons.	<b>600.0</b>	<b>1,200.0</b>	1,085.5	114.5	10.5%
	Non.	<b>470.0</b>	<b>940.0</b>	857.3	82.7	9.6%
Operating Income	Cons.	<b>47.0</b>	<b>94.0</b>	61.4	32.6	53.2%
	Non.	<b>31.0</b>	<b>60.0</b>	28.1	31.9	113.5%
Ordinary Income	Cons.	<b>48.0</b>	<b>95.0</b>	63.9	31.1	48.7%
	Non.	<b>33.0</b>	<b>63.0</b>	31.9	31.1	97.2%
Net Income	Cons.	<b>32.0</b>	<b>63.0</b>	51.5	11.5	22.3%
	Non.	<b>20.0</b>	<b>39.0</b>	25.3	13.8	54.5%
Dividend	Non.	<b>¥10</b>	<b>¥20</b>	¥18	¥2	-
Exchange Rate	Average	<b>¥115</b>	<b>¥115</b>	¥117	¥-2	-
Bunker Price	Average	<b>\$340</b>	<b>\$340</b>	\$319	\$21	-

- Prospected annual dividend for FY2007 : 20 yen per share, Dividend ratio : 20%
- Fall/Rise 1Yen/US\$ in exchange rate affects Ordinary Income by approx. +/-1.2 billion yen, per year
- Decrease/Increase of fuel oil prices at \$10 per met. Tons does by approx. +/-2.6 billion yen, per year

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

(Unit: billion yen)

Business segment		07FY			06FY			Yearly Comparison
		1H	2H	Yearly	1H	2H	Yearly	
Container Business	Operating Revenues	290.0	280.0	570.0	243.9	259.6	503.5	66.5
	Ordinary Profit/Loss	7.0	1.5	8.5	▲ 3.2	▲ 4.6	▲ 7.8	16.3
Others	Operating Revenues	310.0	320.0	630.0	274.1	307.9	582.0	48.0
	Ordinary Profit/Loss	41.0	45.5	86.5	27.8	43.9	71.7	14.8
Total	Operating Revenues	600.0	600.0	1,200.0	518.0	567.5	1,085.5	114.5
	Ordinary Profit/Loss	48.0	47.0	95.0	24.6	39.3	63.9	31.1

Container Business includes agency and terminal business

# B-3. Key Points for FY 2007 Prospects

**<YoY comparison> Revenues increase (+114.5), Profits increase (+31.1) (billion yen)**

Pre-conditions: Fuel oil price \$319 => \$340/KT, Exchange rate ¥117 => ¥115/U.S. dollar

Market improvement, Business expansion

**<Comparison with prospects> Revenues increase (+150.0), Profits increase (+5.0)**

Pre-conditions: Fuel oil price \$300 => \$340/KT, Exchange rate ¥110 => ¥115/U.S. dollar

Market improvement

(06F results 63.9 bln. yen, 07F prev. prospects 90.0 => 95.0)

Variation Factors (basis Ordinary Income)	Comparison with '06FY Results	Comparison with '07FY prospects as of Mar '06
Fluctuation in Exchange Rate	▲ 2.4	6.0
Bunker Oil Price	▲ 5.5	▲ 10.4
Market Volatility	26.9	19.6
Business Expansion	25.5	▲ 3.5
Cost Increase/Decrease	▲ 13.9	▲ 6.7
Others	0.5	0.0
<b>Total</b>	<b>31.1</b>	<b>5.0</b>

Fall/Rise 1Yen/US\$ in exchange rate affects Ordinary Income by approx. +/-1.2 billion yen, per year

Decrease/Increase of fuel oil prices at \$10 per met. Tons does by approx. +/-2.6 billion yen, per year

## B-4. Division-wise Trends for FY 2007 Prospects <Containership>

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<Container Business> (YoY) Operating Revenues 570.0 (66.5 bln. yen increase),  
Ordinary Income 8.5 (16.3 bln. yen increase )

-Cargo trend, S/D situation: Firm cargo volume, Tight S/D situation continues

-Expected our loading volume : 3.21 mln. TEU per year (over 9% increase, YoY)

-Freight rate : Freight rate, which started to fall late 2005, bottoming out in 2006, then expected to restore in 2007

-Enhancement a/o reorganization in service routes :

Start-up Europe-East Coast South America, and Asia- East Coast South America trades,  
Sizing up vessels for Asia-South Africa routes,  
Start-up direct feeder service between North Asia and S.E. Asia

Freight restoration, Business expansion,  
Loading volume up



Cost increase, Fuel oil price hike

=> **Profits jump**

## B-4. Division-wise Trends for FY 2007 Prospects <Other Divisions>

### <Car Carriers> Profits increase

Steady cargo volume due to strong demand for Japanese/Korean cars, and overseas production developments,  
 Business expansion and service enhancement with 4 new vessels to be delivered

### <Dry Bulk Carriers> Profits increase

Growth in transport needs mainly for the BRIC countries incl. China: Market level staying higher  
 New buildings for our fleet ('06FY: 22, '07FY: 10): Business expansion

