FINANCIAL HIGHLIGHTS

Brief report of the three months ended June 30, 2019

Kawasaki Kisen Kaisha, Ltd.

[Two Year Summary]

	Three months ended June 30, 2019	Three months ended June 30, 2018	Three months ended June 30, 2019
Consolidated			
Operating revenues (Millions of yen / Thousands of U.S. dollars)	¥ 183,312	¥ 212,177	$ 1,700,642
Operating income (loss) (Millions of yen / Thousands of U.S. dollars)	4,052	(13,370)	37,598
Profit (loss) attributable to owners of the parent (Millions of yen / Thousands of U.S. dollars)	7,779	(19,272)	72,175
Profit (loss) attributable to owners of the parent per share (Yen / U.S. dollars)			
Basic	83.41	(206.63)	0.77
Diluted	-	-	-

	Three months ended June 30, 2019	Year ended March 31, 2019	Three months ended June 30, 2019
Total assets (Millions of yen / Thousands of U.S. dollars)	¥ 931,816	¥ 951,261	$ 8,644,739
Net assets (Millions of yen / Thousands of U.S. dollars)	208,777	181,233	1,936,893

The U.S. dollar amounts are converted from the yen amounts at ¥107.79 = U.S.$1.00, the approximate rate of exchange prevailing on June 30, 2019.

1. Qualitative Information and Financial Statement

(1) Qualitative Information about the Consolidated Operating Result

(Billion Yen; rounded to the nearest 100 million yen)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Change	% Change
Operating revenues	**183.3**	212.2	(28.9)	(13.6%)
Operating income (loss)	**4.1**	(13.4)	17.4	–
Ordinary income (loss)	**2.7**	(17.1)	19.8	–
Profit (loss) attributable to owners of the parent	**7.8**	(19.3)	27.1	–

Exchange Rate (¥/US$) (3-month average)	**¥110.73**	¥108.10	¥2.63	2.4%
Fuel Oil Price (US$/MT) (3-month average)	**US$443**	US$414	US$29	7.0%

During the first three months of the fiscal year ending March 31, 2020 (from April 1, 2019 to June 30, 2019; hereinafter "the three-month period"), operating revenues for the three-month period was ¥183.312 billion (down ¥28.865 billion year-on-year), operating income was ¥4.052 billion (compared to operating loss of ¥13.370 billion in the same period of the previous fiscal year), and ordinary income was ¥2.713 billion (compared to ordinary loss of ¥17.095 billion in the same period of the previous fiscal year). Profit attributable to owners of the parent was ¥7.779 billion (compared to loss attributable to owners of the parent of ¥19.272 billion in the same period of the previous fiscal year).

Performance per segment was as follows.

(Billion Yen; rounded to the nearest 100 million yen)

		Three months ended June 30, 2019	Three months ended June 30, 2018	Change	% Change
Dry bulk	Operating revenues	**55.5**	64.6	(9.1)	(14.2%)
	Segment (loss) profit	**(0.4)**	0.4	(0.7)	–
Energy resource transport	Operating revenues	**20.5**	20.2	0.3	1.7%
	Segment profit	**1.8**	0.3	1.5	525.8%
Product logistics	Operating revenues	**98.7**	119.1	(20.4)	(17.1%)
	Segment profit (loss)	**1.8**	(16.8)	18.6	–
Other	Operating revenues	**8.6**	8.3	0.3	3.7%
	Segment profit	**0.3**	0.4	(0.1)	(33.0%)
Adjustments and eliminations	Segment loss	**(0.9)**	(1.4)	0.5	–
Total	Operating revenues	**183.3**	212.2	(28.9)	(13.6%)
	Segment profit (loss)	**2.7**	(17.1)	19.8	–

