NYK GROUP

BUSINESS TO SOCIETY

Society's Choice in Transportation

Nippon Yusen Kabushiki Kaisha

NYK Report 2016

Financial, Social and Environmental Performance

2016

Business Structure

Basic Philosophy

Through safe and dependable *monohakobi* (transport), we contribute to the betterment of societies throughout the world as a comprehensive global-logistics enterprise offering ocean, land, and air transportation.

NYK Group Values—Integrity, Innovation, and Intensity (3I's)

Outlook and approach that we need in order to achieve our NYK Group Mission Statement

Integrity

Be respectful and considerate to your customers and colleagues. Stay warm, cordial, courteous, and caring.

Innovation

Continually think of new ideas for improvement, even when conditions appear satisfactory. Remain open to betterment.

Intensity

Carry through with and accomplish your tasks. Never give up. Overcome challenges. Remain motivated.

Main Business Risks

- Freight rate volatility
- Higher shipping capacity oversupply
- Lower transport demand
- Marked fluctuations of exchange rates, interest rates, or bunker oil prices
- Accidents resulting in loss of trust, environmental contamination, or loss of vessels
- Strengthening of environmental regulations
- Shortage or mobility of crew members

Competitive Advantages

Track Record Spanning More Than 130 Years

We have been taking on ambitious challenges and innovating for more than 130 years. During this time, the NYK Group has evolved and passed on a pioneering corporate culture that continues to drive bold initiatives in new fields.

Technological Expertise and Creative Solutions

As a comprehensive global-logistics enterprise that transcends traditional shipping, the whole NYK Group combines Creative Solutions to realise differentiation and provide customers with high-value-added services.

Diverse Personnel

In an array of regions and business areas, employees take full advantage of individual capabilities and work in teams to operate and develop businesses on a global scale.

Safety and Environmental Measures

Our mission is to fulfil our responsibilities as a corporate group that operates part of society's infrastructure by providing safe and dependable *monohakobi* (transport). We not only adhere to our exacting safety standards but also take progressive environmental measures.

Business

Containerships

Main Cargoes
Food / Everyday goods / Consumer electronics

Terminals

Main Cargoes
Containers / Construction machinery / Railcars / Finished automobiles

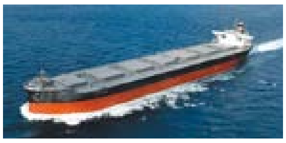
Trucks

Main Cargoes
Food / Everyday goods / Consumer electronics

Air freighters

Main Cargoes
Semiconductors / Precision equipment / Automotive components

Dry bulk carriers

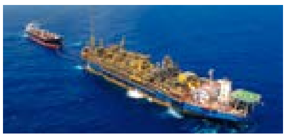


Main Cargoes
Iron ore / Coal / Wood / Wood chips / Grain

Tankers, LNG carriers

Main Cargoes
Crude oil / Chemicals and petroleum products / LNG / LPG

Offshore operations



Main Services
Drillship / FPSO / FSO / Shuttle tanker

Car carriers

Main Cargoes
Passenger cars / Trucks / Construction machinery

Cruise ships

Services
World-class cruises

CONTENTS

Nippon Yusen Kabushiki Kaisha

NYK Report 2016

Financial, Social and Environmental Performance

TARGET CORPORATE PROFILE

02

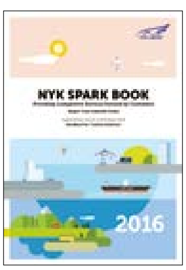
16

30

TURNING A COURSE FOR GROWTH

Cautionary Statement with Regard to Forward-Looking Statements

Some statements made in this report are forward-looking statements, which are based on information currently available and involve certain risks and uncertainties that could cause actual results to differ materially from those projected. Please be advised against undue reliance on such forward-looking statements. NYK undertakes no obligation to publish revised forward-looking statements to reflect events, circumstances, or unanticipated events after the present juncture.



The NYK Group is taking a range of measures focused on becoming an organisation in which the ideas for differentiation emerge from frontline operations and advance the Group—even if it is only half a step forward. We call such advances Creative Solutions. Examples of Creative Solutions are provided in NYK Spark Book, which we recommend reading as a supplementary volume to this report.

BUSINESS TO SOCIETY

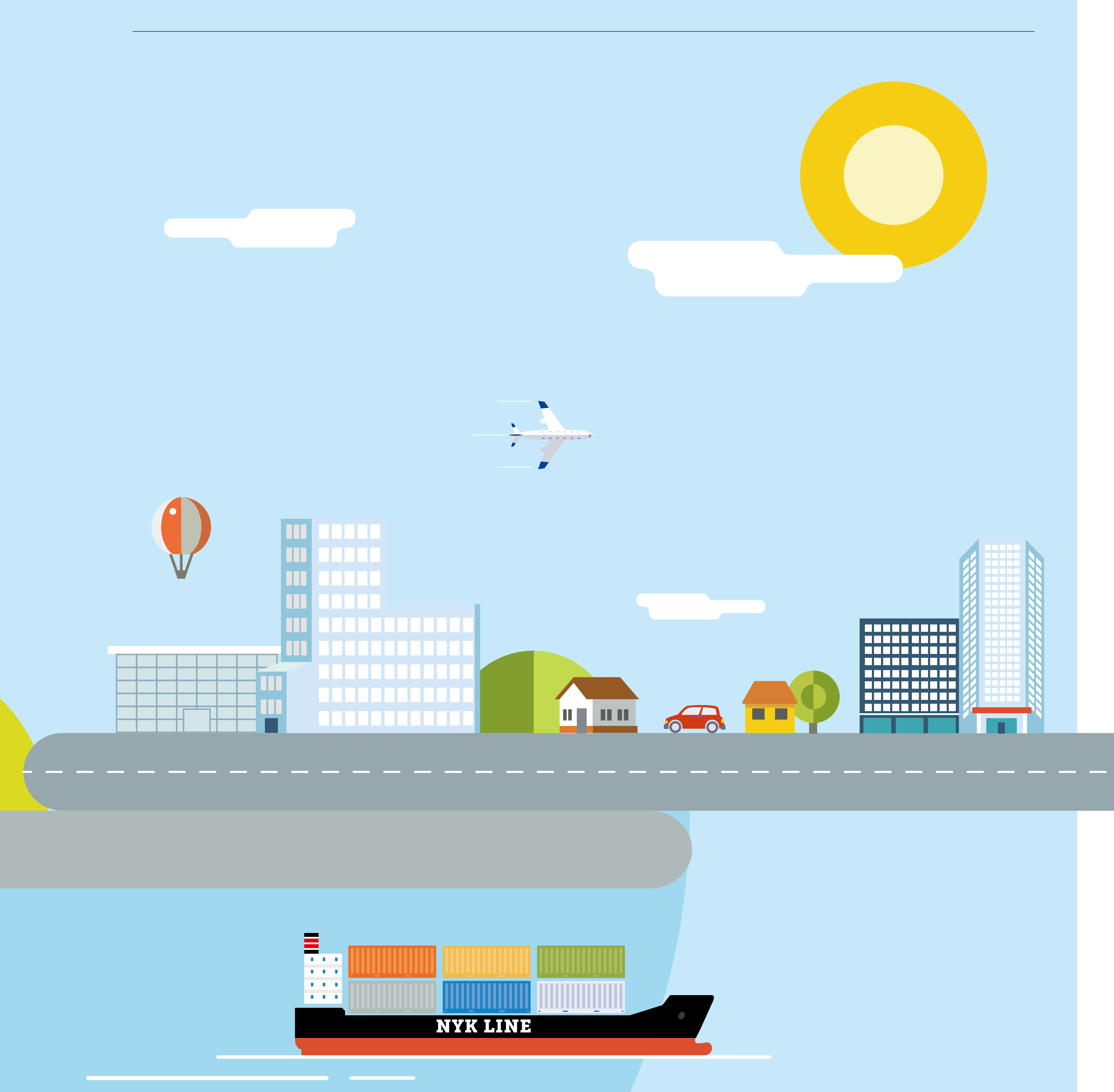
The Partner of Choice in Transport

We are a shipping company, as is evident from the Company's name, which includes the word 'mailboat'. Through transport, we provide society with infrastructure that supports economic activities and day-to-day life worldwide. Reflecting society's needs in each era, we have selected and built optimal service formats. In other words, we have a long history of examining how best to remain the partner of choice for customers and society, taking on ambitious initiatives, and moving forward through a process of trial and error. By maintaining a strong focus on safety and reliability, we will grow with society through transport innovation.

ADAPTATION

INNOVATION

CREDIBILITY



ADAPTATION

Taking on Challenges and
Establishing New Advantages

INNOVATION

Creating and Cultivating
the Seeds of Differentiation

CREDIBILITY

Building Our Business Model
on Trust

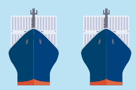
ADAPTATION

Taking on Challenges and Establishing New Advantages

Since our establishment, we have sought Creative Solutions tirelessly to gain advantages in the global shipping and logistics industries. Reflecting changing conditions, we have selected and built optimal service formats best suited to the needs of each era. In recent years, our establishment of advantages by going beyond traditional shipping's boundaries exemplifies this approach. Such efforts include our development of the offshore business, LNG-fuelled vessels, and automotive logistics.

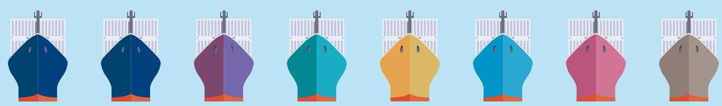
60 years ago

31 vessels



As of September 30, 1956

The liner trade segment was the NYK Group's first business. After World War II, despite lacking abundant capital, the Group ventured into businesses for specialised carriers, such as iron ore carriers, coal carriers, wood chip carriers, car carriers, and LNG carriers.



Currently

782 vessels

As of March 31, 2016

1

CASE STUDY

Business Format Evolution × The NYK Group

Transforming in the pursuit of optimal business formats

How have we created a wide-ranging business portfolio to become a comprehensive global-logistics enterprise? This portfolio has taken shape over our more than 130 year history as we have tirelessly transformed our business format in the pursuit of new advantages.

For example, after World War II, the NYK Group diversified its business portfolio by developing beyond the liner trade segment. Despite lacking abundant capital, the Group ventured into businesses requiring specialised carriers to transport cargoes, such as iron ore, coal, wood chips, vehicles, and LNG. Roughly 60 years ago, as Japan entered a period of rapid economic growth, the Group responded to an increasing focus on heavy industry by building large specialised carriers that imported oil, iron ore, and other raw materials and exported products from a wide range of sectors. In this way, we helped pave the way for Japan's rapid economic growth.

Subsequently, the sharp appreciation of the yen, following the Plaza Accord in 1985, and globalisation forced the entire shipping industry to restructure. In response, the NYK Group formulated a basic concept that called for a transformation from a business format focused on traditional ocean transport into a comprehensive global-logistics enterprise encompassing ocean, land, and air transportation. Accordingly, we sought to establish new advantages by making Nippon Cargo Airlines Co. Ltd. (NCA) into a subsidiary, establishing Yusen Logistics Co. Ltd., developing the automotive logistics business, and entering the offshore business.

Since 1986, the Group has expanded significantly, approximately tripling net sales and total assets. The specialised carrier businesses—which predecessors pioneered—and the more recently established logistics segment underpin our earnings stability. An unflinching commitment to realising paradigm shifts, even in challenging business conditions, is the hallmark of our corporate culture. As the inheritors of this mindset, we will formulate Creative Solutions in all aspects of our business and take the initiative to establish new advantages.

Transformation

	Fiscal 1935 50 years	Fiscal 1985 100 years	Fiscal 2015 130 years
Recurring profit	¥99.0 million	¥13.3 billion	¥60.0 billion
Total shareholders' capital	¥136.0 million	¥179.0 billion	¥768.3 billion
Number of vessels	88	290	782
Number of employees	1,989	3,875	34,276

* Figures are based on the figures for accounting periods. Figures for 50 years are non-consolidated figures for the period ended September 30, 1935; figures for 100 years are consolidated figures for the period ended March 31, 1986, but the number of employees for this period is the non-consolidated figure; and figures for 130 years are consolidated figures for the period ended March 31, 2016.

Containership

Car carrier

Containerships Lead Differentiation

The NYK Group has containerships operating worldwide as well as operating bases in regions around the world. This network of operating bases plays a very important role when we begin operating a new type of vessel. Currently, we transport natural resources, automobiles, and energy resources from regions worldwide. However, it is no exaggeration to say that we could not have entered such business areas without the network built through the liner trade segment. Further, the liner business was ahead of other divisions in discarding existing ideas and tackling reform. It successfully advanced the EAGLE Project, which optimises management on an individual container basis, and the Innovative Bunker and Idle-time Saving (IBIS) Project. Other divisions have adopted these highly creative projects, thereby heightening the entire Group's cost competitiveness.

LNG carrier

FPSO unit

CASE STUDY

Oil Field Development × The NYK Group

Foraying beyond the boundaries of traditional shipping

During many years of involvement in businesses related to oil, LNG, and other energy resources, we have garnered safety capabilities and highly specialised capabilities for vessel operations, the handling of dangerous cargoes, and ship management. By exploiting these capabilities to increase the sophistication of businesses related to natural resources and energy resources, we will raise the bar for entry into this market and secure stable earnings. In oil field development, until now most crude oil and natural gas has been extracted from land or shallow seabeds. However, unconventional oil and gas development and offshore oil and gas field extraction are likely to increase significantly. Further, we anticipate synergies with other business divisions because forays into the offshore business cement relationships with customers that have operations in the upstream and midstream areas of value chains.

Against this backdrop, we established the Offshore Business Group in October 2008 and became the first shipping company in Japan to venture into upstream and midstream areas. We then embarked on a series of initiatives. In 2009, we launched a drillship for offshore oil field development. The following year, we participated in a shuttle tanker business for the delivery of crude oil ashore. Further, in 2011 we participated in an FPSO (Floating Production, Storage, and Offloading) unit business. These initiatives made us the first Japanese shipping company to become extensively involved in the offshore business.

The NYK Group Advances Its Offshore Business

Oceanographic research vessel *Mirai* (Japan)

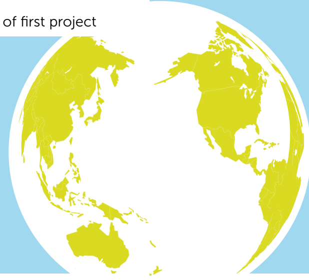
1997–
Receives contract to operate vessel through Group company Global Ocean Development Inc.

Drillships (off Brazil)

Jun. 2009	Invests jointly in Etesco Drilling Services LLC, of United States
Dec. 2011	Completes *Etesco Takatsugu J*
Apr. 2012	Begins chartered vessel service for Petrobras, of Brazil (up to 20 years)

Deep-sea scientific drilling vessel *Chikyu* (Japan)

2000s
Participates in launch of first project



Shuttle tankers (off Brazil)

Aug. 2011	Concludes time-charter contract with Repsol YPF S.A., of Spain (5 years)
Jan. 2013	Concludes time-charter contract with Repsol Sinopec Brasil S.A., of Brazil (10 years)
Aug. 2014	Purchases three shuttle tankers from J. Lauritzen A/S, of Denmark
Sept. 2014	Concludes time-charter contracts for two shuttle tankers with subsidiary of U.K. energy supplier BG GROUP PLC, Brazil Shipping 1 Limited, of Brazil (up to 20 years)
Jan. 2015	Concludes time-charter contract for one shuttle tanker with major European oil company (up to 11 years)
Jun. 2015	Concludes time-charter contract for one shuttle tanker with Brazil Shipping 1 Limited (up to 20 years)

FPSO units (off Brazil)

Jun. 2013	Sees FPSO unit *Cidade de Paraty* begin crude oil production off Brazil
Jul. 2013	Receives order jointly for two FPSO units for Petrobras, of Brazil
Feb. 2016	Sees FPSO unit *Cidade de Marica* begin crude oil production off Brazil
2016 Plan	FPSO unit *Cidade de Saquarema* to begin crude oil production off Brazil

FPSO unit (Gulf of Mexico)

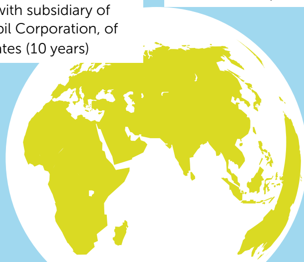
2016 Plan	FPSO unit *Turritella* to begin operating in Stones ultra-deep-water oil and gas field development project as world's deepest-water FPSO unit

Shuttle tankers (North Sea)

Oct. 2011	Concludes time-charter contract for two vessels with Ente Nazionale Idrocarburi S.p.A., of Italy (10 years)
Dec. 2011	Concludes time-charter contract with subsidiary of ExxonMobil Corporation, of United States (10 years)

FSO unit (North Sea)

Dec. 2013	Concludes FSO unit construction and time-charter contract with Total E&P Norge AS, of Norway (up to 12 years)



KNOT (Norway)

Dec. 2010	Takes 50% stake in former Knutsen Offshore Tankers ASA, changes its name to Knutsen NYK Offshore Tankers AS (KNOT)
Apr. 2013	Establishes affiliate KNOT Offshore Partners LP (KNOP), lists it on New York Stock Exchange

Exploiting new upstream expertise to develop future businesses

In December 2013, Knutsen NYK Offshore Tankers AS (KNOT), which is responsible for the NYK Group's shuttle tanker business, concluded a construction and time-charter contract with Total E&P Norge AS, of Norway, for up to 12 years for an FSO (Floating Storage and Offloading) unit to be used in the Martin Linge field in the Norwegian North Sea. In this project, a KNOT shuttle tanker is being converted into an FSO unit, which will be used to store oil pumped from the field and to offload oil onto shuttle tankers.

As well as the standard functions of storing and offloading crude oil, the FSO unit will be able to separate crude oil and water. Also, the FSO unit will require advanced technology to maintain high utilisation rates in the North Sea's unforgiving weather and sea conditions. Further, an even more significant milestone for the NYK Group is the use of in-house resources for the EPC (Engineering, Procurement, and Construction) of a state-of-the-art FSO unit.

To participate in and expand the offshore business, it is important to earn trust by establishing a favourable track record. Consequently, as a late entrant to the offshore business, the NYK Group has strived to build a track record by engaging in vessel operations while collaborating with partner companies in such areas as exploration and drilling. At this point, preparations to advance the offshore business independently are an urgent task. Therefore, the opportunity to play a central role in the FSO unit project from the EPC stage was invaluable. Given our current capabilities, this project has been highly challenging; however, such an ambitious initiative is providing us with a wealth of valuable new experience and expertise.

Planning to deliver the FSO unit in 2016, we have completed engineering and procurement and moved on to the construction phase. We will take advantage of the experience and expertise gained from this project to develop the offshore business independently. Moreover, the personnel responsible for this challenging EPC initiative will lead the creation of new businesses.

Solid Results Pave the Way for New Businesses

Our development of the offshore business is not limited to efforts in Norway. Through such initiatives as chartering drillships that contribute to drilling off Brazil and participating in a project for FPSO (Floating Production, Storage, and Offloading) units that facilitate offshore production, we are building a track record steadily. We will continue pursuing new possibilities as we capitalise on unique strengths to contribute to energy supply chains worldwide.