Dry Bulk Market (Pacific Round)	Prospects for 2007FY			
	latest market	1H	2H	Yearly
170 type (Cape)	US\$105,000	\$60,000	\$60,000	\$60,000
74type(Panamax)	US\$46,000	\$30,000	\$30,000	\$30,000
53type(Handy max)	US\$38,500	\$27,000	\$27,000	\$27,000

### <Energy Transportation> Stable

LNG Carriers: together with 3 new building, fleet expanded to 34 vessels in total

Oil Tankers: Stable cargo flow mainly for China, U.S.A, and India, Solid market but repeated seasonal volatility with moods to emphasize quality of ships, double-hull type, 3 new buildings

Tanker Market (WS)	2007FY			
	latest market	1H	2H	Yearly
VLCC (A.Gulf/Japan)	55	70	70	70
AFRA Max (South Asia/Japan)	155	140	140	140
Clean 70,000type(AGulf/Japan)	135	150	150	150



## C. Progress of “K”LINE Vision2008<sup>+</sup>

## C-1. “K” LINE Vision2008<sup>+</sup>

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### (Tasks and Efforts)

#### < Sustainable growth and establishment of a stable profitability structure >

- Measures to support systematic expansion of business scale
  - Implementation of fleet upgrading plan (to be mentioned later)
  - Establishment of ship operation administration structure supporting safety in navigation (Setting up of "K" Line Maritime Academy)
  - Entry into heavy lift shipping business
  - Achievements in logistic business (Merger of "K" Line Air Service, Ltd. and "K" Logistics Corp., etc)
- Response to changes in business environments
  - Reform of cost structure (to be mentioned later)
  - Environmental measures (Navigating in reduced speed, Introduction of "Hybrid" Transfer Crane at Container Terminals, etc.)
  - Risk management (adoption of policy towards large-scale purchases of our shares)

## C-2. Progress of “K” LINE Vision2008<sup>+</sup>

### <Cost Reduction>

(Unit: billion yen)

Cost Saving items	F2006	F2007
Operating cost reduction	8.6	5.2
Container equipment related cost reduction	1.4	1.0
Vessel cost reduction	0.6	1.3
Administrative cost reduction	0.2	0.6
<b>Total</b>	<b>10.8</b>	<b>8.1</b>
(Division wise results/prospects)		
Container Business (Inc. overseas subsidiaries)	10.0	6.0
Other divisions (Inc. overseas subsidiaries)	0.8	2.1

# C-3. Progress of “K” LINE Vision 2008<sup>+</sup>

## Fleet Upgrading Plan

No. of vessels to be received FY07-09

In the “K” Line Vision 2008<sup>+</sup>, we will achieve fleet of 500 ships at the end of FY2008

-FY2006 : 47 new ships delivery

(as of Mar 2007, total 453 ships in our fleet)

-FY2007 : 25 new ships delivery

	2006F	2007F	2008F	2009F
	Total Delivery	To be delivered	To be delivered	To be delivered
<b>Containership</b>	<b>6</b>	<b>3</b>	<b>6</b>	<b>14</b>
1620TEU	0	2	4	3
2400TEU	0	0	1	2
4000TEU	0	0	0	4
5500TEU	3	0	0	0
6400TEU	0	0	0	2
8000TEU	3	1	1	3
<b>Dry Bulkers</b>	<b>22</b>	<b>10</b>	<b>13</b>	<b>16</b>
Capesize	9	2	4	6
Panamax	4	4	0	5
Handymax	4	2	2	1
SmallHandy	2	1	3	2
Chip/Pulp	1	0	3	0
Corona	2	1	1	2
<b>PCTC</b>	<b>8</b>	<b>4</b>	<b>5</b>	<b>9</b>
2000 Cars	2	0	0	0
3800 Cars	2	1	0	1
4300 Cars	2	0	0	2
5000 Cars	1	0	0	3
6000 Cars	1	3	5	3
<b>LNG</b>	<b>2</b>	<b>3</b>	<b>13</b>	<b>1</b>
<b>TANKER</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>4</b>
VLCC	1	1	0	3
AFRAMAX	1	0	1	1
LR II	2	0	0	0
LPG	0	2	1	0
<b>Coastal</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>0</b>
<b>Total</b>	<b>47</b>	<b>25</b>	<b>41</b>	<b>44</b>

# C-4. Progress of “K” LINE Vision2008+

## <Major Financial Indices>

<billion yen>

	2006F Results	2007F Prospects	2008F Original Plan*
Operating Revenues	1,085.5	1,200.0	1,100.0
Ordinary Income	63.9	95.0	110.0
Net Income	51.5	63.0	70.0
Cash Flows from Operating Activities	66.3	108.5	—
(Depreciation)	(32.3)	(34.5)	—
Cash flows from Investment Activities	△102.9	△130.0	—
Vessels	△187.0	△115.0	—
Others	△38.0	△47.0	—
Asset Disposal	122.1	32.0	—
Shareholders' Equity **	344.5	400.0	400.0
Interest Bearing Liabilities	326.2	360.0	350.0
ROE	17%	18%	19%
ROA	8%	11%	11%
Equity Ratio	38%	40%	39%
DER	0.95	0.90	0.88