(i) Dry Bulk Segment

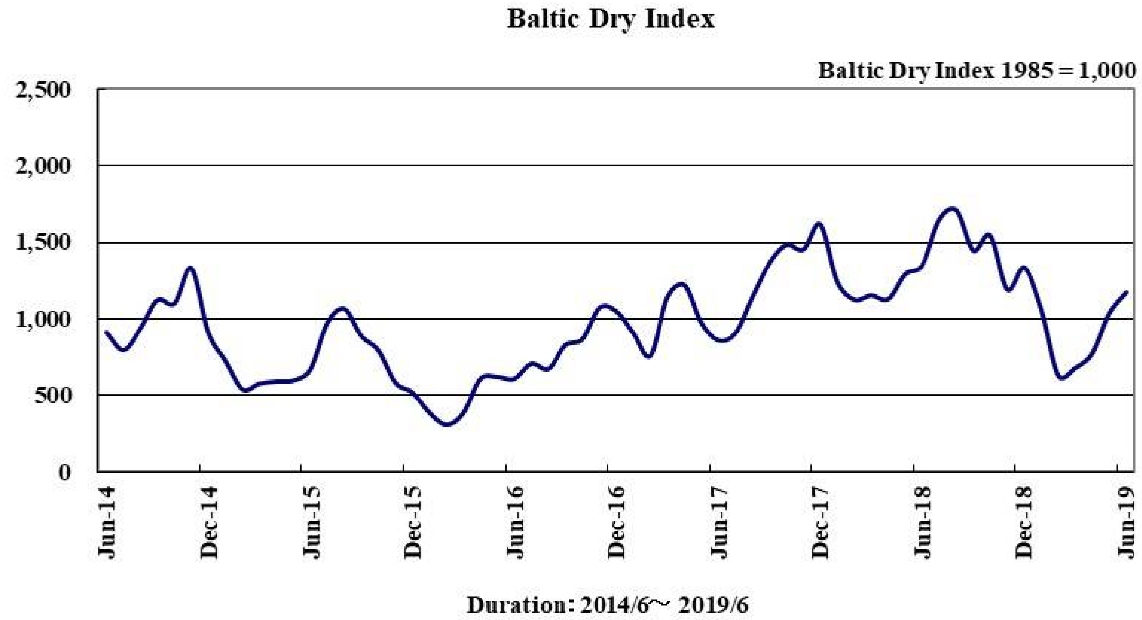
Dry Bulk Business

In the Cape-size sector, market rates weakened at the beginning of the current fiscal year due to the lingering effects of a dam break accident occurred in Brazil in the previous fiscal year. However, as crude steel production in China became active later, leading to a rise in iron ore prices, chartering market generally recovered following the resumption of iron ore exports from Brazil in the end of June 2019.

In the medium and small size vessel sector, shipments of grains from South America, which came into full swing due to the effects of the trade disputes between the United States and China, drove a rise in market rates for Atlantic trades. As this caused a concentration of vessels in the Atlantic region, market rates temporarily eased amid a growing sense that there was a vessel supply surplus. However, the market stayed stable due to the effects of a rapid recovery in market rates in the Cape-size sector.

The overall vessel supply-demand balance did not recover in earnest despite progress in the scrapping of vessels, mainly Cape-size ones, as the new medium and small size vessels were launched one after another.

Under these circumstances, the Group strove to reduce operation costs and improve vessel operation efficiency; however, as a result by having the effects of hovered market rates in the beginning of the current fiscal year, the overall Dry Bulk Segment recorded a year-on-year decline and a loss was recorded.