Offshore Business at a Glance

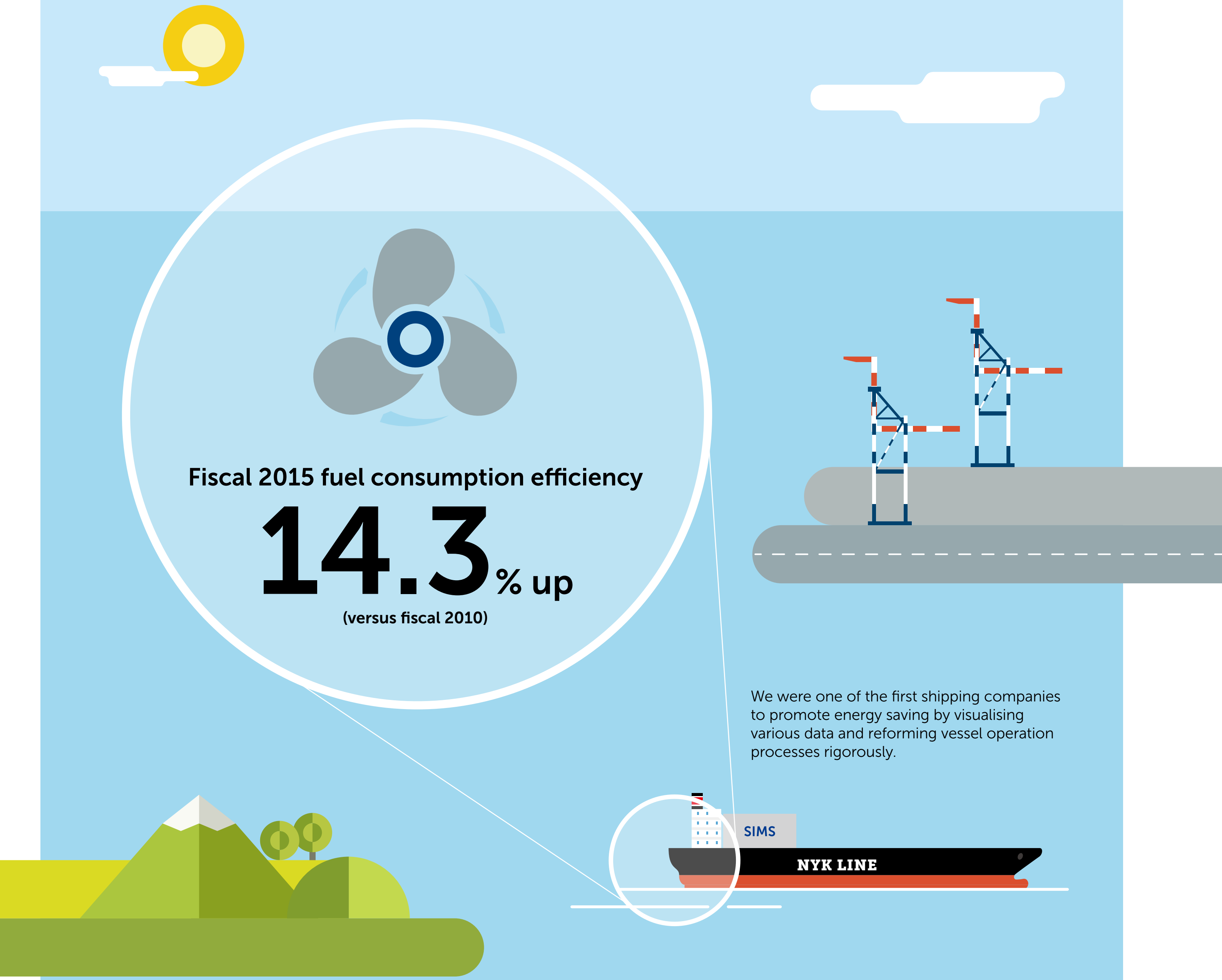
Establishment of Offshore Business Group	2008
Number of drillships	1
Number of FPSO units	4
Number of FSO units	1
Number of shuttle tankers	32
Number of employees dispatched to EPC project	4
Number of employees dispatched to FPSO unit onshore management offices	2

FPSO unit producing crude oil off Brazil

INNOVATION

Creating and Cultivating the Seeds of Differentiation

In partnership with Japanese shipyards that boast outstanding technological capabilities, we have constructed high-quality, competitive vessels. Recently, however, as vessels become commodified, we have entered an era in which differentiation based on vessels' tangible attributes alone is difficult. With that in mind, we intend to realise high-quality, competitive services with respect to such intangibles as vessel operation processes and personnel capabilities. To this end, we will flexibly and actively incorporate objective, data-based analysis, rather than only relying on rules of thumb.



Fiscal 2015 fuel consumption efficiency

14.3% up

(versus fiscal 2010)

We were one of the first shipping companies to promote energy saving by visualising various data and reforming vessel operation processes rigorously.

③

CASE STUDY

Energy Saving × The NYK Group

Realising industry-leading, energy-saving vessels through technological innovation

The first in a series of 14,000 TEU containerships, *NYK Blue Jay*, has entered the Asian–European routes.

As the vessel's charterer, the NYK Group provided technical advice when the shipowner and Japan Marine United Corporation were preparing initial plans for the containership. Compared with competitors' 14,000 TEU containerships, the new containership has improved cargo-loading capacity. We achieved this by maintaining a narrow beam (breadth) while creating a deep, sunken deck and minimising engine-room space. Furthermore, the containership's main engine is equipped with the world's first dual rating system (patent pending). The containership has two power ranges and realises optimal fuel consumption in accordance with speed and significant reductions in CO_2 emissions.

Compared with our existing 13,000 TEU containerships in operation, the new containership lowers operation costs per day by 19% during high-speed operations. It also reduces CO_2 emissions per cargo unit by 17% during high-speed operations and by 22% during slow-steaming operations. Generally, fuel consumption and CO_2 emissions per cargo unit decline as vessels become larger. However, due to technological innovation, we can enjoy reductions in fuel consumption per cargo unit without having to build larger containerships, such as the 20,000 TEU containerships that many competitors have been having delivered.

NYK Blue Jay is the first in a series of 15 containerships to be built under time-charter contracts. Plans call for the completion of four containerships in 2016, four in 2017, four in 2018, and three by 2019.

Containership *NYK Blue Jay*, which shares a variety of operational data with onshore operations in real time

NYK Blue Jay at a Glance

Length overall	364.0 metres	
Breadth	50.6 metres	First 14,000 TEU containership with beam (breadth) of less than 51 metres that is anticipated to meet future requirements for passage through the new Panama Canal
Moulded depth	29.5 metres	Sailing without ballast possible thanks to adequate longitudinal strength
Summer load draft	15.79 metres	
Deadweight tonnage	139,335 tons	
Vessel class	14,000 TEU	
Main engine	Dual rating system	World's first

Fuel Costs and CO_2 Emissions per Ton-Mile

Vessel classes	Loading index*	Index of fuel costs per ton-mile*
13,000 TEU containerships	100	100
NYK Blue Jay (high-speed operations)	108	83
NYK Blue Jay (slow-steaming operations)	108	78
20,000 TEU containerships	154	76

* For both indexes, 13,000 TEU containerships are 100.

On all of these containerships, we will have the latest monitoring systems—ship information management system (SIMS)—and combine a range of data and new technologies to optimise vessel operations.

Sunken deck:
A lowered stern deck

For details about data sharing, please see separate booklet *NYK SPARK BOOK*.

4

CASE STUDY
LNG Fuel × The NYK Group

Pioneering the practical application of next-generation fuels through innovative technology

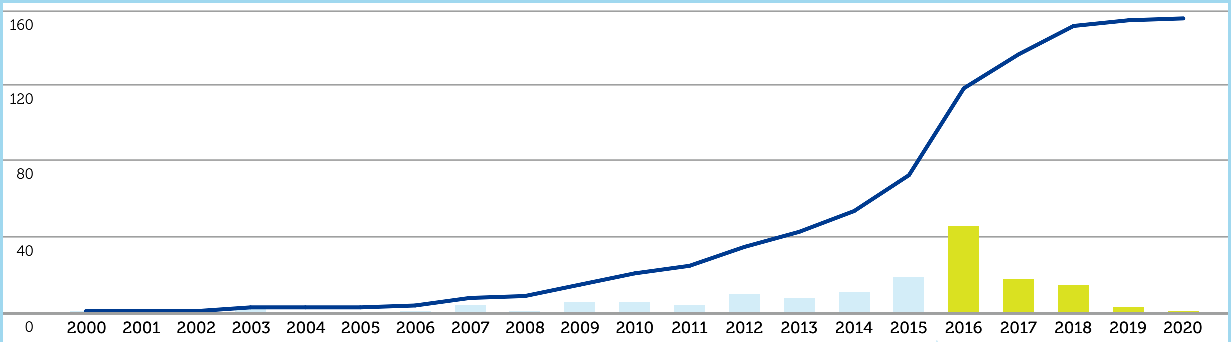
Currently, discussions about strengthening a range of different environmental regulations are under way worldwide, and the shipping industry is not exempt from new environmental regulations. Restrictions on vessels' emissions of SOx (sulphur oxide), NOx (nitrogen oxide), and CO_2 (carbon dioxide) are steadily becoming stricter. In particular, the limit for bunker oil sulphur content was lowered from 1.0% to 0.1% in the North Sea, the Baltic Sea, and North American seas in 2015. Furthermore, for general seas this limit is expected to be lowered from 3.5% to 0.5% by 2020 or 2025. In response to such new environmental regulations, the NYK Group has been focusing on LNG (liquefied natural gas) as a next-generation fuel that can replace heavy oil and working to realise LNG-fuelled vessels. The first fruit of these efforts was the LNG-fuelled tugboat *Sakigake*, delivered in August 2015.

As Japan's first LNG-fuelled vessel, *Sakigake* includes an array of Japanese technologies that will usher in the age of LNG fuel. For example, *Sakigake* has a dual fuel engine that can use heavy oil or LNG as fuel. When using LNG instead of heavy oil, the vessel achieves emissions reductions of approximately 100% for SOx, 80% for NOx, and 20% for CO_2. Moreover, we intend to use the know-how gained from *Sakigake* in the construction and operation of large LNG-fuelled vessels.

Tugboat:
A small boat that assists a large vessel leaving from and arriving at harbours and inland waterways

LNG-fuelled tugboat *Sakigake*

Progress in Spreading LNG-Fuelled Vessels



Source: Prepared by Japan Marine Science Inc. based on aggregate data from DNV GL AS (As of January 2016)

August 2015	Takes delivery of Japan's first LNG-fuelled vessel, *Sakigake*
Autumn 2016	Take delivery of world's first LNG-fuelled car carriers
End of 2016	Take delivery of world's first LNG bunkering vessel and begin LNG fuel sales business

European seas with SOx emissions restrictions

Rendering of an LNG-fuelled car carrier

Following on from *Sakigake* in Japan, in Europe United European Car Carriers B.V. (UECC), which is a joint venture owned by the NYK Group and Wallenius Lines AB, of Sweden, has ordered two LNG-fuelled car carriers and plans to take delivery of them in autumn 2016. As with *Sakigake*, these car carriers will incorporate dual fuel engines that enable the use of heavy oil and LNG as fuel. We expect the car carriers to primarily use LNG fuel in their scheduled areas of operation—the North Sea and the Baltic Sea. By using LNG fuel, the car carriers will be more than able to meet the strict limits on SOx emissions in these seas.

The NYK Group is not only building and operating LNG-fuelled vessels, it is also collaborating with ENGIE and Mitsubishi Corporation to build the world's first LNG bunkering vessel. Through this initiative, we aim to participate in an LNG fuel sales business. Due for delivery at the end of 2016, the LNG bunkering vessel will be based in the port of Zeebrugge, Belgium, and mainly supply LNG fuel to UECC's LNG-fuelled car carriers and other LNG-fuelled vessels operating in the North Sea and the Baltic Sea.

The establishment of supply infrastructure is a prerequisite for the spread of LNG fuel usage. LNG bunkering vessels will be an essential component of the infrastructure needed to increase LNG fuel usage because they will be able to access a greater range of customers and seas than onshore facilities. Thus, while lowering vessels' environmental burden by building commercial LNG-fuelled vessels in the supply area, we will contribute to the spread of LNG fuel usage.


Rendering of an LNG bunkering vessel supplying fuel to a vessel


Rendering of an LNG bunkering vessel

Environmental performance of LNG fuel versus conventional heavy oil

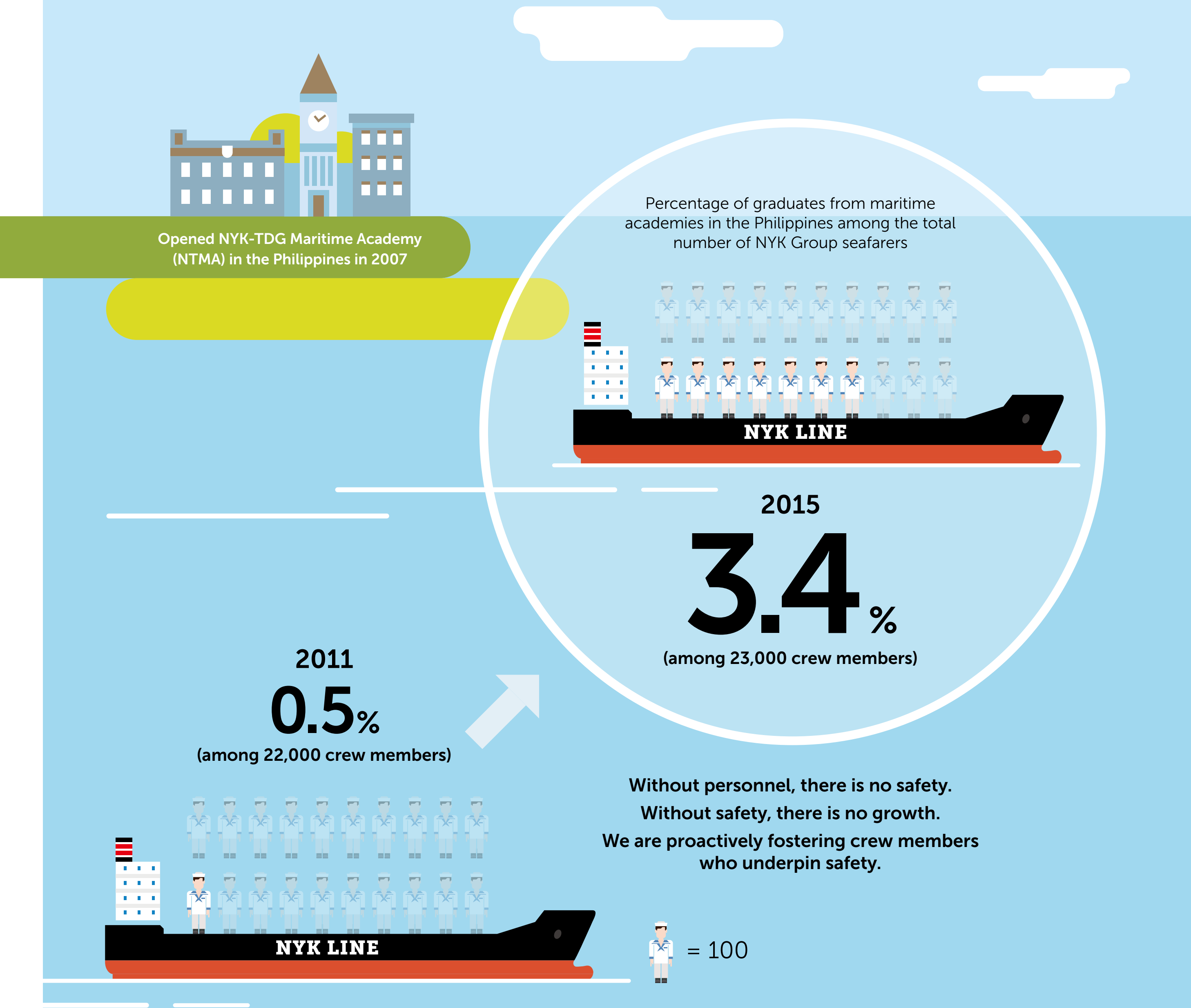
SOx	100% reduction
NOx	Up to 80% reduction
CO_2	Approx. 30% reduction
PM	100% reduction

For more details, please see separate booklet *NYK SPARK BOOK*.

CREDIBILITY

Building Our Business Model on Trust

The NYK Group's mission is to provide safe and reliable transport for a range of different cargoes. Incidents resulting in serious disruptions to transport could significantly affect the global economy or the environment. We have earned the trust of a large number of customers because we provide safe and dependable *monohakobi* (transport) that is based on continual checks and accumulated transport expertise. The trust customers place in us brings opportunities to take on new projects. In turn, such projects enhance the quality of the operations of the NYK Group and develop its personnel, thereby establishing a favourable cycle. Therefore, we intend to continue unstinting, sincere efforts to meet our customers' requirements.



5

CASE STUDY

Students × The NYK Group

Fostering crew members who implement safe vessel operations

Given that the number of vessels worldwide is set to continue rising, the recruitment of capable seafarers is becoming a pressing task for international shipping companies. In response, we are focusing on a strategy of fostering future crew members by educating them during their student years. We provide these trainees with rigorous onshore and onboard training and a full set of self-study tools. This training requires time and investment compared with the recruitment of crew members as needed. However, our training secures crew members who understand our corporate culture and have a strong sense of loyalty, thereby heightening our crew member retention rate.

Shortage of Seafarers Continues

Number of vessels	Increasing approx. 2% per year
Number of seafarers	2010 2% shortfall (13,000 people)
	2015 5% shortfall
	2020 1% shortfall

* As the number of vessels grows by roughly 2% per year, an annual shortfall of more than 10,000 seafarers is projected.

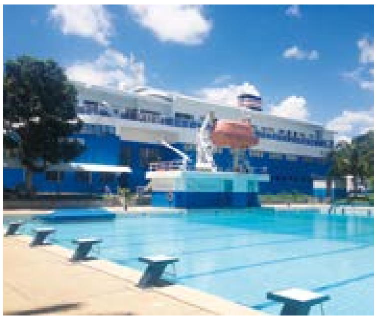
Established in the Philippines in 2007, the NYK-TDG Maritime Academy (NTMA) has produced more than 600 seafarers since its first batch of students graduated in 2011. At NTMA, to ensure classes provide advanced crew-member training, the curriculum reflects the high standards that the NYK Group requires, and the Group's navigation officers and engineers conduct certain classes. Further, to improve basic math and science skills, we have introduced an original educational programme from Japan and provide cadets with an environment for self-study. Other initiatives include collaborating with local banks to increase support for students with limited financial resources. Also, we make efforts to keep outstanding students in employment.

By around 2020, we expect the first batch of graduates to be working as captains, chief engineers, and sales support and ship management personnel and serving in senior positions on board high-risk vessels. By establishing a system based on long-term employment and continuing development, the NYK Group will maintain and enhance its overall ability to transport any cargo safely and reliably.

History of Maritime Academies in the NYK Group

1875	Establishment of Mitsubishi Mercantile Marine School
1882	Change of name from Mitsubishi Mercantile Marine School to Tokyo Mercantile Marine School
2005	Launch of project to establish maritime academy in the Philippines
2006	Holding of entrance exam for NYK-TDG Maritime Academy (NTMA) in the Philippines
2007	Opening of NTMA
2011	Graduation of NTMA's first batch of students One of first three overseas maritime academies to gain accreditation in Japan
2013	Expansion and improvement of NTMA's facilities

Cadets undergoing training



NYK-TDG Maritime Academy

6

CASE STUDY

India's Automotive Logistics Business × The NYK Group

Catering to customers' requirements while expanding businesses

The automotive market in India is growing rapidly in step with the country's conspicuous economic growth. The NYK Group's local subsidiary NYK Auto Logistics (India) Pvt. Ltd. (NALI) undertakes overall management of the automotive logistics business. The company provides automotive logistics to almost all of the automotive manufacturers that have entered India. Despite having only three employees seconded from NYK Tokyo headquarters, NALI has expanded rapidly in the past several years. The contributions of local personnel and strong support from the NYK Group's Auto Logistics Group have enabled the company to meet customers' requirements without fail and expand steadily.

