

June 10, 2019

To Our Shareholders and Investors,

Kawasaki Kisen Kaisha, Ltd.  
Senior Managing Executive Officer Yukio Toriyama

**Our View Regarding the ISS Recommendation to Vote against  
Agenda Item 1 (Election of 10 Directors) at the 151<sup>st</sup> Ordinary General Meeting of Shareholders**


We recently learned that the Institutional Shareholder Services (ISS) has recommended that shareholder vote against the election of Mr. Eizo Murakami (current chairman) and Mr. Yukikazu Myochin (current president and representative director), who are nominated in Agenda Item No. 1 (Election of 10 Directors) at our 151<sup>st</sup> Annual General Meeting of Shareholders on June 21, 2019.

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.

1. ISS's Recommendation

Regarding the director election agenda, ISS has stated that they “recommend that shareholders oppose the top executive 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), unless an improvement is observed.” We think that this recommendation versus our top two executives is a result of our firm’s ROE averaging -23.9% on a consolidated base over the past 5 fiscal years (from 2014 to 2018).

2. Our View

It is true that ROE has averaged less than 5% over the last 5 fiscal years. However, based on long-term management policy and medium-term management plan “‘Revival for Greater Strides’ – Line Value for our Next Century’ publically announced in April 2017, our Group has been making efforts to continuously reduce cost, make vessel allocation more efficient. Additionally we have implemented fundamental structural reform centered around the dissolving of charter ship contracts. Although this structural reform is one of the reasons for our low ROE, we made this decision so that the Group would achieve a sustainable increase in our corporate value to improve profitability for the future. We think that this positive effect will be realized from after this year and that our performance will steadily


improve in the medium-to-long term. We strongly believe that the continuous leadership of our company by Murakami (Chairman of the Board) and Myochin (Representative Director, President & CEO) is necessary to improve our corporate value under the leadership of the new Chairman and CEO for the following reasons;

① Improvement of Revenue and Expenditures and Structural Reform Focusing on the Medium-to-Long Term in the Unstable Market Conditions of the Shipping Industry

Although some parts of the business have shown constant improvement, overall business conditions in the shipping industry has not shown a full recovery as the respective market recovery of different parts of the business is proceeding at different paces. Given the unstable market conditions in the shipping industry, our group since last year has continuously implemented measures to improve profitability and structural reform such as cost cutting efforts and making our vessel allocation more efficient. From this year we are undertaking initiatives to rebuild our portfolio strategy which is one of the important issues in the medium-term management plan. We will do this by focusing our management resources and thoroughly reallocating resources to the four pillars of dry bulk, energy resources, car carriers, and logistics business.

We will thoroughly implement improvement to our results and structure reforms which have been promoted by our current top two executives. We have come to the conclusion that the leadership provided by both executives is necessary to improve the company's performance in these unstable market conditions and their continued presence is essential to improving our corporate value. ISS has not taken into consideration the initiatives by top management to improve performance through these adverse market conditions and their recommendation is simply an exercise in box-ticking decision making. We consider their action inappropriate in the extreme particularly when taken in context of the Stewardship Code, which refers to the "responsibilities...by...fostering...sustainable growth...based on in-depth knowledge of the companies and their business environment."

② Our Efforts to Improve Corporate Value

Under Mr. Murakami and Mr. Myochin's leadership we are implementing policies to stream line the foundation of our business. As we publically announced in our long-term policy and medium-term management plan "Revival for Greater Strides" – Line Value for our Next Century' we are making efforts in each important area to achieve our vision of a total marine transport and logistics company, focusing on growing fields supported by customers in competitiveness with high-quality service and by creating value under newly-adopted advanced risk management and governance systems.

#### <Rebuild our Portfolio Strategy>

As for 2018, we established a joint-holding company by three of our domestic shipping port business subsidiaries. Collaborating with Kamigumi Co, Ltd. we have strengthened the structure of our profitability by rebuilding the portfolio through implementing external capital and know how.

Additionally, as stated earlier, for 2019 we will be making thorough initiatives to improve profitability by utilizing the most appropriate portfolio as well as focusing management resources in our four main businesses. Key initiative items for each business are as follows:

- Dry Bulk Business  
Expand fleet with stable profitability, and reduce market exposed core fleet, mainly small/mid-size vessels
- Car Carrier Business  
Rationalize sea routes by thoroughly monitoring the profitability of each route, fundamentally reform profitability by restoring fares
- Energy Resources Carrier Business  
Organize business affected by market conditions, and thoroughly implement “Selection and Concentration” through business expansion based on business risk and return evaluations
- Logistics Business  
Restructure the global network of companies centered on “K” Line Logistics, and expand local logistics business by implementing external knowledge

To be specific, it has been determined that we will establish the first domestic LNG fuel supply bunkers as a business to nurture our core business for growth in the next generation. Moving forward, we will follow our policy of “Selection and Concentration” to implement various initiatives.


#### <Further Upgrade our Business Management and Strengthen Strategies by Function>


We are undertaking a quantitative evaluation of business risk and return management as a maintenance system to support the rebuilding of our portfolio strategy. We have our own business evaluation index called “K’VaCS” (profit index to show economic value focusing on shareholder capital cost) and “K’RIC” (efficiency index to improve corporate value focusing on capital cost) that we use to clearly understand issues and problems in each business, to promote rebuilding business strategy portfolio from “Selection and Concentration” and the perspectives of net worth and allocation of management resources for continuous growth, and to manage the business with more awareness of invested capital and business risk and return levels.

#### <ESG Initiatives>

Given that the maintenance of governance structure is most important in implementing the above strategy to increase group value, the Company has taken initiatives to strengthen governance. The

company has implemented a unit supervisory system to further strengthen the structure of personal responsibility in business execution and has also undertaken periodic evaluations of the effectiveness of the board. In terms of safety, we are continuing our efforts to eliminate significant accidents on the water, and in terms of environment, we have been placed on CDP Climate Change's A list for 3 consecutive years since 2016. Additionally, our company was selected in 1<sup>st</sup> place of 31 Japanese transportation companies (including ground and air transport firms) in the "Ranking of Companies' Countermeasures against Global Warming" announced in October 2018 by WWF Japan. This success showcases our proactive efforts and our Group will continue our efforts to maintain environmental, safety, and governance structures.

As for increasing corporate value, Chairman Murakami, during his time as President until last year, has contributed to rebuild the stable profitability structure and maintain our business foundation for the future. He has done this via introducing measures such as promoting and establishing our current medium-term management plan "Revival for Greater Strides" – Line Value for our Next Century' establishing the container ship merger, and carrying out our group's business structural reform. Additionally, his wealth of knowledge and experience in matters such as corporate governance is critical to improve our Group's governance.

President Myochin has played a significant role in various areas such as leading the establishment and promotion of the current medium-term management plan "Revival for Greater Strides" – Line Value for our Next Century' as the leading executive officer of the Management Planning Department and by playing an important role in the establishment of the container ship company. We believe that his broad and deep knowledge, leadership, and management ability that were cultivated in various areas are critical to complete the current and establish the next medium-term management plan.

To continuously improve our performance under the unstable business environment, we think that having both Mr. Murakami and Mr. Myochin's strong determination and leadership and steadily implementing long-term management policy and medium-term management plan will be the most appropriate process to improve our corporate value.

We once again would like to humbly request that you exercise your voting right based, not only on the formality of ISS voting recommendation that is analyzed by guidelines rather than individual analysis of the reality of our Company's circumstances, but on the stewardship code and full understanding of our incessant efforts and results to improve performance.