(ii) Energy Resource Transport Segment

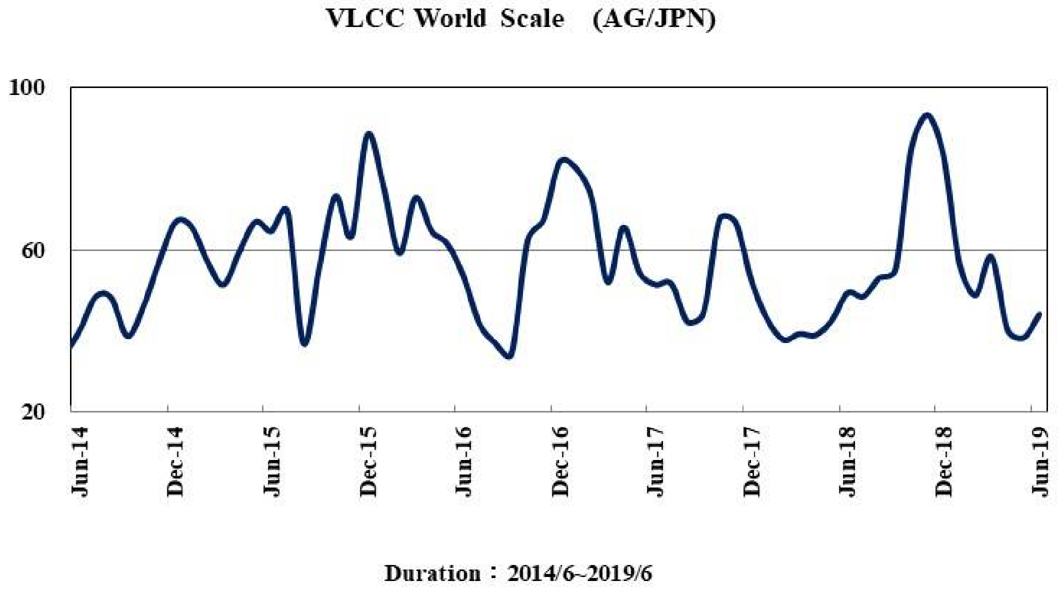
Energy Transportation Business (LNG Carrier, Tanker and Thermal Coal Carrier Business)

Concerning LNG carriers, large crude oil tankers (VLCCs), LPG carriers and thermal coal carriers, the business stayed firm for mid- and long-term charter contracts. The overall energy transportation business recorded year-on-year increase in both revenue and profit.

Offshore Energy E&P Support Business and Liquefied Gas New Business

The drillship business and the FPSO (Floating Production, Storage and Offloading system) business performed steadily and contributed to securing stable long-term earnings. However, in the offshore support business, the market remained weak as the vessel supply-demand balance did not improve. The overall offshore energy E&P support business and liquefied gas new business recorded a year-on-year increase in revenue, and a loss was narrowed.

As a result, the overall Energy Resource Transport Segment recorded year-on-year increase in both revenue and profit.



(iii) Product Logistics Segment

Car Carrier Business

The volume of finished vehicles shipped by the Group decreased year-on-year because of sales decline in some regions, including South America, even stable cargo movements were maintained in the trades from the Far East, and the implementation of the rationalization and realignment for some unprofitable trades, including other-than-Japan trades.

However, because of an improvement in vessel operation efficiency due to the rationalization of trades, a recovery in freight rates and optimization of the fleet allocation, the overall car carrier business recorded a year-on-year increase in revenue and turned a profit.

Logistics Business

In the domestic logistics sector, business performance remained steady, mainly in towage, sea-land integrated transportation, and warehousing business. Although there was previously some space vacancy with respect to warehousing business, the operation ratio was improved from the current fiscal year. Regarding domestic terminal business, progress was made in effective use of assets through an alliance with Kamigumi Co., Ltd. (hereinafter referred to as “Kamigumi”), which started from April 2019.

In the international logistics sector, cargo movements related to semiconductors within inter Asia in the air cargo transportation business declined compared with the same period of the previous fiscal year, when demand for such cargo movements was robust. In addition, air cargos and cargos related to e-commerce shipped from China to the United States decreased due to the effects of the trade disputes between the two countries. As a result, the overall logistics business recorded a year-on-year decline both in revenue and profit.

Short Sea and Coastal Business

In the short sea business, the transportation volume, mainly of biomass fuel, remained steady, and market rates improved. In the coastal business, the number of voyages remained flat compared with the same period of the previous fiscal year due to factors such as an increase of passengers and vehicles during the long holiday period and number of truck transportation decrease. As a result, the short sea and coastal business overall recorded a year-on-year increase in revenue but a loss was recorded.