In 2015, NALI established and began operating a terminal in north-west India at the port of Pipavav in the state of Gujarat. NALI also launched a new service that provides integrated transport of finished automobiles from the automotive manufacturers' plants to the port. Previously, finished automobile transport entailed combining the services of multiple operators. If the need for immediate measures or destination changes arose in transit, responding in time was often not possible due to the difficultly of

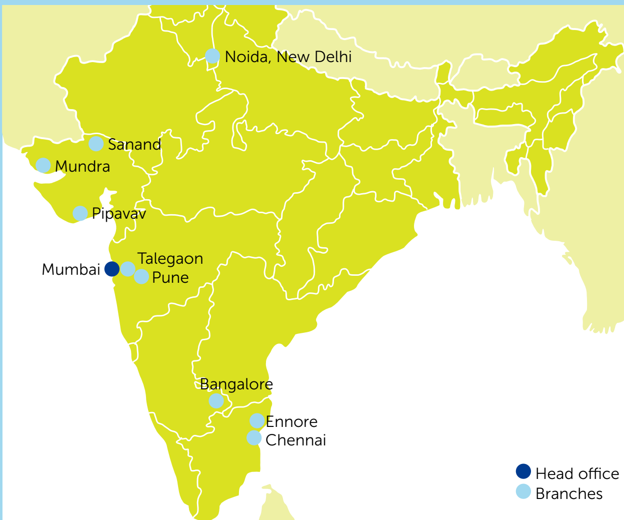
Independently managed RORO terminal at the port of Pipavav

Car carrier *Daedalus Leader* making its first call at a RORO terminal at the port of Pipavav

Business Model of NYK Auto Logistics (India) Pvt. Ltd.

Services	Regions
Ocean transport	Mumbai, Pipavav, Mundra, Chennai, Ennore, Kolkata
Domestic transport	All regions of India
Pre-delivery inspection and other value-added services	Mumbai, Pipavav, Mundra, Chennai, Pune
Export transport	Mumbai, Pipavav, Ennore
OEM, plant yard management	Sanand, Chennai, Talegaon, Pune
Operation of RORO terminals, stockyard management	Pipavav, Chennai, Ennore

Pre-delivery inspection:
Final inspection and repair and attachment of parts to finished automobiles before delivery to automobile dealers
RORO (roll-on, roll-off) terminals:
Specialised terminals where automobiles, trucks, forklift trucks, and other vehicles are loaded onto or unloaded from car carriers by being driven directly into or out of car carriers



coordinating multiple operators. However, NALI provides a one-stop service encompassing all stages.

Our integrated services are not the only reason why we are the customers' partner of choice. The NYK Group's automotive logistics business has earned a favourable reputation among customers because, despite its increasing numbers of personnel and automobiles handled, it continues to provide levels of service quality that surpasses industry standards significantly. We are confident competitors cannot match the strong trust NALI's personnel have earned among customers that have operations spanning India.

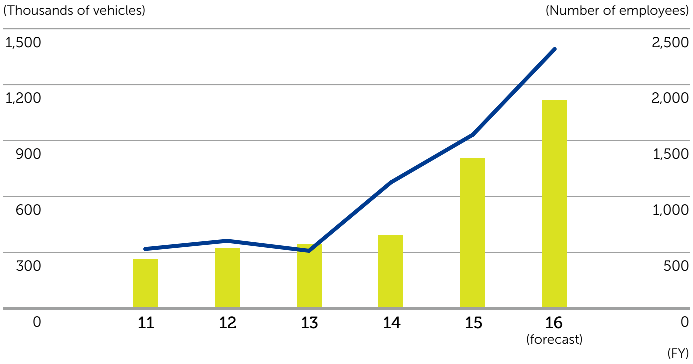
Photograph taken with customers and all NALI personnel to commemorate 180 days—and counting—without an accident

Focusing strongly on frontline operations

In 2015, southern India suffered major flooding, which in some regions completely destroyed homes. Given the gravity of the situation, we instructed all personnel to stand by at home. However, this instruction did not reach personnel because managers were unable to use telephones or e-mail due to the disruption of telecommunications. At this time, personnel responsible for NALI decided to remain at a customer's plant. As a result, they were able to move to a safe location approximately 300 new vehicles awaiting shipment. In response, the customer was very thankful.

A 'Japanese' mindset emphasising quality is the source of NALI's competitiveness. As well as handling customers' cargo carefully, personnel work in unison to minimise accidents by giving first priority to the safety of cargo handling. This 'Japanese' mindset, or differentiated approach, is one of NALI's key values. We ensure that operations rigorously conform with this approach by explaining it fully to each local employee in India to ensure understanding and agreement. As long as customers are happy with the strong focus on frontline operations that characterises our 'Japanese' services, we intend to continue with our uncompromising approach to operations.

Size of NALI Operations



Concerted Effort to Embed Service Quality

Preparations to open our automobile terminal at the port of Pipavav took four years. We began by liaising frequently with automotive manufacturers that have bases in northern India to thoroughly familiarise ourselves with their business plans and requirements. After conducting a detailed survey of the location and conditions, the Group gathered professionals from its automotive logistics operations around the world and established operations from scratch, including terminal design, construction management, engineering, IT systems, and labour systems.

Furthermore, none of the personnel we recruited locally had experience in finished automobile loading operations. Therefore, we dispatched start-up support personnel and instructors from all over India, who spent considerable time providing recruits with professional training. This type of training was possible because NALI has many local personnel with the skills to train other local personnel. Down-to-earth, practical preparation has enabled us to continue operating without any accidents, even though we have been at full capacity since start-up.

The NYK Group's Goals

Two outside directors with a wealth of valuable insights as experts in their respective fields and President Naito gathered to discuss the Group's future.

Society's Choice in Transportation

Yukio Okamoto — Tadaaki Naito — Yuri Okina

SESSION 1

What is your vision for the future of the NYK Group?

Naito Shipping and logistics are major arteries of the global economy and integral components of society's infrastructure. Because of the importance of our businesses to society, it would be difficult to continue existing as a company without sound management, transparency, and the trust of our customers and other stakeholders. As the NYK Group Mission Statement states, 'Through safe and dependable *monohakobi* (transport), we contribute to the betterment of societies throughout the world as a comprehensive global-logistics enterprise offering ocean, land, and air transportation'.

During its long history, the NYK Group has grown by exploiting two strengths: advanced transport skills and adaptability. With respect to transport skills, we have not caused or been involved in any major accidents since the 1997 *Diamond Grace* crude oil spill. In fiscal 1997, the average downtime for each vessel that the Group operated was 19 hours for a fleet of 402 operating vessels. By fiscal 2014, however, we had reduced this figure to 14 hours for a fleet of 840 operating vessels. Despite more than doubling the number of operating vessels, we have steadily reduced downtime, which evidently indicates that our transport skills are advancing year by year. In addition, we have always been adaptable. Roughly 30 years ago, the Plaza Accord resulted in a sudden appreciation of the yen. Since then, the shipping industry has faced fierce cost competition and globalisation. Amid these conditions, the NYK Group has steadily developed its overseas presence in a flexible, agile manner. We have taken on ambitious initiatives and provided Creative Solutions to achieve differentiation. Thanks to these efforts, we have secured an advantageous position in the global shipping industry.

However, the pace of change in businesses affecting the shipping industry is increasing. Therefore, rather than being content with our current position, we must take the initiative to create new advantages. I want us to evolve into an open corporate group that fully exploits its advanced transport skills and adaptability to realise leading-edge transport services that extend beyond the boundaries of the conventional shipping and transport businesses. This vision for the future of the NYK Group is the basis for its new differentiation strategy. Furthermore, I think our tradition of total commitment to achieving paradigm shifts and an uninhibited corporate culture will play a very important role in creating new advantages. Another important factor is having customers worldwide view us as a partner. I believe that strong bonds with customers will make us more capable of adding value.

Okamoto It is somewhat difficult to think about the path towards the realisation of your vision for the future of the NYK Group because it requires keeping up with the speed and diversity of developments overseas, which are much more dynamic than they are domestically. Although Japan is a prosperous society, international competition is already leaving some sectors behind. It strikes me that change in the world is

Each employee expresses his or her individuality, behaves without undue constraint, and is always forward looking.

Yukio Okamoto
Independent Outside Director (part-time, independent director)
President of Okamoto Associates, Inc.
Outside Director of Mitsubishi Materials Corporation
Outside Director of NTT DATA Corporation

I want us to evolve into an open corporate group that fully exploits its advanced transport skills and adaptability to realise leading-edge transport services.

Tadaaki Naito
President, President Corporate Officer

I think the strategy of adding value to safe and dependable ocean, land, and air transportation is appropriate.

Yuri Okina
Independent Outside Director (part-time, independent director)
Vice Chairman of the Japan Research Institute, Ltd.
Outside Director of Seven Bank, Ltd.
Outside Director of Bridgestone Corporation
Corporate Auditor (part-time) of Incorporated Administrative Agency,
Nippon Export and Investment Insurance

intensifying. Such factors as the population explosion, changes in logistics, and technological evolution are having a synergistic effect. Also, there are certain negative factors at play, such as worsening geopolitical security problems. While globalisation is advancing in various regions, reactions against globalisation that has advanced too far have begun to emerge. This has polarised the world and made the international situation more unstable than before.

I think these trends will affect the Group's businesses.

The service life of vessels is about 20 years. In other words, forecasts that accurately project 20 years ahead are needed. In addition, it is difficult for the NYK Group to generate demand because, by the very nature of the shipping industry, customers generate demand. Furthermore, customers are not only in Japan but around the world. Bearing these points in mind, the Group will have to pay much more attention to the direction in which the world is moving and accordingly analyse situations with a sense of urgency.

However, the uninhibited corporate culture that President Naito mentioned is a major asset for the NYK Group. Each employee expresses his or her individuality, behaves without undue constraint, and is always forward looking. People are often reactive; they change in response to changes in external conditions. However, the NYK Group has many proactive employees who change themselves with a view to changing external conditions. I think the frontier spirit that has developed—as a result of working in an expansive environment that encompasses the world's oceans—affects the Group's corporate culture intangibly. The Group has foundations that will enable it to overcome the world's increasingly complex trends and advance into the next era.

Okina I think the strategy of adding value to safe and dependable ocean, land, and air transportation is appropriate. As Mr. Okamoto mentioned, logistics are globalising. In addition, logistics are on the brink of significant change due to the introduction of information and communications technology. The NYK Group is developing initiatives that use a range of big data. However, I think that the Group will need to provide logistics and solutions that are not only safe and dependable but also add value. Uncertainty about the global economy has grown. The United States has raised interest rates, and the trend towards monetary easing that has continued since the global recession is ending. At the same time, emerging countries' economic growth, previously a growth driver for the global economy, has begun to flag. The steering of the Group, which mainly operates in the highly volatile shipping industry, is likely to become ever more challenging.

From a long-term viewpoint, there are also many uncertainties. For example, in December 2015 the United Nations Framework Convention on Climate Change (COP 21) adopted the Paris Agreement, which stipulates global warming countermeasures, including measures to address the problem of fossil fuel use. The adoption of such measures is likely to affect the energy sector. The Group needs to anticipate not only changes in external conditions but also the effect of regulations. ■

SESSION 2

How will you lead the Group towards the realisation of your vision for the future?

Naito Recently, the shipping industry has seen the commodification of vessels and a widening of the supply-demand gap. Consequently, the degree of freight rate volatility has risen. Also, the increasing sophistication of information and communications technology has made competition even fiercer. In pursuing the vision for the future that I mentioned, there are three imperatives that we must not forget.

The first is to ensure sound business management by providing services that are safe, stable, and dependable. Amid the increasing commodification of vessels, differentiation will stem from rigorous efforts to improve the transport quality underpinning our shipping business. Moreover, these efforts will help us to build strong business foundations that are less susceptible to market fluctuations and to grow earnings and cash flows. Each Group employee enables such transport quality. Therefore, the development of as many personnel as possible with advanced transport skills and expertise is paramount. However, no matter how high the quality of our services, if we cannot provide them to customers stably, we will not earn their trust. Currently, under the medium-term management plan, we are working hard to secure businesses with stable freight rates. As well as providing us with stable earnings foundations, this strategy allows us to provide services stably.

The second imperative is innovation. And, in this regard, I am not only aiming to realise major innovations that will trigger paradigm shifts in the industry. We are in an age when the introduction of information and communications technology is making the world increasingly borderless. As a consequence, value that has taken a great deal of effort to create can become obsolete in an instant. Therefore, I think that, rather than aiming for value that is two or three steps ahead of the times, aiming half a step ahead is sufficient. In other words, it is important to constantly undertake honest reassessments of day-to-day operations. By making creative use of the insights gained from objective analyses of situations, we can realise differentiation. I want to develop foundations that will enable the entire Group to continually achieve differentiation that is half a step ahead.

Lastly, we must move towards a new business format. By this I mean we should adapt to changing conditions deftly while choosing an optimal business format for the future. It is difficult to implement selection and concentration in the manner that this strategy is generally understood because we provide transport services in such a wide range of areas. However, we intend to adjust the size of each business and the allocation of management resources. Examples of this approach include the sale of Crystal Cruises LCC in the cruises business and the liner trade segment's withdrawal from well-established Australian routes. In both examples, we have not eliminated the possibility of participating in these businesses again. We have chosen to downsize, but we could re-enter the business areas if conditions change. On the other hand, we are transforming our business format by expanding the offshore and automotive logistics businesses.

I would like us to be rooted in sound practices. At the same time, I am always looking to make us an organisation that promotes thinking outside the box and which can proceed agilely through cycles that comprise taking on ambitious initiatives, change, and growth.

Okina Each of the points you mentioned is extremely important, particularly moving towards a new business format. In a broad sense, we can invoke Darwin's theory of evolution; unless companies change, they cannot develop. Apart from the measures in the cruises business and withdrawal from routes, do you have any other initiatives in mind to transform the business format?

Naito Between 2000 and 2010, China was the key. During that time, resources flooded into China, while products flowed out of the country. For shipping, it was the era of dry bulk cargo. However, China's economic growth has softened. In addition, the country's population has peaked, removing the prospect of benefiting from population growth. Freight rates have been in a prolonged slump because the growth in the supply of dry bulk carriers has been significantly

higher than the growth in demand. In response, the NYK Group has moved towards a light-asset business model and reduced 'spot' vessels, which operate under short-term cargo contracts and are susceptible to freight rate fluctuation. Meanwhile, when considering likely growth areas, the energy business comes to mind. This business is expected to grow significantly over the next 10 years. We plan to allocate more than 70% of total investment to projects in the LNG value chain and the offshore business. Aside from energy transport related areas, we would like to focus investment on the automotive logistics business as an area that promises stable earnings. Through such initiatives, we will adapt and establish a new, optimal portfolio of businesses.

Okina How will the Group mitigate the risk inherent in the energy business?

Naito Partnerships that are built on mutual trust are key. We still do not have sufficient expertise in the energy business. Fortunately, however, the wide range of businesses that we operate has given us a network of acquaintances around the world. Also, the NYK Group has acquired name recognition during a history that spans more than 130 years. That is a huge advantage. By exploiting this advantage to find experienced, capable partners to form business relationships with, we should be able to curb risk.

Okina Investors are paying increasing attention to companies with respect to the environment, society, and governance (ESG). What are your views on simultaneously realising global warming countermeasures, which I mentioned earlier, and operating the Group's businesses?

Naito As a group providing ocean, land, and air transportation on a global scale, we should of course respond to environmental problems sincerely. Through our mainstay businesses, we would like to contribute to realising global warming countermeasures. In relation to the energy business, natural gas, which emits a lower percentage of CO_2 than oil or coal, will become an important energy source over the next several decades. Meanwhile, I think it will take time for renewable energy to become the world's mainstay power source. For some time to come, we are likely to continue using both renewable energy and fossil fuels. As the percentage of fossil fuel use decreases and the percentage of renewable energy use steadily increases, we will undertake careful monitoring to determine which type of energy source seems likely to grow and allocate management resources accordingly. This approach is the same as our approach to moving towards a new business format.

Okamoto Until five or six years ago, there was a variety of speculation about solar thermal energy, photovoltaic energy, biomass energy, and wind power. However, as President Naito says, renewable energy is unlikely to become an alternative mainstay power source for the world in the immediate future. Nevertheless, given regulatory restraints on fossil fuel uses, discarding all renewable energy options would be premature. Further, visions of the future should include such scenarios as a hydrogen energy society. The Group's involvement in the ocean transport of hydrogen gas would require the building of completely different types of carriers. Also, dedicated hydrogen gas terminals, dedicated trucks for inland transport, and hydrogen gas stations would become necessary. The development of a hydrogen energy society could structurally transform Japan. Given its need to look ahead 20 years, the NYK Group has to anticipate society's demand structure and technological developments more astutely than other companies. ■

SESSION 3

In view of that, what type of changes will you make within the Group?

Naito When we establish directions or decide matters, I think that, rather than having everyone state the same opinion, having personnel who express different, frank opinions produces better outcomes in general. Consensus on a seemingly correct opinion may appear to be a favourable state of affairs. However, there is a possibility of stopping thinking and making mistakes as a result. Therefore, I would like to cultivate an in-house atmosphere that is conducive to stating different opinions. I do not mind if some of these opinions are a little radical.

Okamoto A close friend of mine who is the president of one of Japan's flagship companies told me that he was unable to sleep soundly. He explained the reason was that he had received almost no reports about unfavourable matters and, until he received such a report, he was not able to sleep with peace of mind. I think he felt that the tendency to only report favourable matters was strange. President Naito, do you sleep well at night?

Naito I sleep well sometimes, but at other times I do not. However, as you said, it is important to receive timely reports about unfavourable matters. The other day, a young employee said to me. 'I thought my job was to perform perfectly the work given to me'. This comment made me concerned that, while claiming to have an uninhibited corporate culture, we are without realising it actually lapsing into short-sighted ways of working and gradually losing operational flexibility and organisational vitality.

Okina Although the NYK Group has an open corporate culture, perhaps further organisational development is needed. The benefits of setting out Creative Solutions as a theme are gradually emerging. For example, creativity is taking root in frontline operations, and the Group's overall ability to provide solutions is improving. However, if the Group does not take additional organisational measures, it may inhibit not only the voicing of different opinions but also the emergence of solutions that will contribute to the Group's future. Rather than a top-down approach, I think we should have personnel in frontline operations consider how to generate more Creative Solutions and how to heighten motivation in this regard.

Naito I would definitely like to incorporate your proposal. Recently, within the Group we established the *Kirari* Salon, a special room with a name reflecting the theme of Creative Solutions. The purpose of the salon is to have employees gather freely and hold frank discussions that relate to Creative Solutions and which transcend divisional boundaries. The idea of establishing the salon did not come from me but from employees. I hope that such forums will produce diverse in-house opinions. ■

SESSION 4

Can the NYK Group continue innovating?

Naito While we talk about realising innovations, there is a limit to what the NYK Group can achieve based on its capabilities. Therefore, we need to draw on the capabilities of third parties. I do not mind if we seek the cooperation of Group companies or use resources outside the Group. In fact, in the automotive logistics business we are jointly developing next-generation solutions through a collaboration that comprises the Monohakobi Technology Institute (MTI) and NYK Business Systems Co. Ltd. from inside the Group, as well as Kozo Keikaku Engineering Inc. and Weathernews Inc. from outside the Group. Also, we are working with new partners on other projects. Furthermore, I think it is important that we, in principle, provide leadership in such initiatives.

Okina I agree that exerting a certain amount of leadership when tackling projects is important for the Group. However, the pace of technological innovation is extremely fast, with a constant stream of new ideas emerging. An example of this speed has been the rapid spread of fintech (financial technology) in the financial services industry. Therefore, it is important to keep up with new trends while advancing winning ideas collaboratively. In other words, open innovation is critical.

The aim of open innovation is not to collaborate with third parties but to create things. Technology and knowledge are nothing more than the tools required to create these things. A broad array of innovations in the early

stages of development already exists. All that remains is to consider how to combine these innovations with technological capabilities, big data, information and communications technology, and other resources. At the same time, the Group should consider whether these combinations will enable services that are more efficient and which offer customers higher added value.

Okamoto I recently visited the United States for business and pleasure. While on a boat, I happened to pass close to the U.S. navy's largest shipyard. I saw an odd-looking ship comprising layers of triangular structures. The ship was in its finished form. Apparently, it will become the world's most formidable escort ship. In terms of innovation, ships are one of the most advanced modes of transport. With that in mind, the deployment of more personnel to information gathering may be beneficial to the Group.

