

June 8, 2017

To Our Shareholders

Tsuyoshi Yamauchi
Senior Managing Executive Officer
Kawasaki Kisen Kaisha, Ltd.

**Our View Regarding the ISS Recommendation to Vote Against Agenda Item 2
at the 149th Ordinary General Meeting of Shareholders**

Thank you for your continued support.

We recently learned that the Institutional Shareholder Services (ISS) has recommended that shareholders vote against the election of Mr. Jiro Asakura (Chairman) and Mr. Eizo Murakami (President & CEO), who are nominated in Agenda Item No. 2 (Election of 9 Directors) at our 149th Annual General Meeting of Shareholders on June 23, 2017.

As such, we, Kawasaki Kisen Kaisha, Ltd., would like to take this opportunity to provide our view regarding this recommendation and to ask our shareholders to take into account our explanation as to increase your understanding of this matter.

Our View

1. ISS's Recommendation

ISS recommends that shareholders vote against top executive(s) at a company that has underperformed in terms of capital efficiency (i.e., when the company has posted average return on equity (ROE) of less than five percent over the last five fiscal years) except in cases where improvement can be seen. We think that this recommendation versus our two top executives is a result of our firm's ROE averaging -9.3% on a consolidated base from the fiscal year of 2012 to 2016.

2. Our View

It is true that ROE has averaged less than five percent over the last five fiscal years. However, this weakness is the result of our current management's proactive approach to improve future performance by the structural reforms of the dry bulk business and the integration of the container shipping business. We strongly believe that the continuous leadership of our company by both Mr. Asakura and Mr. Murakami for the following reasons.

① The Decline of ROE is due to Weak Conditions in the Shipping Market

The business environment of the shipping industry showed a gradual improvement from the historical low in rates in the beginning of the fiscal year 2016. Although East-West routes trended better in the second half of the year, container ships were also affected by the weak market and rates did not recover adequately. Due to the impact of the weakness in the first half we recorded a larger loss than in the previous year. Conditions improved from the historically low rates recorded at the beginning of the year for dry bulk vessels and there has been an improvement in the spare freight capacity situation, the market has not yet returned to where it is possible to break even. The severe environment for shipping has also greatly affected the other two major Japanese shipping companies, Nippon Yusen Kaisha (NYK) and Mitsui O.S.K. Lines, resulting in ROEs of -41.0% and 0.9%, respectively.

Given the unlikelihood of a rapid recovery in market conditions, we have taken counter-measures such as continuing structural reform of the dry bulk business department. We also recorded impairment losses in the container ships business, heavy-lift ship business, and offshore support vessels businesses. As a result, consolidated ROE came in at -48.5% this period.

We believe that the response from ISS is a result of an adherence to a formulaic standard for financial results and that the firm did not adequately analyze the historically harsh market conditions resulting in all time low ROEs recorded by the whole shipping industry. Working among severe market conditions we think that the drop in our ROE of 2016 is a result of our efforts to conduct structural reform with the goal to improve performance in the future.

② Integration of the Container Shipping Businesses of Japan's Three Major Shipping Companies

In July of 2017, we plan to establish a joint-venture company with NYK and Mitsui O.S.K. lines for the purpose of integrating the container vessel businesses of the three firms (including the overseas terminal business). We have already concluded the contract for the business integration and agreement between shareholders. In recent years, competition in the shipping industry has continued to heighten due to the increasing scale created by M&A activity resulting in large changes to the structure of the industry. We made the decision to combine our business in order that we can strive for stable and sustainable management based on the spirit of the three companies. .

We think that the new joint venture will be able to work to achieve stable profitability quickly. We think that the realization of synergies from combining the best practices of the three firms as well as

the scale merit created by combining tonnage capacity of 1.43 million TEU (excluding excess orders) should result in a positive effect of approximately 110 billion yen annually as a result of the integration. In addition, we believe that we can provide high quality and competitive service by enhancing our global container ship network in order to provide a high-quality and competitive service to respond to our clients' needs.


With the collaboration of the three major Japanese shipping companies, we are making every effort to strengthen our competitive level to match that of the global shipping industry of recent years. We believe that Chairman Asakura and President Murakami's strong determination and leadership are vital to the success of not only our company but also to realize the goals of the consolidation.

*For further information regarding the notification of our new container shipping joint venture, please go to the link below.

https://www.kline.co.jp/en/ir/stock/disclose/detail/_icsFiles/afieldfile/2017/05/31/20170531E.PDF

③Our Efforts to Improve Corporate Value

<Long Term Management Policy and Creation of the New Medium-Term Management Plan>


In order to present our management policy on the business combination of the container shipping business to our stake holders, in April of this fiscal year, we publically announced our new long term management policy and medium-term management plan: “Revival for Greater Strides” –  Value for our Next Century –. We acknowledge our strong and stable client base which was built through our strength in technology, our quality shipping product, our global network and our diverse staff. Following on from the creation of the Long Term Management Policy we have designated the three years which run from April 2017 toward our 100th anniversary in 2019 as “Revival for Greater Strides.” This is the period in which we will rebuild our business base to reach the form that we are working to achieve by following the important initiatives shown below.

- Rebuilding portfolio strategy
- Advanced management and strategy
- ESG Measures : Strengthen the Corporate Governance Structure

For the next three years until 2019, we have the following goals:

- Return to profit in three years from FY2017
- Achieve 6% ROA(ordinary income) in stable-income business, and expand business scale
- Raising the equity ratio to 20+%
- Prioritize to stabilize our business base and financial position, but aiming to resume paying dividend soon


Although the harsh business climate continues into fiscal year 2017 and the situation remains critical, under this new medium term management plan, your management and employees will work together to return our firm to profitability and increase shareholder with the goal of living up to our shareholders` expectations.

(*) For more information regarding our medium-term management plan: “Revival for Greater Strides” – “Value for our Next Century” please see the link below.

https://www.kline.co.jp/en/ir/stock/disclose/detail/_icsFiles/afieldfile/2017/04/28/20170428-3e.pdf

As stated above, working in solidarity with the Japanese shipping industry we will base our efforts to improve business value on our strong determination and leadership to overcome the harsh market circumstances. Based on our long term management policy and the new medium term management plan and with strong leadership and determination we will give our all to increase corporate value.

We strongly believe that Chairman Asakura is indispensable to our success in enhancing our business value because of his considerable knowledge and experience in the area of corporate governance. His experience provides him with perspective that is broad and from a high vantage point, and it judges such perspective will continue to be essential for improving the Group’s corporate governance in the future as well.

President Murakami has exhibited brilliance in his masterful management to develop an assured base for our company’s growth and expansion during this period of harsh market conditions from his standpoint as the top executive of a integrated logistics firm with an ocean shipping business at its core. His extensive knowledge and experience gained from a wide range of areas coupled with his strong leadership and proven management skill has been proven by examples such as the restructuring of the dry bulk business and the weaving together the joint venture with the other two major Japanese shipping companies. His involvement in leadership is vital to the implementation of our new medium-term management plan: “Revival for Greater Strides” – Value for our Next Century –.

We once again would like to humbly request that you exercise your voting right based, not on short-term performance indicators, but on the stewardship code and full understanding of the reality of the circumstances surrounding the operation of the shipping industry as well as our incessant efforts to enhance and improve our current situation from a medium-to long-term perspective.