Containership Business

The operating revenues of OCEAN NETWORK EXPRESS PTE. LTD. (hereinafter referred to as "ONE"), the Company's equity-method affiliate, achieved freight rates increase of long-term contracts in North America dominant services, had steady liftings in North America dominant services, and carried out tasks to improve its profitability, even there was a decrease in freight rates in Europe dominant services compared to the ones in the beginning of the current fiscal year. As a result, ONE overall recorded a year-on-year increase in revenue and turned a profit. Regarding the containership business remaining in the Company, a year-on-year decrease in revenue was recorded, but a loss was narrowed due to a decrease of the temporary losses occurred by the business transfer.

As a result, the overall Product Logistics Segment recorded a year-on-year decline in revenue but turned a profit.

(iv) Other Segment

Other Segment includes but not limited to the Group's ship management service, travel agency service, and real estate and administration service. The segment recorded a year-on-year increase in revenue but a profit was narrowed.

(2) Qualitative Information on the Consolidated Financial Situation

Consolidated assets at the end of the consolidated 1st Quarter of this fiscal year were ¥931.816 billion, a decrease of ¥19.445 billion from the end of the previous fiscal year as a result of a decrease in cash and deposits and other factors.

Consolidated liabilities decreased by ¥46.989 billion to ¥723.038 billion as a result of a decrease in short-term loans and current portion of long-term loans and other factors compared to the end of the previous fiscal year.

Consolidated net assets were ¥208.777 billion, an increase of ¥27.543 billion compared to the end of the previous fiscal year as a result of an increase in non-controlling interests and other factors.

(3) Qualitative Information on the Consolidated Prospects for FY2019

（Billion Yen; rounded to the nearest 100 million yen）

	Prior Forecast (at the time of announcement made on April 26, 2019)	**Current Forecast (at the time of announcement of the 1st Quarter result)**	Change	% Change
Operating revenues	760.0	**750.0**	(10.0)	(1.3%)
Operating income	6.0	**6.0**	–	–
Ordinary income	5.0	**5.0**	–	–
Profit attributable to owners of the parent	11.0	**11.0**	–	–

Exchange Rate (¥/US$)	¥108.58	**¥108.67**	¥0.09	0.1%
Fuel Oil Price (US$/MT)	US$584	**US$556**	(US$28)	(4.8%)

In the dry bulk business, there are concerns over the effects of the protracted trade disputes between the United States and China and a slowdown in demand for steel products in China, whereas there are expectations for an improvement in the vessel supply-demand balance due to the deepening of the practice of navigating at reduced speed following the implementation of new environmental regulation and an increase in scrapped vessels. As a result, market rates are expected to generally improve, mainly in the Cape-size sector, while fluctuating. The Group will implement measures to improve earnings, including improving vessel operation efficiency and reducing costs. At the same timing, the Group will strive to secure stable profit by expanding long-term contracts that take advantage of its strengths.

In the energy transportation business, the Group will strive to secure stable profit under mid- and long-term contracts with respect to LNG carriers, large crude oil tankers (VLCCs), LPG carriers, and thermal coal carriers.

In the offshore energy E&P support business, though it is expected to take certain period for market recovery, the Group will strive to improve earnings by continuous measures to reduce costs.

In the car carrier business, as there is growing uncertainty over finished vehicle sales markets in major countries due to such factors as the effects of the United States tariff hikes on the economic conditions and the United Kingdom's planned withdrawal from the European Union (Brexit), there are concerns over the risk that demand for ocean transportation may decline. However, in the current fiscal year, earnings are expected to improve because of improvements of vessel allocation and vessel operation efficiency through the trades realignment that had been implemented since the previous fiscal year and a recovery of freight rates.

In the logistics business, securing stable earnings is expected in the domestic logistics sector mainly because of the continued steady performance of towage, sea-land integrated transportation and warehousing business. The Group continuously aims to create synergies by promoting service efficiency improvement, enhancement of cost competitiveness and effective use of assets through the alliance with Kamigumi. In the international logistics sector, the air cargo volumes, mainly semiconductors, declined. However, despite the effects of the trade disputes between the United States and China, demand for North America is continuously expected to remain robust, with Southeast Asia and Central America used as alternative exporting areas.