Naito As an endeavour incorporating open innovation and information gathering, in Singapore we have established a new operating company to which we send young employees from Japan. Aiming to create an Asian Silicon Valley, Singapore's government has established a special zone for the advancement of innovation beside the campus of the National University of Singapore. We established the new company in the zone, and we hope it will become a source of innovations.

Also, we reached an agreement in relation to joint research on the use of big data for 14,000 TEU containerships with Japan Marine United Corporation in February 2016. We are proud of the considerable advances we have made in fuel-saving activities that use big data. However, we want to heighten the efficiency of vessel operations and the safety of vessels even further by working with more joint research partners to enhance the quality of our research. ■

SESSION 5

As outside directors, what are your recommendations?

Okina I would like President Naito to talk more often about his vision for the future of the NYK Group and the initiatives that he intends to tackle. More people will be sympathetic to the president's thinking if they understand how and why he is trying to change the Group and the initiatives he is tackling.

Also, among Japanese companies generally, the speed of change resulting from earnest responses to Japan's Corporate Governance Code has surprised me. At meetings of directors, I have raised questions many times during our discussions about strengthening the Group's governance. Strictly speaking, however, the Group should have held such discussions voluntarily, before the government established the code. Naturally, I would like the Group to incorporate the opinions of outside directors, but I would also like it to reflect the opinions of investors and other stakeholders more and to use such feedback as the basis of self-reform.

Naito I understand your point. In my second year as president, I intend to focus more effort on communicating with stakeholders outside the Group.

Let me summarise the main themes that I will explain to investors and other stakeholders. In my view, companies responsible for society's infrastructure should provide safe and dependable transport services at appropriate prices. However, I do not think the Group's earning power has been strong enough. Therefore, we have to take steps to strengthen earning power, including the implementation of measures to raise asset efficiency. Because the Group's business portfolio has developed beyond the boundaries of the shipping business, I intend to give investors detailed explanations of the goals of the Group and the advantages of its current portfolio.

Okamoto When conducting lectures within the Group, I get a sense of the enormous potential of its young employees. To encourage full realisation of this potential, I would like the Group to give young employees as much discretionary power as possible, thereby enabling them to drive growth.

Naito I think your recommendations are exactly right. In the process of making various decisions in day-to-day business management, the premises of decisions may shift without us noticing. Premises can shift if we approach matters exclusively based on in-house logic. Even in an uninhibited corporate culture, to approach matters in such a way would lead to introspective thinking. With that in mind, I would like to ask both of you to continue providing incisive comments on aspects of business management that strike you as being inconsistent with generally accepted business practices. ■

STRATEGIC FOCUS

Society's Choice in Transportation

In order to be a company that continues to be chosen by society, a management foundation that is able to stably provide a wide variety of transportation services is indispensable. While sharpening our competitive edge so that customers will select the NYK Group over the numerous other marine transport and distribution companies, we will examine ways to maintain and reinforce our portability in a stable manner amid rapidly changing market conditions. Going forward, we will strive for significant differentiation by constantly maintaining the strength to operate a wide variety of transportation and peripheral businesses while extending our network.

The NYK Group: Always Something New

Continuing our predecessors' pioneering spirit and taking on new, forward-looking challenges

In October 2015, the NYK Group celebrated the 130th anniversary of its establishment. For well over a century, we have remained in the vanguard of innovation and taken on ambitious initiatives to create new businesses. We marked our centenary 30 years ago by preparing our first long-term management vision, NYK21. Since then, we have diversified and globalised businesses with a view to becoming a comprehensive global-logistics enterprise that transcends traditional shipping.

Currently, we are opening up a new future by focusing on differentiation strategies in accordance with the medium-term management plan 'More Than Shipping 2018—Stage 2, Leveraged by Creative Solutions'. In these efforts, we will continue to draw on a pioneering spirit inherited from our predecessors, which has always helped us to move forward decisively no matter what difficulties we face.

The following pages show the progress of our management strategies over the past 30 years.

1985—2015

Our management strategies over the past 30 years

Developing global personnel, ensuring safe vessel operations, and benefiting society

Benefiting society

2016
Hikawa Maru designated as important cultural property

Ensuring safe vessel operations

2015
Beginning of Power⁺ Project
Reforming mindset of crew members

2008
Beginning of NYK Seamanship Calendar
Explaining causes of accidents in readily understandable way

2006
Near Miss 3000 activities
Helping shipowners and ship-management companies conduct accident-prevention activities

1998
Launch of NAV9000
Beginning original safety promotion system

Developing global personnel

2015
Beginning of Yusen Mirai Project
Emphasising appeal of shipping to younger generation

2014
Beginning of initiative for the advancement of women's careers, Project W

2013
Appointment of the Group's first Filipino captain and chief engineer to LNG carrier

2007
Opening of NYK-TDG Maritime Academy
Establishing maritime academy in Philippines, enhancement of seafarer-training capabilities

2002
Beginning of Global NYK Week
Developing national staff working at overseas bases

1989
Establishment of NYK-Fil Ship Management Inc.
Establishing manning company to train and develop Filipino seafarers and deploy them to operating vessels

Protecting environment and innovating technology

Reducing environmental burden

2016
Completion of 14,000 TEU containership, *NYK Blue Jay*, boasting industry-leading fuel efficiency

2015
Completion of Japan's first LNG-fuelled tugboat, *Sakigake*

2014
- Beginning of Big Data Utilisation Project
- Japan's first use of controlled atmosphere containers for export of domestically produced fruit and vegetables
- Completion of *Aries Leader*, incorporating latest energy-saving technologies

2008
Launch of NYK Cool Earth Project

2002
Acquisition of ISO 14001 certification
Acquiring world's first certification to include chartered vessels

1990
Establishment of Global Environment Committee

Developing original technology

2012
Beginning of IBIS Project
Aiming to realise optimised and extremely economic vessel operations

IBIS

2010
Completion of vessel incorporating air-lubrication system
Lowering CO_2 emissions by reducing friction

2009
Announcement of concept ship *NYK Super Eco Ship 2030*

2004
Establishment of Monohakobi Technology Institute
Strengthening original research and development capabilities

1997
Establishment of NYK Logistics Technology Institute

1985
Establishment of Japan Marine Science Inc.

Pursuing our management vision

MORE THAN SHIPPING

2014
MORE THAN SHIPPING 2018
Leveraged by Creative Solutions

2011
MORE THAN SHIPPING 2013
Traditional shipping with value-added strategies

NEW HORIZON

2008
NEW HORIZON 2010
Continuing evolution as global *monohakobi* (transport) company

2005
NEW HORIZON 2007
Accelerating strategies for solid growth while continuing to reinforce corporate foundation

NYK21

2003
NYK21 FORWARD 120
Taking on challenge of becoming truly global company

2000
NYK21 NEW MILLENNIUM DECLARATION
Strengthening business management through strategy of scale and strategy of synergy

1986
NYK21
Beginning to develop into comprehensive global-logistics enterprise based on NYK Group's first long-term management vision

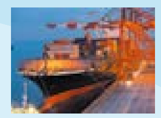
Becoming comprehensive global-logistics enterprise

Developing comprehensive global-logistics brand

2010
Establishment of Yusen Logistics Co. Ltd.
Integrating Yusen Air & Sea Service Co. Ltd., and NYK Logistics (Japan) Co. Ltd.

2005
Inclusion of Nippon Cargo Airlines Co. Ltd. (NCA) as consolidated subsidiary

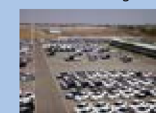
2004
Establishment of NYK Logistics (Japan) Co. Ltd.
Integrating brands of NYK Group and logistics business of JIT Corporation



1983
Establishment of JIT Corporation
Establishing forwarder in which NYK Group controls management strategy

Establishing and strengthening automotive logistics business

2014
Beginning of Symphony Project
Providing next-generation solutions for finished automobile logistics supply chains



2003
Beginning of inland transport for finished automobiles
Establishing bases in Australia, China, Southeast Asia, etc.

2001
Construction of RORO terminals
Establishing terminals in United Kingdom, Belgium, China, Thailand, etc.

Creating global network

1991
Establishment of container terminals overseas

1986
Establishment of logistics centres

1985
Establishment of Centennial Express Company
Becoming first Japanese shipping company to establish railway operating company in United States

Developing operations in energy value chain

Participating in offshore business and LNG projects

2014
Decision to participate in Cameron LNG Project
Participating in midstream operations of LNG value chain

2012
Decision to participate in Wheatstone LNG Project
Participating in upstream operations of LNG value chain

2010

- First Japanese shipping company to enter shuttle tanker business
- Participation in FPSO unit business
Developing FPSO unit business off Brazil

2009
Decision to participate in drillship business

2008
Establishment of Offshore Business Group in-house

(As of March 31, 2016)

1985—2015

Numbers Testifying to Three Decades of Dramatic Progress

Number of Employees

FY1985
3,875

FY2015
34,276

Up approx. 9 times

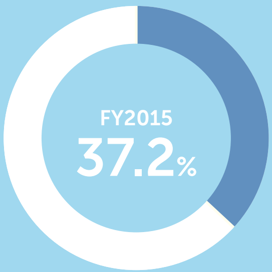
Number of Affiliates (consolidated subsidiaries and equity-method affiliated companies)

FY1985
36 affiliates

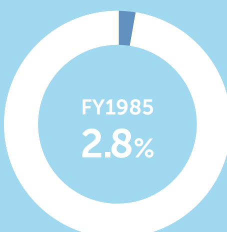
FY2015
726 affiliates

Up approx. 20 times

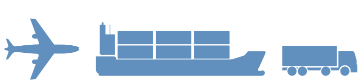
Percentage of Overseas Shareholders



Increasing internationalisation of shareholders



Revenues



FY2015
¥2,272.3 billion

Up approx. 3 times

FY1985
¥837.2 billion

Leveraging Creative Solutions to Achieve Remarkable Progress as a Comprehensive Global-Logistics Enterprise that Offers Ocean, Land, and Air Transportation

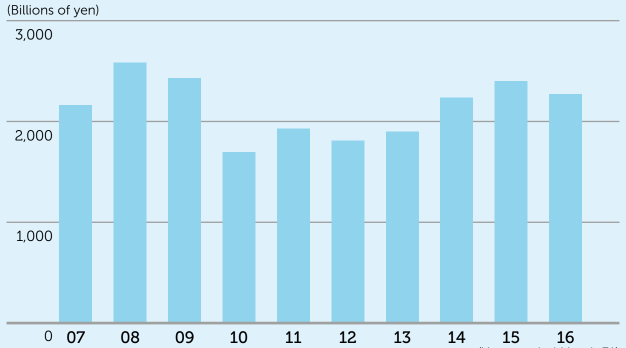
In its centennial year, fiscal 1985, the NYK Group launched full-fledged efforts to develop into a comprehensive global-logistics enterprise offering ocean, land, and air transportation. The past three decades have witnessed the appreciation of the yen, which the Plaza Accord triggered; the intensification of cost competition; and the diversification and globalisation of trade. Also, as one of the first industries exposed to globalisation, the shipping industry has undergone structural reform during this period. In response, the NYK Group has worked unstintingly to establish as advantageous a position as possible in the global shipping industry by realising differentiation through Creative Solutions.

Financial and Non-Financial Summary

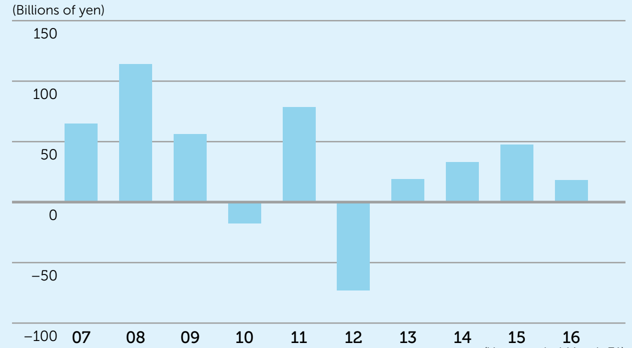
Fiscal years ended March 31	2007	2008	2009	2010	2011	2012	2013*1	2014	2015	2016	2016
	NEW HORIZON 2007		NEW HORIZON 2010			MORE THAN SHIPPING 2013			MORE THAN SHIPPING 2018		
										Millions of yen	Thousands of U.S. dollars
Results of Operation											
Revenues	¥2,164,279	¥2,584,626	¥2,429,972	¥1,697,342	¥1,929,169	¥1,807,819	¥1,897,101	¥2,237,239	¥2,401,820	**¥2,272,315**	**$20,166,091**
Costs and expenses	1,840,784	2,128,849	2,054,595	1,520,932	1,622,045	1,661,112	1,704,591	1,991,043	2,127,207	**2,009,547**	**17,834,113**
Selling, general and administrative expenses	218,553	253,698	230,463	194,504	184,777	170,831	175,075	201,200	208,419	**213,802**	**1,897,433**
Operating income (loss)	104,941	202,079	144,914	(18,094)	122,346	(24,124)	17,434	44,995	66,192	**48,964**	**434,543**
Recurring profit (loss)	107,534	198,480	140,814	(30,445)	114,165	(33,238)	17,736	58,424	84,010	**60,058**	**533,003**
Profit (loss) attributable to owners of parent	65,037	114,139	56,151	(17,447)	78,535	(72,820)	18,896	33,049	47,591	**18,238**	**161,863**
Capital expenditures	271,948	501,330	417,555	237,969	278,570	309,288	302,326	248,230	199,343	**115,791**	**1,027,616**
Depreciation and amortization	80,487	92,400	100,124	98,019	100,198	100,857	97,522	105,956	101,045	**103,347**	**917,179**
Financial Position at Year-End											
Total assets	2,135,441	2,286,013	2,071,270	2,207,163	2,126,812	2,122,234	2,430,138	2,551,236	2,569,828	**2,244,772**	**19,921,655**
Interest-bearing debt	890,754	1,022,197	1,077,956	1,081,870	981,972	1,067,125	1,292,191	1,241,963	1,098,357	**940,576**	**8,347,321**
Shareholders' equity	657,088	637,962	544,121	661,232	684,627	579,342	650,490	720,270	810,311	**773,678**	**6,866,155**
Cash Flows											
Operating activities	86,229	199,525	150,474	62,105	174,585	29,837	93,951	136,522	136,448	**142,857**	**1,267,812**
Investing activities	(178,043)	(292,510)	(170,253)	(43,706)	(162,781)	(139,402)	(135,566)	6,409	26,755	**(46,895)**	**(416,180)**
Financing activities	97,363	146,829	29,571	137,396	(100,161)	72,159	177,966	(95,485)	(199,007)	**(160,260)**	**(1,422,260)**
										Yen	U.S. dollars
Per Share Data											
Basic net income (loss)	¥ 52.99	¥ 92.93	¥ 45.73	¥ (12.71)	¥ 46.27	¥ (42.92)	¥ 11.14	¥ 19.48	¥ 28.06	**¥ 10.75**	**$0.10**
Equity	534.90	519.51	443.16	389.46	403.46	341.54	383.50	424.67	477.79	**456.21**	**4.05**
Cash dividends applicable to the year	18.00	24.00	15.00	4.00	11.00	4.00	4.00	5.00	7.00	**6.00**	**0.05**
Dividend payout ratio	34.0%	25.8%	32.8%	—	23.8%	—	35.9%	25.7%	24.9%	**55.8%**	
Managing Indicators											
Return on equity (ROE)	10.6%	17.6%	9.5%	(2.9)%	11.7%	(11.5)%	3.1%	4.8%	6.2%	**2.3%**	
Return on assets (ROA)	3.2%	5.2%	2.6%	(0.8)%	3.6%	(3.4)%	0.8%	1.3%	1.9%	**0.8%**	
Return on invested capital (ROIC)	4.7%	7.8%	5.9%	(0.4)%	4.6%	(0.6)%	1.1%	2.3%	3.1%	**2.6%**	
Debt-to-equity ratio (DER) (Times)	1.36	1.60	1.98	1.64	1.43	1.84	1.99	1.72	1.36	**1.22**	
Shareholders' equity ratio	30.8%	27.9%	26.3%	30.0%	32.2%	27.3%	26.8%	28.2%	31.5%	**34.5%**	
Environment, Society, and Governance (ESG) Data											
Number of employees (NYK and consolidated subsidiaries)	29,872	31,369	29,834	31,660	28,361	28,498	28,865	32,342	33,520	**34,276**	
NYK fleet CO_2 emissions (Thousands of tons) *2	15,922	16,969	16,739	13,991	14,525	14,749	16,007	15,705	15,575	**15,563**	
NYK fleet fuel consumption (Thousands of tons) *2	5,069	5,444	5,373	4,491	4,662	4,734	4,722	4,629	4,644	**4,619**	

*1. Figures for fiscal 2012, ended March 31, 2013, reflect the retrospective application of a change in accounting policy accompanying a revision of accounting standards.
*2 In the *NYK Report 2014* and previous reports, this data has been calculated using the amount of fuel purchased by NYK Line and Group company ships.
As of the *NYK Report 2015*, this data was recalculated using the amount of fuel used by NYK Line and Group company ships each year, based on coefficients in IMO guidelines.

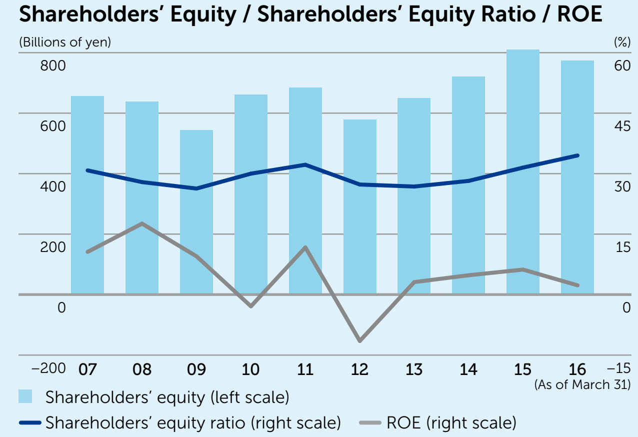
Revenues



Net Income and Loss

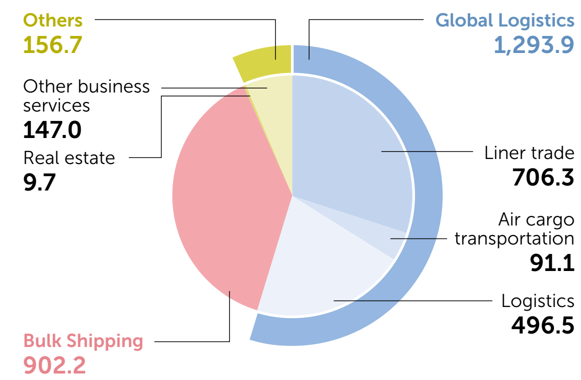


Shareholders' Equity / Shareholders' Equity Ratio / ROE



Revenues by Segment

(Billions of yen)



Analysis of Year-on-Year Change in Recurring Profit and Loss (2015 vs. 2016)

(Billions of yen)
(Years ended March 31)

Yen depreciation	12.7	Yen depreciates ¥11.59
Bunker oil price cuts	33.6	Price decreases US$258.62/MT
Shipping market effects, etc.	−57.4	Market conditions deteriorate for containerships and dry bulk vessels
Cost reduction	9.7	
Foreign exchange gains and losses	−18.6	
Other	−3.9	
Total	−23.9	

Recurring Profit and Loss by Segment

(Billions of yen)

(Years ended March 31)		2014	2015	2016	Increase and decrease
Global Logistics	Liner trade	−0.7	9.8	−0.3	−10.1
	Air cargo transportation	−7.3	0.6	1.5	0.8
	Logistics	6.5	10.7	11.8	1.0
	Total	−1.5	21.3	13.1	−8.1
Bulk Shipping		54.8	60.0	46.5	−13.4
Others	Real estate	3.8	3.2	3.3	0.1
	Other business services	1.3	1.5	0	−1.5
Consolidated recurring profit		58.4	84.0	60.0	−23.9

We will improve profitability and become even more competitive.

