

June 5, 2018

To Our Shareholders

Yukikazu Myochin  
Senior Managing Executive Officer  
Representative Director  
Kawasaki Kisen Kaisha, Ltd.

**Our View Regarding the ISS recommendation to Vote Against Agenda Item 3**  
**at the 150<sup>th</sup> 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 and CEO), who are nominated in Agenda Item No. 3 (Election of 9 Directors) at our 150<sup>th</sup> Annual General Meeting of Shareholders on June 21, 2018.

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. The ISS 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 -9.1% on a consolidated base from the fiscal year of 2013 to 2017.

2. Our View

It is true that ROE has averaged less than 5% over the last five fiscal years. However, we are continuously taking measures to improve our profitability, including, but not limited to, cutting costs and improving the efficiency of the allocation of our fleet. Additionally, the structural reforms that we

have continued to press forward with in the previous fiscal years have been a success, and performance has steadily improved. We strongly believe that the continuous leadership of our company under both Mr. Asakura and Mr. Murakami is necessary for the following reasons.

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


With regard to the business environment, while the dry bulk market recovered slowly against the backdrop of robust cargo movement for bulk carriers ranging from large-scale to medium-and-small-scale, we did not see a full-fledged recovery in the supply-demand balance of the containership market despite signs of recovery in freight rates, with overall business conditions generally remained unfavorable. As a result, on a consolidated basis, the ROE for some of Japan's largest shipping companies, Nippon Yusen Kabushiki Kaisha and Mitsui O.S.K. Lines, Ltd. were 3.8% and -8.7 respectively. Including our company, the three companies' consolidated ROE's have been less than 5% for the last three years. Historically speaking, these have been the toughest market conditions for the shipping sector.

We do not foresee a full recovery in the market and in light of this, we have continued to carry out structural reforms, continued cost reductions and improvements to the efficiency of the allocation of the fleet. The structural reforms actively carried out by our current management in the previous two fiscal years include business structural reform towards the containership business integration with the other two main Japanese shipping companies and a reduction of parts of our dry bulk carrier fleet exposed to volatile market conditions. These structural changes enhanced our competitiveness and as a result we were able to turn around profitability in the past three fiscal years. For the current fiscal year, we were able to restore our company's consolidated ROE to 4.8%.

As shown above, despite the extremely difficult market conditions our industry is facing, our financial results are continuously improving as a result of the strategic reforms and strategies to repair our profitability created and carried out by Chairman Asakura and President/CEO Murakami. As such, we have judged that to ensure further enhancement of our ROE, the continued participation of both of them in management of our company is necessary.

On the other hand, without taking into consideration the measures we have taken or the tough market conditions, ISS has made its judgement using a box-ticking process which has resulted in a recommendation of an against vote based solely on formulaic criteria. We believe that this recommendation is completely inappropriate in light of the Stewardship Code's principle which states that, "institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies,"

## ② Our Initiatives to Enhance Corporate Value

Through the leadership of Chairman Asakura and President/CEO Murakami we have been successfully implementing various initiatives to develop our business. This has been done in line with our aspiration of “improving competitiveness with high-quality services” and “creating value under the newly-adopted advanced risk-management and governance systems” as laid out in our long-term management policy and medium-term management plan. We released the plan “Revival for Greater Stride” –  Value for our Next Century” in April 2017.

### <Rebuilding Portfolio Strategy>

In April 2018, OCEAN NETWORK EXPRESS PTE. LTD. launched together with the other two major Japanese shipping companies to spin off our containership business started its operations. We expect to stabilize earning at an early stage and realize integration effects of 110 billion yen per year by achieving synergies based on the three companies’ best practices and maximizing economies of scale. We are steadily moving ahead to stabilize the business by selling our Heavy Lift business, reducing parts of our fleet exposed to volatile market conditions and continuing to proactively dispose of non-core assets. Other efforts in 2017 include the launching of the auto logistics business for finished vehicles in Chile and the Philippines, participating in the FPSO business in the offshore area of Ghana, and entering a contract of affreightment (COA) of coal for power generation with Tenaga Nasional Berhad, and we will continue to make efforts to expand our stable revenue base.

### <Advanced Management and Strategy>


In 2018, we began full-scale implementation of the “Advanced Management and Strategies” that we introduced at the end of October 2017. We introduced risk and return management to support our strategy to rebuild our portfolio. For an example of our function-based growth strategy, all companies of the Group joined forces to improve customer relationship management (CRM) and strengthen the customer base. In terms of our technological innovation, we introduced the K-IMS system of optimizing vessel performance. As part of our initiative towards transforming our business model, we conducted a study into the planning of Japan’s first LNG-fueled ferry operations and domestic LNG fuel supply business, and these initiatives as per our previous announcement of the Advanced Management and Strategies are progressing at a steady pace

### <ESG Measures>

In relation to the development of governance systems that will be most important in implementing the foregoing strategies for the enhancement of corporate value of the Group, the Company has carried

out further strengthening of the business execution system by introducing a unit supervisory system. It has also promoted evaluation of the effectiveness of the Board of Directors and so forth. From a safety aspect, the Company keeps the number of serious maritime accidents at zero, while from an environmental aspect, it has received sufficient recognition for its proactive actions as to be repeatedly given top rating, A rank, in the CDP Supply Chain Climate Change for two consecutive years since 2016. The Group will remain committed to developing its environmental, safety, governance systems

For the effort to improve our corporate value, our Chairman, Mr. Asakura has abundant knowledge and experience most notably in the area of corporate governance. We believe that his experience provides him with a perspective that is broad and from a high vantage point, and it is judged that such perspective will continue to be essential for improving the Group’s corporate governance in the future as well.

While in the top management position, our President and CEO Mr. Murakami has effectively steered the Company as an integrated logistics company grown from the shipping business in its operations amid a difficult business environment. He has constantly maintained a high vantage point in his work to put the Company on a solid footing for sustainable growth. The Company judges that his leadership and management skills, which are backed by his broad and in-depth knowledge and extensive experience accumulated from a diverse range of fields, will be essential for the “K” LINE Group to push ahead with its new medium-term management plan, “‘Revival for Greater Strides’ —  Value for our Next Century’ as well.

In order for us to continuously improve our business performance despite the extremely challenging market conditions, we are of opinion that it is still best to enhance our corporate value by steadily implementing our long-term management strategy and mid-term management plan under the determination and leadership of Chairman Asakura and President/CEO Murakami.

We once again would like to humbly request that you as shareholders exercise your voting right based not on ISS’s recommendation of an against vote based solely on formulaic criteria lacking in individual analysis of the reality of our business, but on the stewardship code and full understanding of our incessant efforts and the results to enhance and improve our business performance.