In the containership business, although there are concerns that ONE may be affected by the effects of the trade disputes between the United States and China in the 2nd Quarter and beyond, earnings are expected to be kept at the level set in the beginning of the current fiscal year, by conducting measures such as to reduce operation costs.

As explained above, although market rates are recovering as a trend, mainly in the dry bulk business, the vessel supply-demand gap has not been fully resolved and the business environment is expected to remain challenging. However, as the Company will strive further to improve earnings by promoting additional cost reduction and operation efficiency improvement, the Company has kept unchanged its previously announced forecasts of full-year results, including operating income, ordinary income, and profit attributable to owners of the parent.

Our important task is to maximize returns to our shareholders while maintaining necessary internal reserves to fund our capital investment and strengthen our financial position for the sake of sustainable growth, which is a priority of our management plan.

Although the forecasts of full-year results are expected to be recovered into profit, we consider it an urgent management priority to improve our financial strength and stabilize our business foundation. The dividend policy remains yet to be determined as announced in the beginning of the current fiscal year. We will announce in due course when we have judged that we can forecast dividend payments after comprehensively taking into consideration the forecasts of full-year results and the Company’s financial conditions.

Consolidated Financial Statements

(All financial information has been prepared in accordance with accounting principles generally accepted in Japan)

Consolidated Balance Sheet

(Millions of yen/Thousands of U.S. dollars)

	Three months ended June 30, 2019	Year ended March 31, 2019	Three months ended June 30, 2019
ASSETS			
Current assets :			
Cash and deposits	¥ 120,884	¥ 143,201	$ 1,121,486
Accounts and notes receivable-trade	53,748	62,722	498,641
Raw materials and supplies	24,772	26,258	229,820
Prepaid expenses and deferred charges	41,927	40,545	388,970
Other current assets	19,768	17,411	183,401
Allowance for doubtful receivables	(958)	(1,267)	(8,891)
Total current assets	260,143	288,871	2,413,426
Non-current assets :			
(Vessels, property and equipment)			
Vessels, net	409,577	392,177	3,799,777
Buildings and structures, net	12,904	13,032	119,715
Machinery and vehicles, net	8,777	9,373	81,434
Land	18,360	18,397	170,336
Construction in progress	8,193	12,923	76,011
Other, net	4,354	2,726	40,401
Total vessels, property and equipment	462,168	448,632	4,287,673
(Intangible assets)			
Other intangible assets	4,377	4,377	40,614
Total intangible assets	4,377	4,377	40,614
(Investments and other assets)			
Investments in securities	159,254	164,110	1,477,451
Long-term loans receivable	17,064	17,328	158,316
Asset for retirement benefits	680	673	6,309
Other investments and other assets	29,445	28,606	273,172
Allowance for doubtful receivables	(1,317)	(1,336)	(12,222)
Total investments and other assets	205,127	209,381	1,903,026
Total non-current assets	671,673	662,390	6,231,313
Total assets	¥ 931,816	¥ 951,261	$ 8,644,739

Consolidated Balance Sheet

(Millions of yen/Thousands of U.S. dollars)