Tadaaki Naito
President, President Corporate Officer

Focused on Differentiation for Sustainable Growth

In fiscal 2015, the year ended March 31, 2016, our first-half and second-half business results were in stark contrast to each other. In the first half, we seemed on course to grow revenues and earnings for the third consecutive fiscal year. In the second half, however, business conditions deteriorated rapidly. As a result, full-year business results were below expectations. Based on results for the first quarter of fiscal 2016, the year ending March 31, 2017, the outlook remains unclear, with market conditions remaining lacklustre.

In today's shipping industry, vessel commodification is advancing, and differentiating vessels based on their tangible attributes as hardware is becoming increasingly challenging. The Baltic Dry Index, which indicates chartering market rates for dry bulk carriers that transport iron ore or coal, no longer correlates with the supply-demand gap. Despite an improvement in the supply-demand gap, the Baltic Dry Index has not risen. The high level of monetary liquidity worldwide has triggered a flow of speculative money from financial markets into the shipping industry. Consequently, despite being part of the transport infrastructure, vessels are being treated as if they are financial products.

I want to offer differentiated transport services to ensure that we meet the expectations of customers and remain their first choice.

The inability of existing paradigms to adequately explain current business conditions has made me focus even more closely on sustainable business growth. Given the uncertain outlook, I think we should offer differentiated transport services to ensure that we meet the expectations of customers and remain their first choice.

As transport demand diversifies, effective use of our expertise and technological capabilities is the key to realising safe and dependable *monohakobi* (transport). With the spirit of providing vital infrastructure to the global economy, we will continue steady efforts so that we are widely recognised as a provider of differentiated transport services and remain at least half a step ahead of competitors.

Progress under the Medium-Term Management Plan

Fiscal 2016 is the intermediate fiscal year of our five-year medium-term management plan that we began in fiscal 2014. Under the plan, we are targeting recurring profit of ¥160 billion in fiscal 2018. As a milestone on the way to achieve this target, we set a fiscal 2015 target for recurring profit of ¥90 billion. Unfortunately, however, we only recorded recurring profit of ¥60 billion in the fiscal year under review. The main reason for not reaching the target was the rapid worsening of business conditions that I mentioned earlier. Nevertheless, we will achieve the targets of the medium-term management plan by continuing to build business foundations that can stably generate cash flows no matter what the business conditions.

1. Securing Businesses with Stable Freight Rates

In fiscal 2015, businesses with stable freight rates generated recurring profit of about ¥110 billion. The fall in crude oil prices has postponed many projects for the development of offshore oil and gas fields. As a result, earnings are unlikely to grow significantly in fiscal 2016. However, two FPSO units and two LNG carriers will begin operations in the current fiscal year. Therefore, earnings should return to a growth trajectory from fiscal 2017. Also, efforts to secure businesses with stable freight rates in the Dry Bulk Division are progressing steadily thanks to the conclusion of numerous medium-to-long-term contracts for dry bulk carriers in fiscal 2015.

2. Restructuring Businesses that are Susceptible to Market Fluctuations

Although the recent slump in the shipping industry has prompted efforts to reduce vessel supply, the continuing high level of vessel supply and flows of speculative money from financial markets will offset such efforts. Consequently, a marked improvement in market conditions is unlikely for the time being. Therefore, rather than focusing on benefiting from upturns in freight rates, we will give priority to minimising damage when they fall. In other words, we will seek a mix of vessel ownership formats within our fleet portfolio that is commensurate with business risk.

In fiscal 2015, focusing on the dry bulk business in particular, we executed restructuring through vessel scrapping and the recognition of impairment losses. Our strategy of rapidly eliminating the contract-period mismatch between cargo and vessel procurement is unchanged. Viewing adverse business conditions as providing a good opportunity for achieving improvements, we regard the current period as a transitional phase in which we can focus on heightening the quality and efficiency of operations. By enhancing shipping expertise to realise safe, energy-saving vessel operations, we will enhance our competence as an operator.

Furthermore, Nippon Cargo Airlines Co. Ltd. (NCA), which had struggled amid sluggish air cargo demand, posted earnings for the second consecutive fiscal year. NCA has been able to entrench profitability by using the latest aircrafts to enhance utilisation rates and deploying aircrafts flexibly to match customer needs. The company has removed almost all of the barriers that characterised the vertical organisation it once had. This restructuring has enabled lateral initiatives, which have produced favourable results. Although air cargo demand remains low, at approximately 70% of its level before the global recession in 2008, to ensure that NCA stays in the black, we will further evolve existing initiatives while searching for new business partners.

We will collaborate to create unique, IT-enabled, high-value-added services.

3. Advancing Businesses that Offer Opportunities

As the rapid increase in the world's population is set to continue for some time, the demand for global energy is expected to increase 1.4 times over the next 25 years. The present slump in crude oil prices has led to the postponement of development in many oil and gas fields. However, given the world's population growth, from a medium-to-long-term perspective, the importance and potential of energy transport is beyond doubt. For this reason, we will establish sound growth strategies and take actions as required. (For details, please see pages 66 to 69.) As with the Energy Division, the Car Carrier Division is likely to see its market grow. In addition to the Car Carrier Division, which boasts one of the world's largest car carrier fleets and shipping-route networks, the NYK Group also has an industry-leading automotive logistics business.

In the automotive logistics business, we are not only expanding and improving business foundations but also exploiting software and other information technology to advance innovative development. While we have been advancing research and development centred on the automotive logistics business in Asia since July 2014, we accelerated these initiatives by jointly establishing Symphony Creative Solutions Pte. Ltd. in Singapore in March 2016 with the Monohakobi Technology Institute (MTI) and NYK Business Systems Co. Ltd., which are Group companies; Weathernews Inc.; and Kozo Keikaku Engineering Inc. By responding to rapid advances in such fields as the Internet of Things (IoT), we will provide customers with ground-breaking solutions that cater to increasingly sophisticated needs at logistics sites. The Car Carrier Division, responsible for ocean transport, and the automotive logistics business, which handles inland transport, will collaborate to create unique, IT-enabled, high-value-added services.

4. Achieving Further Growth in the Liner Trade Segment

In recent years, destructively fierce competition has characterised the liner trade segment's business area. Rather than facing such competition directly, we view the liner trade segment as a single unit that combines container terminal operations and logistics. Our basic strategy is to generate stable earnings in the liner trade segment as a whole through the establishment of a business model less susceptible to market fluctuations. This strategy entails the three businesses collaborating and supporting each other to grow business scale.

The liner trade segment will capitalise on data analysis to strengthen its marketing capabilities, and the segment will establish capabilities allowing it to revise services and reorganise shipping routes flexibly. At the same time, we are aiming to heighten operational efficiency by upgrading operational software. Further, by adhering to the existing strategy of moving towards an asset-light business model, we will heighten competitiveness without recklessly increasing the segment's fleet size.

New Initiatives 'Leveraged by Creative Solutions'

Fiscal 2016 is the second year of promoting initiatives that are 'Leveraged by Creative Solutions', the overriding theme of the medium-term management plan. My commitment to these initiatives is borne from a sense of crisis. I feel that if we do not encourage self-reform, changing business conditions may leave us behind, and by the time we realise what has happened it will be too late.

In the first year of promoting initiatives that are 'Leveraged by Creative Solutions', I had a tangible sense of the transformation our corporate culture was undergoing. Actually, we launched *Kirari Dojo* (Creative Solutions Workshops) aimed at fostering project managers, and we made use of the Creative Solutions Development Fund to establish a new company. Furthermore, we held *Kirari Dojo*, which produced lively discussions, not only in Tokyo but also in Singapore. It is reassuring to see local personnel overseas embarking upon ambitious efforts to create a new corporate culture.

Also, our Tokyo Headquarters has seen the launch of a new initiative, the OLIVE project, which is tasked with changing work styles to enhance productivity and creativity. With a view to realising differentiation, even this small-scale initiative will help change employees' mindsets. I find the emergence of such initiatives encouraging and I would like to launch more initiatives focused on Creative Solutions in fiscal 2016.

Social Responsibility as an Opportunity

Our mission is to contribute to the betterment of societies by providing safe and dependable *monohakobi* (transport). As a corporate group engaged in ocean, land, and air transportation, environmental issues affect us directly. Worldwide, the implementation of environmental measures is accelerating. In December 2015, the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) adopted the Paris Agreement. In addition, international regulations on the gas emissions of vessels are being strengthened in stages. Our careful monitoring of such trends and prompt response to them is essential. Based on our environmental vision, we will bolster our global capabilities for environmental management.

As well as intensifying fuel-saving initiatives, we are taking a range of measures focused on natural gas, which produces less greenhouse gas emissions than other fossil fuels. Ahead of other companies, we have succeeded in creating a viable LNG-fuelled vessel. Furthermore, we are to participate in a business that will supply LNG fuel to vessels offshore. Before the use of LNG fuel becomes widespread, there are issues to be resolved. However, given the business community's considerable interest in LNG fuel, we hope its use will spread with increasing speed and create a new market.

Amid current conditions, survival will be difficult for companies that society does not view as necessary. Recently, initiatives in relation to the environment, society, and governance (ESG) have become an increasingly important factor in society's evaluation of companies. As well as being among the NYK Group's highest priorities, safety and environmental preservation are key components of ESG initiatives. I believe that sincerely fulfilling social responsibilities in relation to such issues will heighten our competitiveness and be an indispensable factor in achieving the Group's sustainable growth.

More Transparency in Business Management

We are planning to implement a series of measures to strengthen corporate governance. We will reduce the number of internal directors from 11 to 9 and increase the number of outside directors from 2 to 3, giving us a total of 12 directors. In other words, a quarter of NYK board members will now be external directors.

Moreover, we intend to reform the directors' remuneration system by introducing a performance-based stock remuneration plan. It could be argued that such a system is unsuitable for the NYK Group because, to a large extent, its business results are reliant upon external factors. However, our aim is to accumulate stable earnings and thereby achieve sustainable growth. We also want to enhance the relationship between the senior management team and shareholders by having a common interest through pursuing enhanced corporate value over the medium-to-long term. We will submit all of the abovementioned governance-strengthening measures as agenda items to be considered, and hopefully approved, at the General Meeting of Shareholders convened in June 2016.

> **Efforts to improve our business structure will enhance profitability and make us even more competitive.**

Although the medium-term management plan calls for ROE of 12% in fiscal 2018, currently ROE is 2.3%, significantly below this target. In response to the present business conditions, we will curb investment in new vessels. However, there are many other promising investment possibilities, including initiatives in automotive logistics, which has the potential to become a new growth driver, and initiatives resulting from IoT strategies. Meanwhile, in light of the risk inherent in businesses that remain highly volatile, failure to keep retained earnings at a certain level could impede not only investment for growth but also business continuity. Therefore, I believe that, rather than purchasing treasury stock with funds that should be earmarked for investment, it is important to maintain retained earnings above a certain level while taking investment decisions based on a strong awareness of capital efficiency.

In recent years, we have steadily reduced the number of strategic-holding shares to half of their former level. While we should keep in mind the necessity of such shares for business activities, we do not intend to change our policy of reducing strategic-holding shares.

In Conclusion

Since becoming president, I have received assistance from many people and gained a sense of the real progress we are making across a broad spectrum of areas. Looking ahead, I plan to visit Asia (including India) frequently to meet key customers and business partners with a view to unearthing new business opportunities in the region.

The NYK Group has a diverse business portfolio. This diversity enables us to generate stable cash flows because even if one business does not perform well, other businesses can compensate for it. Aiming to reinforce this advantage further, we will improve our standing and profitability by moving towards an asset-light business model in businesses that are susceptible to market fluctuations while securing businesses with stable freight rates. Although we are facing challenging business circumstances at present, these efforts will improve profitability and make us even more competitive.

As we evolve, we will remain committed to working in consultation with all stakeholders to enhance corporate value.

June 2016

Tadaaki Naito
President, President Corporate Officer

A Message from the Chief Financial Officer

Eiichi Takahashi
Director, Managing Corporate Officer
Chief Financial Officer

Business Results

In the first half of fiscal 2015, NYK Group's business results were relatively better, but the shipping market deteriorated sharply in the second half and the yen appreciated steeply at the end of the fiscal year. As a result, full-year revenues and earnings declined, with recurring profit decreasing ¥23.9 billion year on year, to ¥60.0 billion.

Nevertheless, during fiscal 2015 we took various measures for restructuring our business portfolio to stabilise our profitability. We sold Crystal Cruises LLC, of the United States, in the cruises segment, while in the Dry Bulk Division we sold owned vessels, redelivered chartered vessels, and recognised impairment losses.

Lacklustre market conditions are likely to continue further, and we foresee fiscal 2016 to be an even more challenging year. We expect fiscal 2016 recurring profit to decrease approximately ¥25 billion year on year, to ¥35 billion, due to depressed container freight rates, weaker crude oil tanker markets, a decline in automobile transport volume, and stronger yen, even though we can expect some slight improvement in the Dry Bulk Division as a result of the restructuring we undertook at the end of fiscal 2015.

We will continue rigorously pursuing a policy of accumulating stable earnings from businesses with stable freight rates while strengthening our tolerance to the recent extremely volatile shipping market.

Financial Position and Cash Flows

Improvement in the NYK Group's financial position by the end of fiscal 2015 has surpassed the medium-term management plan's targets. In fiscal 2015, interest-bearing debt decreased ¥157.7 billion year on year, to ¥940.5 billion, thanks to significant contributions from stepped-up collection of receivables and efficient use of capital, while the debt-to-equity ratio decreased 0.14 points, to 1.22. Also, the shareholders' equity ratio reached its highest level since we began consolidated financial accounting, rising 3.0 percentage points, to 34.5%.

As for cash flows in fiscal 2015, net cash provided by operating activities edged up year on year to ¥142.8 billion, reflecting steadily strengthening cash-generation capabilities. Mainly as a result of delaying certain planned investments, net cash used in investing activities of ¥46.8 billion was markedly below our initial forecast of ¥120.0 billion.

In fiscal 2016, we expect negative free cash flow as a result of recording net cash used in investing activities of approximately ¥200.0 billion. However, calculations on a cumulative basis from the beginning of the medium-term management plan starting fiscal 2014 indicate that we remain on course to secure positive free cash flow. We intend to use abundant funds on hand for investment in order to avoid increasing interest-bearing debt.

Due to the scale of investments in the shipping industry, shipping companies have to strengthen their financial position and monitor their credit rating to ensure flexible fund-raising. Current circumstances surrounding shipping companies are quite challenging. Our medium-term strategy remains unchanged. Namely, by keeping on investing in the areas where we consider we can generate stable earnings, each business segment can grow positive operating cash flow, boost shareholders' equity, and control interest-bearing debt.

Capital Strategy

For returns to shareholders, our basic policy is to achieve stable dividends regardless of business results, with a guideline of dividend payout ratio at 25%. At the same time, we aim to meet shareholders' expectations through appropriate investment of capital in high-quality projects to heighten corporate value further.

I would like to ask for continued understanding of our intention to invest cash generated from mainstay businesses actively to enhance ROE and shareholder value going forward.

Fleet in Operation: Five-Year Projection (Number of vessels)

	①When preparing MTS*1 2018	March 31, 2015	March 31, 2016	② March 31, 2019*5 (plan)	Change ① vs ②
Containerships	99	104	99	85	−14
Car carriers	119	123	119	125	6
Dry bulk carriers:					
Capesize*2	126	123	108	100	−26
Post-Panamax, Panamax*3	97	113	105	85	−12
Handysize*4 (including box shape)	164	172	164	165	1
Wood chip carriers	48	48	47	45	−3
Liquid:					
Tankers	77	68	68	70	−7
LNG carriers (including co-owned vessels)	67	69	68	100+α	33+α
Other (conventional ships, reefers, etc.)	79	51	43	60	−19
Total	876	871	821	835+α	−41+α

Vessels operated by KNOT

Shuttle tankers	27	28	28	34	7

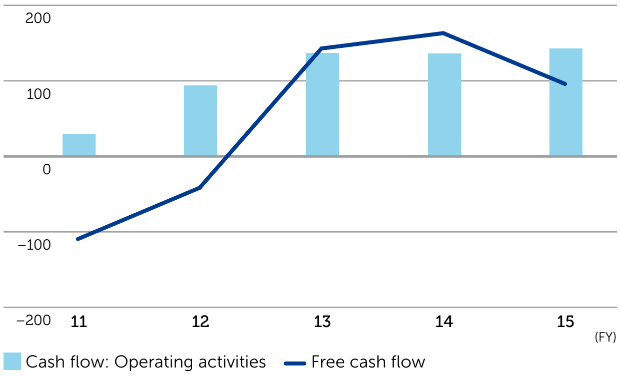
Asset-light business model
Priority investment
*1. More Than Shipping
*2. DWT (deadweight tonnage) of 120,000 tons or more
*3. DWT of 60,000 tons or more but less than 120,000 tons
*4. DWT of less than 60,000 tons
*5. Announced on March 31, 2014, in the MTS 2018 medium-term management plan

Earnings and Financial Targets (Billions of yen)

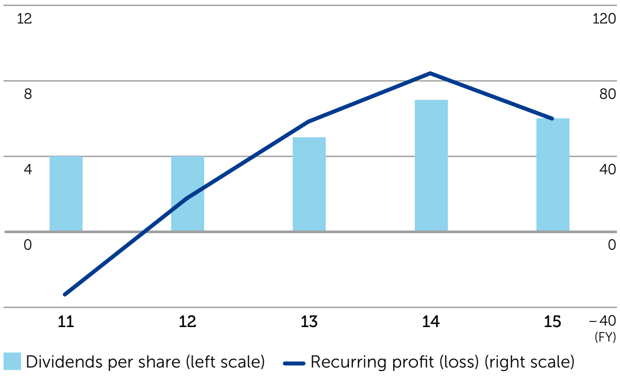
	2014 (result) 1st year of medium-term management plan	2015 (result) 2nd year of medium-term management plan	YoY change	2016 (forecast) Announced on April 28, 2016 3rd year of medium-term management plan	YoY change	2018 (plan)* 5th (final) year of medium-term management plan
Revenues	2,401.8	2,272.3	−129.5	2,180.0	−92.3	2,500.0
Operating income	66.1	48.9	−17.2	27.5	−21.4	120.0
Recurring profit	84.0	60.0	−23.9	35.0	−25.0	160.0
Profit attributable to owners of parent	47.5	18.2	−29.3	15.0	−3.2	120.0
Cash flow: Operating activities	136.4	142.8	6.4	100.0	−42.8	220.0
Cash flow: Investing activities	26.7	−46.8	−73.6	−200.0	−153.2	−130.0
Interest-bearing debt	1,098.3	940.5	−157.7	1,000.0	59.5	1,000.0
Shareholders' equity	810.3	773.6	−36.6	780.0	6.4	1,000.0
Total assets	2,569.8	2,244.7	−325.0	–	–	2,650.0
Debt-to-equity ratio (DER) (Times)	1.36	1.22		1.28		1.00
Shareholders' equity ratio	31.5%	34.5%		34.0%		38.0%
Return on equity	6.2%	2.3%		2.0%		12.0%
Dividend payout ratio	25%	56%		45%		25.0%
Currency exchange rate (¥/US$)	¥109.19	¥120.78	−¥11.59	¥110.00	−¥10.78	¥100.00
Bunker oil price (US$/MT)	$557.28	$298.66	−$258.62	$200.00	−$98.66	$640.00

* Announced on March 31, 2014, in the MTS 2018 medium-term management plan

Enhancing Cash-Flow Generation Capabilities Steadily



Maintaining Stable Dividends



Management's Discussion and Analysis

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31)

Overview

During the fiscal year under review, the economic climate in the United States stabilised amid a recovery in employment conditions and housing investment, while signs of moderate economic growth continued to be seen in the Eurozone. In China, however, the slowdown of the economy became apparent and the economic environment became unstable with various economic indicators worsening due to sluggish demand. Economic growth in other emerging countries was negatively affected by declining prices of finished products, which reflected falling prices of crude oil and other resources along with the problem of excess production capacity. In Japan, the economy benefited overall from the depreciation of the yen in the first half of the fiscal year, but owing to the yen's appreciation from the third quarter, the economy had yet to make a full-blown recovery.