	Three months ended June 30, 2019	Year ended March 31, 2019	Three months ended June 30, 2019
LIABILITIES			
Current liabilities :			
Accounts and notes payable-trade	¥ 50,613	¥ 57,836	$ 469,553
Short-term loans and current portion of long-term loans	44,583	86,423	413,614
Accrued income taxes	1,075	1,711	9,981
Allowance for loss related to the Anti-Monopoly Act	3,783	3,783	35,099
Allowance for loss on chartering contracts	11,405	15,135	105,816
Other allowance	1,744	2,902	16,180
Other current liabilities	78,308	111,559	726,494
Total current liabilities	191,514	279,352	1,776,737
Non-current liabilities :			
Bonds	10,000	10,000	92,773
Long-term loans, less current portion	446,289	405,706	4,140,360
Deferred tax liabilities (non-current)	7,728	9,633	71,697
Deferred tax liabilities on land revaluation	1,174	1,174	10,898
Allowance for directors' and audit and supervisory board members' retirement benefits	402	894	3,737
Allowance for directors’ stock benefits	19	19	180
Accrued expenses for overhaul of vessels and other assets	11,408	12,251	105,842
Liability for retirement benefits	6,144	6,228	57,005
Other non-current liabilities	48,356	44,767	448,616
Total non-current liabilities	531,524	490,675	4,931,109
Total liabilities	723,038	770,028	6,707,847
NET ASSETS			
Shareholders' equity:			
Common stock	75,457	75,457	700,043
Capital surplus	14,045	1,383	130,309
Retained earnings	24,498	16,692	227,281
Treasury stock	(2,380)	(2,381)	(22,089)
Total shareholders' equity	111,621	91,152	1,035,543
Accumulated other comprehensive income :			
Net unrealized holding gain on investments in securities	2,204	4,414	20,451
Deferred gain on hedges	329	2,999	3,060
Revaluation reserve for land	4,638	4,655	43,031
Translation adjustments	(3,384)	4,063	(31,400)
Retirement benefits liability adjustments	(3,530)	(3,710)	(32,755)
Total accumulated other comprehensive income	257	12,423	2,388
Non-controlling interests	96,899	77,657	898,962
Total net assets	208,777	181,233	1,936,893
Total liabilities and net assets	¥ 931,816	¥ 951,261	$ 8,644,739

Consolidated Statement of Operations

(Millions of yen/Thousands of U.S. dollars)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Three months ended June 30, 2019
Marine transportation and other operating revenues	¥ 183,312	¥ 212,177	$ 1,700,642
Marine transportation and other operating costs and expenses	164,778	208,943	1,528,702
Gross Profit	18,533	3,233	171,941
Selling, general and administrative expenses	14,480	16,603	134,342
Operating income (loss)	4,052	(13,370)	37,598
Non-operating income :			
Interest income	312	337	2,897
Dividend income	703	673	6,526
Equity in earnings of subsidiaries and affiliates	1,441	-	13,372
Exchange gain	-	1,087	-
Other non-operating income	705	329	6,548
Total non-operating income	3,162	2,428	29,343
Non-operating expenses :			
Interest expenses	2,591	2,038	24,045
Equity in loss of subsidiaries and affiliates	-	3,780	-
Exchange loss	1,442	-	13,385
Other non-operating expenses	467	333	4,334
Total non-operating expenses	4,501	6,152	41,763
Ordinary income (loss)	2,713	(17,095)	25,178
Extraordinary income :			
Gain on sales of vessels, property and equipment	2,056	276	19,077
Gain on liquidation of subsidiaries and affiliates	2,934	43	27,228
Other extraordinary income	888	102	8,244
Total extraordinary income	5,879	422	54,548
Extraordinary losses :			
Loss on impairment of vessels, property and equipment	-	178	-
Provision of allowance for loss on liquidation of subsidiaries and affiliates	19	6	180
Other extraordinary losses	6	94	59
Total extraordinary losses	25	279	239
Profit (loss) before income taxes	8,567	(16,952)	79,488
Income taxes :			
Current	930	844	8,631
Deferred	(500)	1,253	(4,642)
Total income taxes	430	2,097	3,989
Profit (loss)	8,137	(19,050)	75,498
Profit attributable to non-controlling interests	358	222	3,323
Profit (loss) attributable to owners of the parent	¥ 7,779	¥ (19,272)	$ 72,175