In the global maritime shipping industry, the steady appearance of newly built ultra-large containerships has been driving an oversupply of tonnage in the container shipping market. At the same time, conditions in the shipping market as a whole severely stagnated as declining demand for freight shipments for Europe-bound routes widened the gap between supply and demand. Conditions in the Liquid Division were favourable; however, in the Dry Bulk Division, spot freight rates fell to historical lows against the backdrop of falling raw material prices, contraction of steel and other materials, and the economic slowdown in China. Altogether, these factors made the operating environment extremely challenging for the NYK Group. In response, the Group worked to generate profits from businesses in which freight rates are stable, while continuing to further improve its balance of income and expenditures through a number of measures, including reorganising container shipping routes and selling off and returning unprofitable vessels, particularly dry bulk carriers. Meanwhile, the Group's non-shipping businesses performed strongly, with the air cargo transportation segment and logistics segment both recording solid results.

Against this backdrop, consolidated revenues decreased ¥129.5 billion, or 5.4%, compared with the previous fiscal year. Likewise, cost and expenses were down ¥117.6 billion, or 5.5%. Income also decreased year on year at every level, with operating income falling ¥17.2 billion, or 26.0%, and recurring profit dropping ¥23.9 billion, or 28.5%. Despite extraordinary income from the sale of North America based Crystal Cruises LLC, NYK Line recorded extraordinary loss from impairment loss on dry bulk carriers, which contributed to a year on year decrease in profit attributable to owners of parent of ¥29.3 billion, or 61.7%.

Review of Change in Financial Position

As of March 31, 2016, the end of the fiscal year under review, consolidated assets totalled ¥2,244.7 billion, a decrease of ¥325.0 billion compared with the end of the previous fiscal year.

Consolidated liabilities totalled ¥1,400.5 billion, a decrease of ¥288.4 billion compared with the end of the previous fiscal year, mainly due to the repayment of interest-bearing debt. Under consolidated equity, retained earnings increased ¥3.3 billion compared with the end of the previous fiscal year, while shareholders' equity—the

Consolidated Operating Performance (Billions of yen)

	FY2014 (result)	FY2015 (result) 1Q	2Q	3Q	4Q	Full year	Change year on year	FY2016 (forecast)	Change year on year
Revenue	2,401.8	588.7	609.5	568.3	505.6	2,272.3	−129.5	2,180.0	−92.3
Operating income	66.1	17.4	21.1	8.5	1.7	48.9	−17.2	27.5	−21.4
Recurring profit	84.0	21.5	21.2	13.3	4.0	60.0	−23.9	35.0	−25.0
Profit (loss) attributable to owners of parent	47.5	43.0	11.7	−31.9	−4.5	18.2	−29.3	15.0	−3.2
Currency exchange rate (¥/US$)	¥109.19	¥120.97	¥122.56	¥121.23	¥118.37	¥120.78	−¥11.59	¥110.00	¥10.78
Bunker oil price (US$/MT)	$557.28	$357.71	$349.69	$276.00	$211.22	$298.66	−$258.62	$200.00	−$98.66

aggregate of shareholders' capital and total accumulated other comprehensive income—amounted to ¥773.6 billion. This amount combined with non-controlling interests of ¥70.5 billion brought total equity to ¥844.2 billion. Based on this result, the debt-to-equity ratio came to 1.22.

Analysis of Capital Sources and Liquidity

Cash Flows

In the fiscal year ended March 31, 2016, net cash provided by operating activities amounted to ¥142.8 billion. Main items included profit before income taxes of ¥63.7 billion, non-cash depreciation and amortization of ¥103.3 billion, and interest expenses paid of ¥17.2 billion. Net cash used in investing activities totalled ¥46.8 billion, reflecting both the purchase of and proceeds from sales of vessels, property, plant and equipment and intangible assets. Net cash used in financing activities was ¥160.2 billion, mainly due to repayments of long-term loans payable. As a result of these factors, the balance of cash and cash equivalents stood at ¥253.6 billion as of March 31, 2016, down ¥73.6 billion compared with the beginning of the fiscal year on April 1, 2015, after taking into account the effect of exchange rate fluctuations.

Funding Requirements and Capital Expenditures

Most of the working capital that the NYK Group requires is for transportation operations related to the Group's liner trade segment and bulk shipping segment. These funds are primarily used to cover cargo expenses, fuel expenses, port charges, and other operating expenses as well as ship expenses, such as crews and vessel repairs, and the charterage of vessels. In addition, the Group incurs labour and other administrative expenses in its logistics, terminal and harbour transport, and air cargo transportation segments. Each business has labour, information processing, and general and administrative expenses.

The Group also invests in vessels and aircraft and in logistics and terminal facilities. Capital expenditures during the fiscal year totalled ¥115.7 billion.

Financial Policies

The NYK Group uses a variety of sources to stably procure the funds required for its business activities and growth. The objective is to procure funds in a manner that is not detrimental to the Group's financial soundness and that does not expose the Group to excessive risk in any category of market risk. To accomplish this, the Group obtains funds through loans from financial institutions and the issuance of bonds and commercial paper. The Group also uses leases for vessels and aircraft and medium-to-long-term charters for vessels.

Expenditures for vessels—the Group's main category of equipment—are made using long-term borrowings with currencies and tenors matching the future cargo freight revenue and vessel rental income generated by the operating activities of individual vessels; using funds procured through issues of shares and corporate bonds; and from retained earnings. In addition, investment in logistics and terminal facilities is also made with stable funds that match future cash flows.

Working capital is primarily procured via short-term loans with tenors of no more than one year and the issuance of commercial paper, but long-term loans are used as well. As of March 31, 2016, the outstanding amount of long-term borrowings stood at ¥690.0 billion, denominated in U.S. dollars, euros, and other currencies in addition to yen and comprising both fixed- and floating-rate loans. The outstanding amount of funds procured via capital markets from corporate bond issues totalled ¥145.4 billion as of March 31, 2016.

The Group strives to maintain capital liquidity, and in addition to its ¥100.0 billion facility for the issuance of commercial paper as of March 31, 2016, and a syndicated commitment line (borrowing facility) from financial institutions denominated in yen and U.S. dollars, a cash management system is used to improve capital efficiency through financing within the Group.

The NYK Group has credit ratings from two agencies in Japan and one overseas. As of March 31, 2016, the NYK Group's long-term corporate credit was rated A+ by Japan Credit Rating Agency, Ltd. (JCR), A– by Rating and Investment Information, Inc. (R&I), and Baa2 by Moody's Investors Service, Inc.

Ratings (As of March 31, 2016)

Japan Credit Rating Agency, Ltd. (JCR)	2014	2015	2016
Long term	A+	A+	A+
Rating and Investment Information, Inc. (R&I)			
Issuer	A–	A–	A–
Short term	a-1	a-1	a-1
Moody's Investors Service, Inc.			
Issuer	Baa2	Baa2	Baa2

Directors, Audit and Supervisory Board Members, and Corporate Officers

(As of June 20, 2016; Number of shares held as of April 30, 2016)

Yasumi Kudo

Chairman, Chairman Corporate Officer
Number of shares held 164,336

1975 Joined the Company
1998 General Manager of Semi-Liner Group
2002 Corporate Officer
2004 Managing Director and Corporate Officer
2006 Representative Director, Senior Managing Corporate Officer
2008 Representative Director, Executive Vice-President Corporate Officer
2009 President, President Corporate Officer
2015 Chairman, Chairman Corporate Officer (to the present)

Tadaaki Naito

President, President Corporate Officer
Number of shares held 122,750

1978 Joined the Company
2004 General Manager of Petroleum Group
2005 Corporate Officer
2007 Managing Corporate Officer
2008 Director, Managing Corporate Officer
2009 Representative Director, Senior Managing Corporate Officer
2013 Representative Director, Executive Vice-President Corporate Officer
2015 President, President Corporate Officer (to the present)

Naoya Tazawa

Representative Director,
Executive Vice-President Corporate Officer
Chief Executive of Technical Headquarters
(Executive Chief of Environmental Management (ECEM), Chairman of Technology Strategy Committee)
Number of shares held 129,192

1978 Joined the Company
2002 General Manager of Human Resources Group
2005 Corporate Officer
2007 Managing Corporate Officer
2009 Director, Managing Corporate Officer
2010 Representative Director, Senior Managing Corporate Officer
2015 Representative Director, Executive Vice-President Corporate Officer (to the present)

Hitoshi Nagasawa

Representative Director,
Senior Managing Corporate Officer
Chairman of Tramp Shipping Strategy Committee
Chief Executive of Energy Division
Number of shares held 107,091

1980 Joined the Company
2004 General Manager of LNG Group
2007 Corporate Officer
2009 Managing Corporate Officer
2011 Director, Managing Corporate Officer
2013 Representative Director, Senior Managing Corporate Officer (to the present)

Koichi Chikaraishi

Representative Director,
Senior Managing Corporate Officer
Chief Executive of Automotive Transportation Headquarters
Number of shares held 86,214

1980 Joined the Company
2003 General Manager of Petroleum Product and LPG Group
2009 Corporate Officer
2012 Director, Managing Corporate Officer
2013 Representative Director, Senior Managing Corporate Officer (to the present)

Masahiro Samitsu

Director, Senior Managing Corporate Officer
Chief Executive of Dry Bulk Division
Number of shares held 64,730

1980 Joined the Company
2003 General Manager of Bulk/Energy Atlantic Group
2009 Corporate Officer
2013 Director, Managing Corporate Officer
2015 Director, Senior Managing Corporate Officer (to the present)

Hidetoshi Maruyama

Director, Senior Managing Corporate Officer
Chairman of IT Strategy Committee
Chief Information Officer
Chief Executive of Global Logistics Services Headquarters
Number of shares held 54,256

1981 Joined the Company
2008 Corporate Officer, General Manager of Container Trade Management Group
2013 Director, Managing Corporate Officer
2016 Director, Senior Managing Corporate Officer (to the present)

Yoshiyuki Yoshida

Director, Managing Corporate Officer
Chief Executive of General Affairs Headquarters
Chief Compliance Officer
Number of shares held 70,575

1981 Joined the Company
2005 General Manager of Tramp Co-ordination Group
2011 Corporate Officer
2015 Director, Managing Corporate Officer (to the present)

Eiichi Takahashi

Director, Managing Corporate Officer
Chief Executive of Management Planning Headquarters
Chief Financial Officer
Number of shares held 46,085

1982 Joined the Company
2010 General Manager of Accounting Group
2012 Corporate Officer
2016 Director, Managing Corporate Officer (to the present)

Change in number of directors

After the appointment of directors at the General Meeting of Shareholders held in June 2016, the Company continued its efforts to reinforce its management structure.

Number of internal directors

2005	2015	2016
17	11	9

Number of outside directors

2005	2015	2016
0	2	3

Senior Managing Corporate Officers

Koichi Akamine
Yasuo Tanaka

Managing Corporate Officers

Hitoshi Oshika
Kazuo Ogasawara
Hiroyuki Okamoto

Corporate Officers

Takuji Nakai
Yuji Isoda
Svein Steimler
Jeremy Nixon
Tomoyuki Koyama
Keiji Tsuchiya
Hiroki Harada
Noriko Miyamoto
Toshiyuki Kimura
Akira Kono
Takaya Soga
Kobune Goto
Motoyuki Nose
Koji Kondo
Koichi Uragami
Shohei Yamamoto
Yutaka Higurashi

Audit and Supervisory Board Members

Hiroshi Sugiura
Yoko Wasaki

Independent Outside Directors and Audit and Supervisory Board Members

(As of June 20, 2016; Number of shares held as of April 30, 2016)

Yukio Okamoto

Independent Outside Director

Number of shares held 85,938
Attendance at Board of Directors' meetings: 14/14

Resume
1968 Joined Japan's Ministry of Foreign Affairs
1991 Resigned from the ministry
1991 President of Okamoto Associates, Inc. (current position)
1996 Special Adviser to the prime minister
1998 Resigned from the position
2001 Special Adviser to the cabinet secretariat
2003 Resigned from the position; Special Adviser to the prime minister
2004 Resigned from the position
2008 Outside Director of NYK (part-time, independent director)

Yuri Okina

Independent Outside Director

Number of shares held 64,314
Attendance at Board of Directors' meetings: 14/14

Resume
1984 Joined Bank of Japan
1992 Joined the Japan Research Institute, Ltd.
1994 Chief researcher of the institute
2000 Senior researcher of the institute
2001 Visiting professor of Graduate School of Keio University
2006 Research Director of the Japan Research Institute, Ltd.
2008 Outside Director of NYK (part-time, independent director)
2014 Vice Chairman of the Japan Research Institute, Ltd. (current position)

Yoshihiro Katayama

Independent Outside Director

Number of shares held 0
Attendance –

Resume
1974 Joined Japan's Ministry of Home Affairs
1998 Resigned from the ministry
1999 Governor of Tottori Prefecture
2007 Completed term as governor
Professor at Keio University (current position)
2010 Minister for Internal Affairs and Communications
2011 Left office from the ministry
2016 Outside Director of NYK (part-time, independent director)

Toshio Mita

Independent Outside Audit and Supervisory Board Member

Number of shares held 10,819
Attendance Board of Directors' meetings: 11/10
Audit and Supervisory Board: 10/10

Resume
1969 Joined Chubu Electric Power Company, Incorporated
2003 Director and General Manager of the Tokyo office of the company
2005 Director and Managing Executive Officer,
General Manager of Customer Service Division of the company
2006 President and Director of the company
2007 President and Director (Executive Officer) of the company
2010 Chairman of the company
2015 Honorary Advisor of Chubu Electric Power Company, Incorporated
(current position)
Outside Audit and Supervisory Board Member of NYK
(part-time, independent audit and supervisory board member)

Hirohide Yamaguchi

Independent Outside Audit and Supervisory Board Member

Number of shares held 0
Attendance –

Resume
1974 Joined Bank of Japan
2006 Executive Director of Bank of Japan
2008 Deputy Governor of Bank of Japan
2013 Retired from the bank
2013 Chairman of the Advisory Board of Nikko Research Center, Inc.
(current position)
2016 Outside Audit and Supervisory Board Member of NYK
(part-time, independent audit and supervisory board member)

Independence Criteria for Recommendation of Candidates for Outside Director and Audit and Supervisory Board Members

1. NYK appoints individuals who have extensive experience as corporate managers or who have advanced insight regarding international affairs and social and economic trends and seeks to ensure appropriate decision making and transparency from diverse perspectives and to strengthen oversight functions.
2. NYK gives consideration to impartiality and appoints individuals for whom there is no concern over potential conflicts of interest with general shareholders.

Transaction Relationships, Conflicts of Interest

The NYK Group had no conflicts of interest with the three outside directors and the two outside audit and supervisory board members.

A Message from the Chairman

Yasumi Kudo
Chairman, Chairman Corporate Officer

工藤泰三

Our Sound, Transparent Governance

During the past year, I have attended meetings of the NYK Group's Board of Directors in my capacity as chairman. For me, the experience has reconfirmed the effectiveness of the Group's governance. At the meetings, outside directors request numerous detailed explanations. In response, internal directors provide readily understandable quantitative and qualitative explanations.

The NYK Group has an array of different business areas. In such a corporate group, the president cannot analyse everything single-handedly. The combined capabilities and perspectives of the other members of the Board of Directors ensure that discussions about which investment initiatives should be given priority taking into account the Group's entire business portfolio and the need for overall optimisation. The process of reaching these conclusions reassures me of the commitment and dependability of all board members because they function like an 'NYK team' making a concerted effort to discuss each matter exhaustively.

Outside directors analyse each investment proposal in light of their respective fields of expertise. For example, with respect to an initiative proposed for new investment, outside directors advised undertaking the diversification of our regional portfolio by considering added country risk, such as Brazil. Consequently, after further discussion, the proposal was postponed. Cases such as this impress upon me the importance of outside directors' input.

Meanwhile, outside audit and supervisory board members check for problems in our decision-making process. As they must attend both meetings of the Board of Directors and the Audit and Supervisory Board, outside audit and supervisory board members have the arduous task of familiarising themselves with an extremely large amount of information. To provide support, full-time corporate auditors liaise closely with external corporate auditors and provide them with detailed explanations.

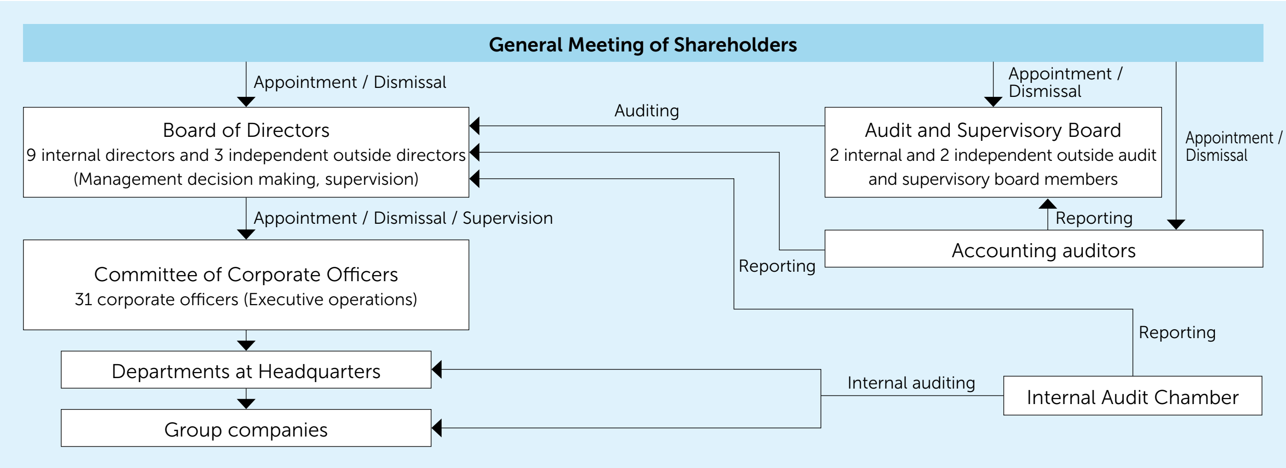
Strengthening Our Governance Even Further

At this year's General Meeting of Shareholders, we plan to submit a proposal to lower the number of internal directors by two and increase the number of outside directors by one. We propose this change to clarify responsibility of each internal director and establish even stronger governance.

Furthermore, we want to improve reporting to outside directors and outside audit and supervisory board members. Of course, all outside directors and audit and supervisory board members require a certain level of reporting. However, as their terms of office lengthen, outside directors and audit and supervisory board members become increasingly familiar with the NYK Group and its businesses, making detailed explanations less necessary. With that in mind, we would like to adjust the detail included in reporting based on outside directors and supervisory board members' terms of office. By helping new appointees to absorb essential information intensively, we hope to narrow the information gap between them and long-serving outside directors and audit and supervisory board members.

Corporate Governance

NYK's Corporate Governance Organisation Chart (as of June 20, 2016)



Corporate Governance Initiatives

Initiatives to Strengthen Corporate Governance

2002	■ Introduced Committee of Corporate Officers to strengthen operational execution system
2005	■ Reduced number of directors from 25 or fewer to 18 or fewer to increase business management efficiency
2006	■ Established advisory board to heighten transparency of business management ■ Reduced number of directors from 18 or fewer to 16 or fewer
2008	■ Abolished advisory board, appointed outside directors ■ Shortened term of service of directors from two years to one year to clarify management responsibility of directors and build system that expedites responses to changes in business conditions
2010	■ Filed notification of independent directors / audit and supervisory board members as stipulated by stock exchanges in Japan for all four outside directors / outside audit and supervisory board members
2016	■ Increased number of independent outside directors / outside audit and supervisory board members from four to five.

Structure of the Board of Directors and the Audit and Supervisory Board

We are a company with a board of directors and an audit and supervisory board. The Board of Directors comprises 12 directors, including three highly independent outside directors, while the Audit and Supervisory Board comprises four audit and supervisory board members, including two highly independent outside audit and supervisory board members. Members of the Committee of Corporate Officers execute authorised duties under the supervision of representative directors or executive directors.

Through the abovementioned system, we endeavour to clarify authority and responsibility for operational implementation; ensure prompt, appropriate decision making; and increase business management transparency and efficiency.

Board of Directors

The Board of Directors decides on legal matters, establishes important management policies and strategies, and oversees the execution of operations. The Company has introduced a corporate officers system. The Committee of Corporate Officers comprises 31 members, who include directors but not outside directors or non-executive directors. These members execute operations based on the resolutions and supervision of the Board of Directors.

Responsibilities of the Board of Directors

The board bears the responsibility for the implementation of effective and efficient corporate governance and achievement of the Company's sustainable growth and medium-to-long-term enhancement of corporate value.

The board makes decisions on the execution of important duties prescribed in the laws and regulations, the Articles of Incorporation and the Rules of the Board of Directors, and oversees or supervises the execution of duties by directors and corporate officers.

The board acknowledges that one of its commitments to shareholders is the medium-term management plan. If the Company fails to meet its performance targets, the board will adequately analyse the cause and the measures taken by the Company and explain the results of analysis to shareholders and reflect them in the management plan for the next fiscal period and beyond.

The board formulates the basic policy for the development of the internal control system compliant with the Companies Act, and develops the internal control and risk management systems. The board establishes the Internal Control Committee chaired by the president as an organisation that deliberates on the status of operation of the internal control system, and supervises the status of operation of the internal control system through the Internal Control Committee.

The board appropriately supervises the preparation and implementation of a successor plan for the president or the equivalent thereof.

Our Views on Size, Balance and Diversity of the Board of Directors

In order to facilitate prompt decision-making at all times at the Board of Directors while ensuring the quality of such decision-making through active and substantive discussion, the Company believes that the efficient size of the Board of Directors for the time being is around 12 members, of which around three should be outside directors who meet the Independence Criteria. The Board of Directors shall be comprised of a sufficient number of internal directors who are well versed with the Group's globally operated businesses with shipping and logistics businesses at its core, as well as a certain number of independent outside directors with high expertise that can contribute to corporate management, and further enhance the supervisory function of the Board of Directors. Composition of the Board of Directors shall be decided with a view to ensuring diversity and expertise, as well as the balance of knowledge, experience and ability of its members. As for internal directors, attention shall also be paid to the balance between the members with strength in operating each business segment, and those who are suited for company-wide corporate management. The Board of Directors shall decide by its resolutions the assignment of duties and operations under their charge and others to respective directors at the Board of Directors' meetings, and clarify their roles and responsibilities.

Operation of the Board of Directors

The Board of Directors strives to cultivate a corporate culture which encourages uninhibited and constructive discussion and exchange of opinions, including raising issues by outside directors. The method of operation, etc., of the Board of Directors is stipulated in the Rules of the Board of Directors. The chairman, president, and other representative directors determine the schedule dates of the monthly Board of Directors' meetings and foreseeable agenda items for the meetings in advance to stimulate deliberation. These representative directors provide reference materials and information to each director and audit and supervisory board member well in advance of the dates of the Board of Directors' meetings. The Board of Directors ensures adequate time necessary for deliberation of agenda items.

Policies for the Appointment and Nomination of Directors, Audit and Supervisory Board Members and Corporate Officers

In nominating director candidates, the Company shall recommend qualified persons capable of fulfilling their duties and responsibilities as directors responding to shareholders' entrustment of management, in full consideration of their individual character, insight and others. As for internal director candidates, they are required to have broad knowledge, experience and a track record necessary for the deliberation of proposals at the Board of Directors' meetings, along with the ability to accurately identify issues in departments under their charge and solve them in cooperation with fellow officers and employees, have respected personalities, and have sound judgement in thorough compliance with laws and regulations as well as corporate ethics. The Company shall apply the nomination policy for internal directors also to the appointment of corporate officers and senior members among them.

In nominating audit and supervisory board member candidates, the Company shall recommend qualified persons capable of fulfilling their duties and responsibilities as audit and supervisory board members, in full consideration of their individual character, insight and others in light of the importance of audits and the function of audit and supervisory board members in corporate management.

The Company shall separately set out the Independence Criteria of outside directors and audit and supervisory board members, and recommend candidates for outside directors and outside audit and supervisory board members who meet such criteria.

Independent Outside Directors and Audit and Supervisory Board Members

The Company appoints outside directors and outside audit and supervisory board members that are not from, or do not execute duties for, the companies of the major shareholders of the Company; that meet the Company's Independence Criteria for Recommendation of Candidates for outside directors and outside audit and supervisory board members and the criteria for independence of the Tokyo Stock Exchange Inc. and other bodies; and that have no conflicts of interest with the Company. By electing highly independent outside directors and outside audit and supervisory board members in this way, the Company endeavours to increase the transparency of business management further and strengthen oversight.

Audit and Supervisory Board

The Audit and Supervisory Board comprises 50% or more of independent outside audit and supervisory board members, who are selected from among persons who have a high level of expertise conducive to audits. The Company endeavours to appoint one or more audit and supervisory board members who have appropriate knowledge on finance and accounting.

The Audit and Supervisory Board strives to enhance the effectiveness of audits by combining the information-gathering ability of full-time audit and supervisory board members and the independence of outside audit and supervisory board members.

Also, the Audit and Supervisory Board establishes an effective audit system through such means as ensuring adequate time to perform audits necessary to ensure the high quality of audits and the sharing of necessary information with the outside accounting auditor, Internal Audit Department and outside directors.

Further, the Audit and Supervisory Board develops criteria for appropriately appointing and evaluating candidates for outside accounting auditor, and identifies their independence and level of expertise.

Audit and supervisory board members fulfil their responsibilities by performing audits on the execution of duties of directors and exercising their authority over appointment and dismissal of the accounting auditor and auditor remuneration from an independent and objective standpoint. Full-time audit and supervisory board members actively create an environment and gather information for audits, and endeavour to share information with other audit and supervisory board members and independent outside directors.

Development of Managerial Human Resources

Upon the assumption of office by directors and audit and supervisory board members, including independent outside directors and independent outside audit and supervisory board members, the Company shall provide them with an opportunity for acquiring the necessary knowledge about the business, finance, organisation and other matters of the Company and to properly understand the roles and responsibilities required for directors and audit and supervisory board members, including legal obligations. The Company shall provide them with subsequent training to update such knowledge as deemed necessary. The Board of Directors shall review the progress of the implementation of such training and the aforementioned policy on a regular basis.

Policies for Determining Remuneration for Directors, Audit and Supervisory Board Members and Corporate Officers

Remuneration for internal directors and corporate officers is comprised of basic remuneration based on individual responsibilities, and performance-based remuneration linked to corporate performance, and a certain proportion of the remuneration shall be paid in the form of stock-based remuneration. Bonus shall be proposed at the General Meeting of Shareholders as an annual incentive, in consideration of the management condition such as performance of the Company. Remuneration for non-executive directors, independent outside directors and audit and supervisory board members shall be paid solely in the form of basic remuneration. The Company does not provide retirement benefits for termination to any director, audit and supervisory board member or corporate officer.

Procedures for Determining Remuneration for Directors, Audit and Supervisory Board Members and Corporate Officers

The amount of remuneration and bonus for directors shall be decided by the Board of Directors, based on the proposal by the president within the limit of the total amount decided by the resolution of the General Meeting of Shareholders, with the involvement of independent outside directors, e.g. the exchange of opinions thereof. The amount of remuneration for audit and supervisory board members shall be decided by the discussions among audit and supervisory board members including independent outside members within the limit of the total amount decided by the resolution of the General Meeting of Shareholders. The amount of remuneration and bonus for corporate officers shall be decided by the Board of Directors, based on the proposal by the president with the involvement of independent outside directors, e.g. the exchange of opinions thereof.

Remuneration Paid to Directors and Audit and Supervisory Board Members

Category	Number of persons remunerated	Yearly remuneration
Directors (outside directors)	14 (2)	¥630 million (¥38 million)
Audit and Supervisory Board Members (outside audit and supervisory board members)	6 (3)	¥105 million (¥27 million)
Total (outside directors and outside audit and supervisory board members)	20 (5)	¥736 million (¥66million)

Notes:
1. The amount of remuneration paid to directors includes the amount paid to one director who retired during fiscal 2015.
2. The amount of remuneration paid to audit and supervisory board members includes the amount paid to two audit and supervisory board members who retired during fiscal 2015.
3. For the five consecutive terms since the 125th up to the current term, there have been no payments of bonus for directors.
4. Monthly remuneration for directors shall be paid according to each director's grade within the aggregate monthly remuneration limit as determined by the resolution of the General Meeting of Shareholders. Bonus for directors shall be paid according to each director's grade within the aggregate bonus limit as determined by the resolution of the General Meeting of Shareholders. However, as the proposal of the bonus for directors shall be made at the General Meeting of Shareholders based on the business result and other factors, there may be no payment depending on a fiscal year. Executive directors shall be obliged to acquire shares of the Company and have contributed to the executive shareholding association out of their monthly remuneration an amount not less than the threshold set out according to each executive director's grade.
5. At the 118th Ordinary General Meeting of Shareholders held on June 28, 2005, NYK approved the payment of retirement benefits for termination resulting from the abolition of the retirement benefits system for directors and audit and supervisory board members. As a result of this resolution, ¥113 million in retirement benefits for termination was paid to one director who retired during fiscal 2015. This amount of retirement benefits for termination was not included in the amount of remuneration paid above.

Introduction of Performance-Based Stock Remuneration Plan

The Company has introduced a performance-based stock remuneration plan for its directors and corporate officers (excluding outside directors and corporate officers who are not residents of Japan; hereinafter 'directors, etc.') that will deliver Company shares to the directors, etc., in accordance with the degree of the achievement of business performance goals in the new medium-term management plan, the achievement of the consolidated financial forecasts, and the previous fiscal year's business performance.

This highly transparent and objective directors' remuneration plan is intended to encourage directors, etc., to contribute to the Company's sustainable growth and to have directors, etc., share benefits and losses with shareholders.

Policy for Holding Strategic Shareholdings

In case the Company holds strategic shareholdings, it assigns a department in charge of managing each relevant share, and regularly examines and determines the appropriateness of acquisition and holding of such shares from the viewpoints of the purpose, significance and profitability of the strategic shareholdings. The Company has been working on the reduction of strategic shareholdings. In line with the policy, the Company will continue to examine the medium-to-long-term economic rationality of holding strategic shareholdings in light of elements such as advantages and disadvantages, and explains the purpose and rationality of holding strategic shareholdings at the Board of Directors' meetings each year.

When exercising voting rights of strategic shareholdings, the Company shall decide to vote for or against agenda items by implementing assessment that each agenda item will not lead to the impairment of corporate value of an investee company and whether each agenda item will contribute to the enhancement of the Company's corporate value and the degree of such contribution.

Auditing System

The NYK Group's Internal Audit Chamber conducts internal audits of the Company and domestic Group companies and also audits the system for controlling cash flow into and out of the Company, all in accordance with internal auditing rules approved by the Board of Directors. Internal audits of overseas Group companies are performed by internal auditors assigned to Group regional headquarters in four regions—the Americas, Europe, East Asia, and South Asia—who act under the direction and guidance of the Internal Audit Chamber. Reports are delivered to the Internal Audit Chamber and the presidents of regional headquarters (the heads of Group regional headquarters).

All four audit and supervisory board members, including the two outside audit and supervisory board members, undertake auditing activities in accordance with audit plans determined by the Audit and Supervisory Board. These activities include attending Audit and Supervisory Board and other important sessions; ascertaining the status of duties executed by directors, the Internal Audit Chamber, and other personnel and corporate sections; and examining paperwork, such as important approval documents. Audit and supervisory board members ensure the independency, capabilities, and quality of the outside accounting auditor while keeping lines of communication open, complementing audit-related activities through mutual information exchange, and working to raise audit quality and efficiency.

Audit and supervisory board members also hold monthly meetings where the results of audits and other information are shared. They also meet with the Internal Audit Chamber on a regular basis and convene meetings with the outside accounting auditor, thereby strengthening communication between all three audit-related groups. The Audit and Supervisory Board Office, consisting of three full-time staff and one holding a concurrent position, supports audit and supervisory board members in the execution of their auditing duties.

The certified public accountants who audit the Company's consolidated and non-consolidated financial statements are Toshiyuki Ono, Yuji Takei, and Tomoya Noda, all of whom are with the accounting firm Deloitte Touche Tohmatsu LLC and have been auditing the Company's accounts for less than seven consecutive years. These three accountants are assisted by 16 certified public accountants and 19 others. Audits are undertaken in accordance with standards generally accepted as fair and appropriate.

Auditor Remuneration

Remuneration Paid to the Certified Public Accountants Engaged in Audits of the Company

Classification	Fiscal 2014		Fiscal 2015	
	Remuneration paid for audit certification activities (Millions of yen)	Remuneration paid for non-audit activities (Millions of yen)	Remuneration paid for audit certification activities (Millions of yen)	Remuneration paid for non-audit activities (Millions of yen)
The Company	145	3	145	4
Consolidated subsidiaries	142	0	144	0
Total	288	3	289	4

Other Important Remuneration

Most principal overseas consolidated subsidiaries that are subject to audits, for the previous fiscal year and the fiscal year under review, of financial statements and of internal control have concluded audit agreements with Deloitte Touche Tohmatsu Limited, which is affiliated with the same professional network as the certified public accountants and others engaged in audits of the Company.

Details of Remuneration for Non-Audit Activities of Certified Public Accountants Engaged in Audits of the Company

In the previous fiscal year and the fiscal year under review, remuneration for non-audit activities of certified public accountants engaged in audits of the Company consisted of fees related to duties for agreed-upon procedures and other activities.

Policy for Determining Auditor Remuneration

The Company strives to determine auditor remuneration based on ample discussions with the certified public accountants and others on matters necessary to ensure proper and efficient audits, such as the number of audit days and staff members involved in audits.

Dialogue with Shareholders and Investors

The NYK Group believes that the keys to the fair assessment of its corporate value are timely, and appropriate disclosures to shareholders, investors, and all other stakeholders and mutual communication with them. In fiscal 2015, at the same time as establishing the Corporate Governance Guidelines, we stated clearly our Policy for Promoting Constructive Dialogue with Shareholders and Investors.

In addition, the senior management team receives regular, timely reports on valuable opinions obtained from shareholders and investors and uses these opinions to improve our business management.

Main Activities for Investor Relations

Activity	Details	
For institutional investors	• Financial results briefings • Individual interviews • Roundtable meetings	• Individual visits to overseas investors in the United States, Europe, and Asia • Business briefings
For individual investors	• Briefings for individual investors	• *NYK plus* booklet for shareholders
Released on corporate website	• Notices of ordinary general meetings of shareholders • Business reports* • Quarterly reports* • Integrated reports (NYK Reports)	• Summaries of financial results • Materials from financial results briefings • Summaries of questions and answers at financial results briefings • Videos of financial results briefings • Documents under timely disclosure
Other	• Feedback on markets' expectations and evaluations of the NYK Group (seminars conducted by securities analysts)	

* Japanese language only

For Our Shareholders

At the NYK Group, we view ordinary general meetings of shareholders as one of the most important opportunities for dialogue. We value the opinions from our shareholders and endeavour to provide detailed explanations and responses.

For Institutional Investors

The president and the senior management team conduct quarterly financial results briefings, roundtable meetings, and business briefings for institutional investors. Also, the officer responsible for investor relations visits institutional investors in Japan and overseas and caters to individual requests for interviews or materials. In fiscal 2015, we arranged interviews with a total of approximately 400 companies. We continued distributing detailed information with a view to furthering the understanding of our strategies, which are aimed at increasing earnings from businesses with stable freight rates and eliminating market fluctuation risk in accordance with the medium-term management plan released in March 2014.

For Individual Investors

We participated in presentations and Q&A sessions for individual investors around Japan (in fiscal 2015: seven times). The booklet that we issue every six months mainly for individual shareholders, *NYK plus*, offers insights into our businesses by including information about our frontline transport operations.

In addition, we operate a website for individual investors.

For details, please see the URL below.
http://www.nyk.com/english/ir/investors/

NYK plus booklet for individual shareholders

Internal Control System

Internal Control Activities

The Internal Control Committee, chaired by the president, was established to strengthen compliance for internal control under Japan's Companies Act, the Financial Instruments and Exchange Act, and other laws. Internal control is a means of achieving four corporate goals: reliable financial reporting, compliance with statutory laws and regulations, effective and efficient operations, and the safeguarding of assets. Based on this viewpoint, the Internal Control Committee periodically checks the status of internal control and reflects findings in improvements. Further, the Board of Directors re-approved a resolution on basic policy for the provision of an internal control system in compliance with Japan's Companies Act. The NYK Group will continue to strengthen the system and develop internal regulations in order to prevent illegal acts and corruption and ensure that operation of the organisation is effective and efficient.

Internal Control over Financial Reporting

In regard to internal control over financial reporting, the NYK Group has designed and operated internal controls in conformance with the practice standards mandated in the Financial Instruments and Exchange Act. In future, the NYK Group will work to ensure the reliability of financial reporting by continually upgrading and effectively operating the internal control system.

Internal Auditing Activities

(Audit of domestic companies)
Internal auditors make suggestions on the soundness, effectiveness, and efficient operation of business management. Internal auditors also follow up on the progress of improvements based on suggestions.

The Internal Audit Chamber's internal auditors perform internal audit activities for the Company and 140 domestic Group companies.

Major auditing activities in fiscal 2015

1. Nineteen Group companies were audited during the year.
2. A specific theme was selected and emphasised for the audit of the NYK Headquarters and its branches.
3. An audit of payment control at both NYK and domestic Group companies was made to check whether cash flow is adequately controlled.
4. An IT audit in relation to the status of IT risk management and IT security was conducted at both NYK and domestic Group companies.

(Audit of overseas companies)
Internal auditors belonging to the four Group regional headquarters conduct periodic internal audits of approximately 220 Group companies overseas (implemented at 72 companies in fiscal 2015).

Findings that audits identify are reported not only to the officer responsible at the head office who provides direction and oversight but also to the regional heads overseas to help raise the overall level of internal control in each region.

The staff of the Internal Audit Chamber and the internal auditors overseas contribute to enhancement of the internal control of the NYK Group as a whole by conducting the audits based on the same philosophy and rules and in accordance with the Fraud Risk Assessment programme.

Fraud Risk Assessment:
This assessment makes use of anonymous replies collected from employees to identify the probability of risk associated with each potential fraud case by analysing the possible financial impact and the likelihood of occurrence. Management shares the results and supports the preparation of related fraud-prevention measures. (An illustration of global management is provided on the following page.) In fiscal 2015, we conducted fraud risk assessments at seven bases (eight companies), amended the codes of conduct of respective companies, revised individual operational procedures, and had compliance officers conduct training on fraud prevention.

Europe

Office: London,
the United Kingdom; 50 target companies

We conduct internal audits and provide consulting services with due consideration to different legislative, operational and stages of maturity in our companies and across countries. In fiscal 2015, corporate governance and compliance were identified as prioritised areas for enhancement which was achieved through the measures developed and adopted jointly by Group regional headquarters and local companies' senior management teams. We also provided support for the preparation of disaster recovery and business continuity plans to mitigate the risks associated with terrorism and cyberattacks.

Audit team of Group regional headquarters in Europe

The Americas

Office: Secaucus,
the United States; 50 target companies

To fully support our stakeholders, it is important to understand the many different cultures and the geographic diversity of North and South America as well as the special characteristics of particular businesses. We conduct audits and provide advice based on thorough familiarity with the various business and regulatory trends in each country in close coordination with each company's senior management team. We focus our efforts on planning and securing the resources required to provide high value-added risk assessment and related services to each client.