Consolidated Statement of Comprehensive Income

(Millions of yen/Thousands of U.S. dollars)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Three months ended June 30, 2019
Profit (loss)	¥ 8,137	¥ (19,050)	$ 75,498
Other Comprehensive income (loss)			
Net unrealized holding loss on investments in securities	(2,269)	(413)	(21,057)
Deferred (loss) gain on hedges	(1,723)	706	(15,989)
Translation adjustments	(5,668)	3,049	(52,592)
Retirement benefits liability adjustments	121	(2)	1,123
Share of other comprehensive (loss) income of subsidiaries and affiliates accounted for by the equity method	(2,889)	4,088	(26,808)
Total other comprehensive (loss) income	(12,430)	7,428	(115,324)
Comprehensive loss	¥ (4,292)	¥ (11,621)	$ (39,825)
(Breakdown)			
Comprehensive loss attributable to owners of the parent	¥ (4,369)	¥ (12,701)	$ (40,535)
Comprehensive income attributable to non-controlling interests	76	1,080	710

(Notes in the Event of Significant Changes in Shareholders' Equity)

During the three-month period ended June 30, 2019, as the Company sold a portion of the shares of consolidated subsidiary KLKG HOLDINGS, Co., Ltd., the capital surplus increased by ¥12.662 billion ($117,475 thousand). As a result, the capital surplus at the end of the three-month period ended June 30, 2019 was ¥14,045 million ($130,309 thousand).

(Change in Accounting Standards)

(Applying International Financial Reporting Standards (IFRS) 16 Leases)

The overseas consolidated subsidiaries and affiliates accounted for by the equity method that are subject to IFRS have adopted IFRS 16 Leases (issued on January 13, 2016; hereinafter "IFRS 16") from the 1st Quarter of the fiscal year ending March 31, 2020. In applying IFRS 16, the overseas consolidated subsidiaries and affiliates, as lessees, principally recognize all lease transactions on their balance sheets as assets and liabilities. The Company has applied the modified retrospective approach with the cumulative effect of initially applying the standard is recognized as an adjustment to equity at the date of initial application.

Furthermore, the impact of applying IFRS 16 on profit before income taxes for the three-month period ended June 30, 2019 was a decrease of ¥689 million ($6,401 thousand) compared with the amount that would have been recognized under the previous standard.

Segment information

Three months ended June 30, 2019

(Millions of yen)

	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
Revenues							
Operating revenues from customers	¥ 55,479	¥ 20,518	¥ 98,687	¥ 8,627	¥ 183,312	¥ -	¥ 183,312
Inter-group revenues and transfers	0	0	2,023	12,416	14,439	(14,439)	-
Total revenues	¥ 55,479	¥ 20,518	¥ 100,710	¥ 21,043	¥ 197,751	¥ (14,439)	¥ 183,312
Segment profit (loss)	¥ (353)	¥ 1,829	¥ 1,845	¥ 290	¥ 3,612	¥ (899)	¥ 2,713

Three months ended June 30, 2018

(Millions of yen)

	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
Revenues							
Operating revenues from customers	¥ 64,624	¥ 20,174	¥ 119,057	¥ 8,321	¥ 212,177	¥ -	¥ 212,177
Inter-group revenues and transfers	40	0	1,950	11,340	13,331	(13,331)	-
Total revenues	¥ 64,665	¥ 20,174	¥ 121,007	¥ 19,661	¥ 225,508	¥ (13,331)	¥ 212,177
Segment profit (loss)	¥ 370	¥ 292	¥ (16,762)	¥ 434	¥ (15,666)	¥ (1,428)	¥ (17,095)

Three months ended June 30, 2019

(Thousands of U.S. dollars)

	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
Revenues							
Operating revenues from customers	$ 514,702	$ 190,352	$ 915,553	$ 80,036	$ 1,700,642	$ -	$ 1,700,642
Inter-group revenues and transfers	2	1	18,769	115,189	133,961	(133,961)	-
Total revenues	$ 514,704	$ 190,353	$ 934,323	$ 195,225	$ 1,834,604	$ (133,961)	$ 1,700,642
Segment profit (loss)	$ (3,282)	$ 16,977	$ 17,125	$ 2,698	$ 33,519	$ (8,341)	$ 25,178