Audit team of Group regional headquarters in the Americas

The NYK Group's Internal Control Monitoring Activities in Four Overseas Regions

Audit team of Group regional headquarters in South Asia

Audit team of Group regional headquarters in East Asia

South Asia

Office: Singapore;
80 target companies

In South Asia, which has grown markedly in recent years, we conduct an extremely varied range of audits that reflect the characteristics of particular cultures, regions, and business conditions. From fiscal 2016, we will also provide the necessary support to the new 'home doctor' function and continue to offer our consulting services aimed at controlling risk while enhancing business value.

East Asia

Office: Hong Kong, China;
40 target companies

We take measures in response to the policies of the Chinese government that affect businesses, such as the campaign to eradicate corruption or the easing of the one-child policy. Also, taking into consideration the local situation of each company we conduct appropriate audits and propose improvements. In addition, we promote to joint-venture partners that the NYK Group initiatives are an effective way of enhancing corporate value and assist Group companies in accordance with the Anti-Fraud Programme.

Strengthening Compliance

Response to Antitrust Law

Since September 2012, the NYK Group has been investigated by authorities in Europe and other authorities overseas on suspicion of the violation of antitrust law in relation to the transport of automobiles and other cargoes. Further, in the United States and other countries, actions for damages (class action lawsuits) have been filed against the Company and certain overseas subsidiaries.

We apologise sincerely to all stakeholders for causing concern.

We view as a grave matter the fact that an incident occurred even though we had taken a range of measures to prevent such incidents. Prior to this incident, the president had issued an announcement regarding rigorous compliance with antitrust law; we had established and managed control networks in each division at NYK Headquarters as well as Group companies in Japan and overseas; we had prepared manuals and conducted a variety of in-house training on antitrust law; and we had established regulations pertaining to contact with competitors. Further, in response to the incident, we are building systems and advancing measures to heighten the awareness of each officer and employee of the Group and to reinforce rigorous compliance with antitrust law.

Preventive measures

Management level

In April 2013, the Company established the Executive Committee Overseeing Thorough Antitrust Law Compliance. At biannual meetings of the committee, members of senior management of each business unit share information on initiatives in their respective departments. Meetings of the committee were convened in September 2015 (123 attendees) and March 2016 (126 attendees).

Frontline operations level

All business units, including Group companies in Japan and overseas, take the initiative in conducting risk assessments and establishing guidelines. After risk assessments are completed, business units and legal departments revise guidelines.

Business project level

In-house lawyers use specialist knowledge to evaluate new investments.

Individual level

We obtain antitrust law compliance pledges from each employee. In fiscal 2014, we began extending this initiative to include Group companies in Japan and overseas.

Antitrust Law Compliance Training Sessions in Fiscal 2015

	Numbers of sessions	Number of attendees
Training sessions*	87	1,999
e-learning	1	11,799

* Since fiscal 2009, a total of 19,445 people have participated.

Aiming to educate employees about antitrust law in Japan and overseas, heighten compliance awareness, and ensure actual operations being reflected this education and awareness, we revised and issued Japanese, English, and Chinese versions of our antitrust law manual.

Training activities

To ensure each NYK Group employee is fully aware of antitrust law compliance, we conduct antitrust law compliance training at Group companies in Japan and other countries. In fiscal 2009, we began this training, in which 19,445 Group employees have participated. In fiscal 2015, we held 87 training sessions, in which 1,999 employees participated (Japan: 69 sessions, 1,382 participants; overseas: 18 sessions, 617 participants).

In conjunction with the abovementioned training, we have introduced e-learning in Japanese, English, and Chinese targeting all business units, including Group companies in Japan and overseas. In fiscal 2015, 11,799 employees participated in e-learning programmes (Japan: 4,569 participants; overseas: 7,230 participants). By continuing this training, we will endeavour to ensure rigorous compliance.

Thorough Prohibition of Bribery

In response to the Unfair Competition Prevention Law (crime of bribing foreign public officials) in Japan, the Foreign Corrupt Practices Act in the United States, and the Bribery Act 2010 in the United Kingdom, in January 2014 we further developed our basic policy and guidelines on the prohibition of bribery and rigorously informed Group employees about them.

Compliance Initiatives

To maintain and promote compliance, the Company has established the Compliance Committee, which convenes twice yearly. The president chairs the committee, whose members consider compliance measures.

Also, we have set September as the NYK Group's compliance-strengthening month. Accordingly, we conduct comprehensive compliance check-up activities during this period. In fiscal 2015, in addition to our existing focus on prevention, we emphasised early finding of irregularities. We urged each employee to review their actions, understand the rules that various stakeholders in society expect employees to follow, and check whether colleagues are mixing business and personal matters.

A questionnaire conducted during our compliance-strengthening month asked employees to check themselves with respect to the Code of Conduct. In addition, we conducted an anonymous questionnaire aimed at finding the seeds of violations in workplaces early. We are revising our compliance measures based on the results, which we have posted on the in-house intranet.

Main Measures Aimed at Strengthening Compliance

1997	■ Established NYK Business Credo
1999	■ Established NYK Code of Conduct
2002	■ Established position of Chief Compliance Officer
2005	■ Established NYK Group Mission Statement
2006	■ Established Internal Control Committee
2008	■ Established Antitrust Law Task Force
2013	■ Established Executive Committee Overseeing Thorough Antitrust Law Compliance
2016	■ Introduced measures to prevent bribery of overseas public officials when establishing new businesses ■ Revision of NYK Code of Conduct (planned)

We are developing an open corporate culture that promptly collects information helpful for the prevention of corruption and rectifies it immediately by making effective use of the helplines established in Japan and overseas, such as the Yusen Chat Room in Japan.

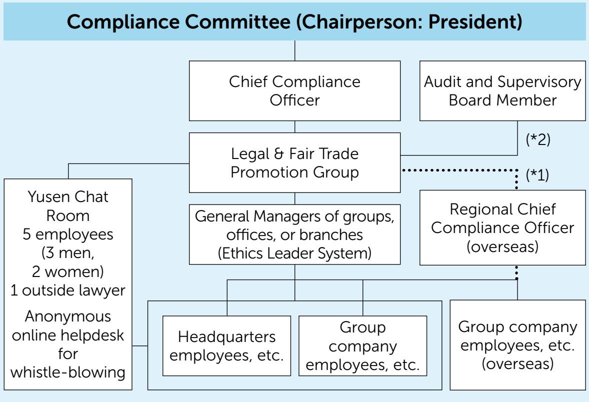
Yusen Chat Room:
This system comprises six personnel, including an outside lawyer, who receive whistle-blower reports and provide consultation on a wide range of compliance related matters. This system covers NYK and 60 domestic Group companies.

Compliance Training Sessions in Fiscal 2015

	Number of sessions	Number of attendees
Group training sessions*	11	538

* Since fiscal 2002, we have implemented 357 training sessions, which were attended by a total of 9,730 people.

The NYK Group's Compliance System



*1. For significant matters
*2. Reports to a full-time audit and supervisory board member periodically and as required

A Message from the Chief Compliance Officer

Yoshiyuki Yoshida
Director,
Managing Corporate Officer
Chief Executive of
General Affairs Headquarters
Chief Compliance Officer

What is the NYK Group's basic approach to compliance?

Cases have arisen recently in which deciding whether there has been an infringement of law, such as antitrust law and bribery law, has been challenging. We need to pave the way towards practices that prevent employees from infringing laws unintentionally.

The NYK Group Mission Statement sets out our basic approach to compliance. 'Through safe and dependable *monohakobi* (transport), we contribute to the betterment of societies throughout the world as a comprehensive global logistics enterprise offering ocean, land, and air transportation'. In other words, we are keenly aware that we work for society.

However, this mission must not lead to the view that any actions are justifiable. Each employee has to realise that even if actions are intended to benefit customers or society, those actions could cause misunderstanding, and being misunderstood is a danger in certain situations.

In the context of the NYK Group's global business development, which compliance risks require particular attention?

In addition to antitrust law, we have to address the prevention of bribery and other types of corruption. Reflecting countries' characteristics, we will establish regulations for each region. The determination of bribery prevention regulations is extremely challenging because overly restrictive regulations impede business development. Risk is inherent in business. If employees fear such risk, they will be unable to do anything. By preparing guidelines that show the scope of permission, I would like to provide an environment that allows employees to concentrate on carrying out their duties.

Other important compliance risks include human rights and labour practices. In 2006, the NYK Group announced its endorsement of the United Nations Global Compact (UNGC).

We subsequently conducted a human resources survey of Group companies around the world with respect to human rights, labour, the environment, and corruption prevention.

Another compliance risk is economic sanctions. Economic sanctions have resulted in the freezing of settlements, giving rise to the possibility that a Group vessel will be unable to call at a port. In 2015, to address various compliance risks, for each region we appointed legal counsel that has expertise in the respective countries' laws and affairs. This step has improved our ability to gather comprehensive information and take legal countermeasures rapidly.

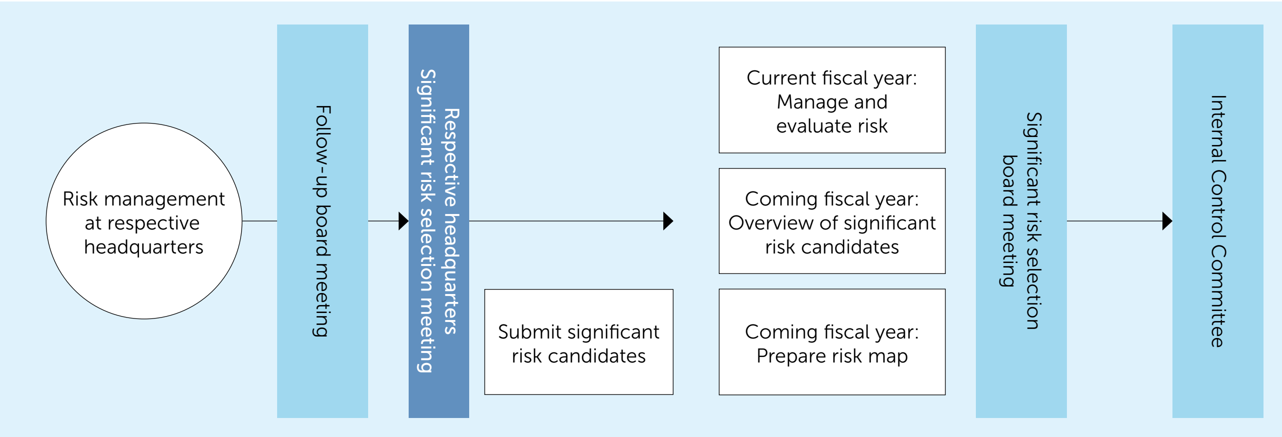
What will be the keys to spreading compliance awareness throughout the NYK Group?

Constant training for each generation is important. Established in April 2013, the Executive Committee Overseeing Thorough Antitrust and Anti-bribery Law Compliance recently updated its name to include anti-bribery and thus remind all employees of our commitment to rigorously address various risks. As I mentioned, antitrust law is not the only compliance risk we face.

Also, we will revise the NYK Code of Conduct. As well as distributing the revised code in booklet form, we will have NYK employees sign it to encourage personal ownership of the code and reflection on the performance of day-to-day duties. It is our desire for all NYK Group companies around the world to operate under the standardised ethos laid out in this Code of Conduct.

Risk Management

Groupwide Risk Management System



Risk Management

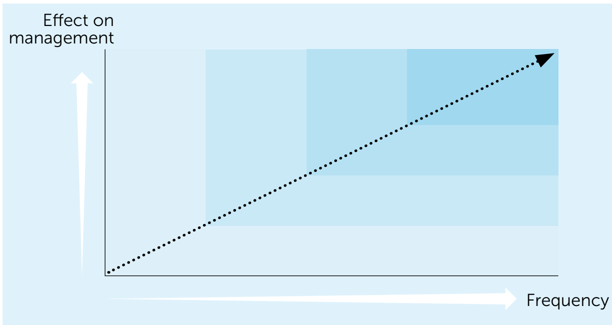
Economic and political conditions, such social factors as environmental regulations and safety and security systems, natural disasters, and technological innovation in countries around the world have the potential to affect the NYK Group's operations and financial results. Based on its risk management policy and risk management regulations, the NYK Group comprehensively aggregates and controls business risk from a Groupwide perspective and has established a system for responding appropriately to risk.

Enterprise Risk Management (ERM)

As part of our analysis of Groupwide risk, we periodically identify and evaluate risk. Executives, including outside directors, select significant risks at a meeting held for this purpose once a year. At the significant risk selection board meeting, executives check the progress of management in relation to the significant risks of the current fiscal year and select the significant risks of the coming fiscal year. Further, the members of the board meeting conduct an interim follow-up review of the progress of management in relation to significant risks.

Further, we prepare a risk map that categorises risks collected from the entire Company, based on the effect on business management and frequency, and we manage risk accordingly. In addition, risks that can significantly affect the Companywide business management include operation risk, including major accidents involving vessels or aircraft; country risk; natural disasters and other external factor risk; and compliance risk, such as antitrust law violations.

Risk Map



Information Security Measures

An important facet of the NYK Group's growth strategy is the use of IT to enhance competitiveness. With this in mind, we emphasise managing information security appropriately to control Groupwide risk. As part of these efforts, the IT Strategy Committee and the annual IT Budget Meeting hold deliberations on the NYK Group's information security. In light of the findings of these deliberations, the Information Security Management Committee, which convenes every March, examines the information security of NYK and the NYK Group and decides security measures for the coming fiscal year. Furthermore, the Information Planning and Legal & Fair Trade Promotion groups serve a joint secretariat for this committee.

The Global Infrastructure Planning Department of NYK Business Systems Co. Ltd. and the Information Planning Group prepare, implement, and manage information security policy. We also strengthen information security by having outside experts conduct IT audits.

If an IT problem arises, employees in frontline operations promptly report to senior managers the details of the problem; the extent of the impact on customers, regions, or divisions; and the estimated restoration time. Further, the chief information officer reports IT problems at the executive committee meeting, which is held weekly.

Also, the implementation of security measures for digital information has become an important task. Aiming to establish multilayered defences against external attacks and prevent internal information leaks, the NYK Group is strengthening network security, encrypting data, implementing spyware countermeasures, conducting security education for users and technical personnel, and monitoring information leaks.

Crisis Management

Emergency Response

NYK has prepared business continuity plans (BCPs) for all the major operations in NYK Headquarters, so if disasters, accidents, or other events disrupt operations, the Group will be able to maintain its important functions uninterrupted wherever possible, or to quickly restore them if interrupted.

Responding to the Great East Japan Earthquake in 2011, NYK revised BCPs based on the third edition of the Business Continuity Guidelines that the Cabinet Office issued in August 2013 and a final report that a working group of the Cabinet Office's Central Disaster Prevention Council issued in December 2013 on countermeasures for, and envisaged damage resulting from, an earthquake directly below Tokyo.

NYK has established BCPs that include preparations for working from home, transferring to a more earthquake resistant data centre, and converting to emergency generators usable for three consecutive days at offices. Moreover, we regularly conduct training to ensure BCPs are practical.

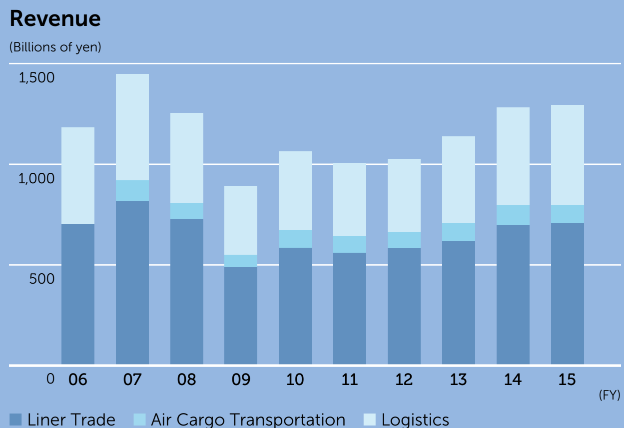
Also, in September 2015 NYK strengthened its communications infrastructure by introducing an IT platform that uses cloud computing to enable the sharing of information globally. We are currently introducing this platform to Group companies.

Performance by Segment

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31)

Global Logistics Business

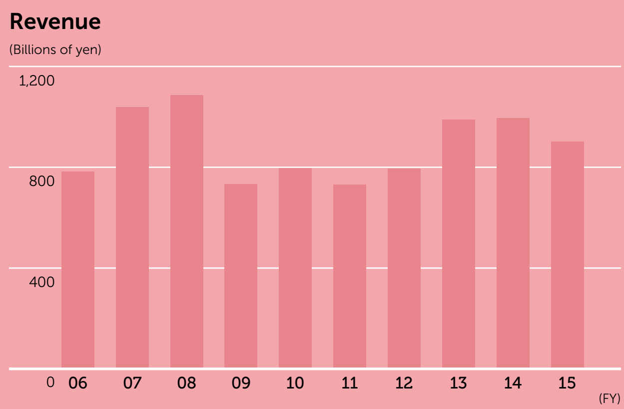
- Liner Trade
- Air Cargo Transportation
- Logistics



* Figures for the Air Cargo Transportation segment in fiscal 2006 are included in Other Business Services.

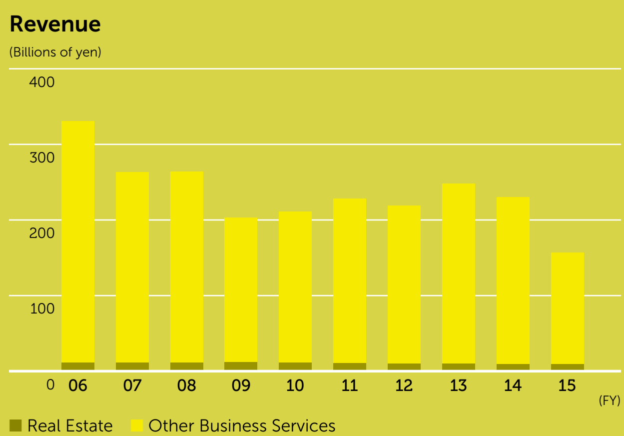
Bulk Shipping Business

- Dry Bulk
- Liquid
- Offshore
- Car Carrier

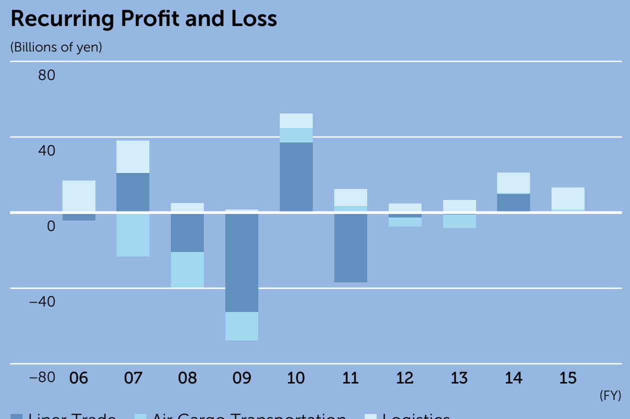


Others

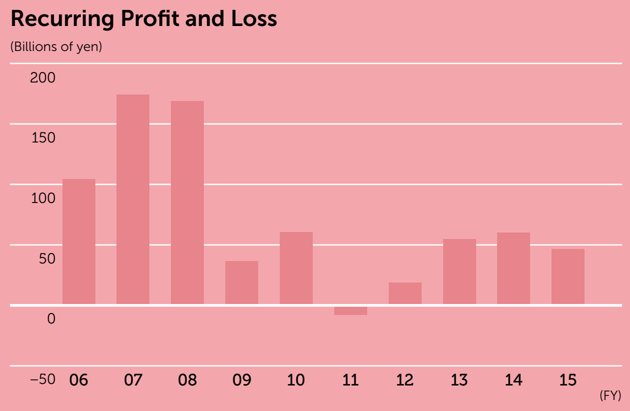
- Real Estate
- Other Business Services

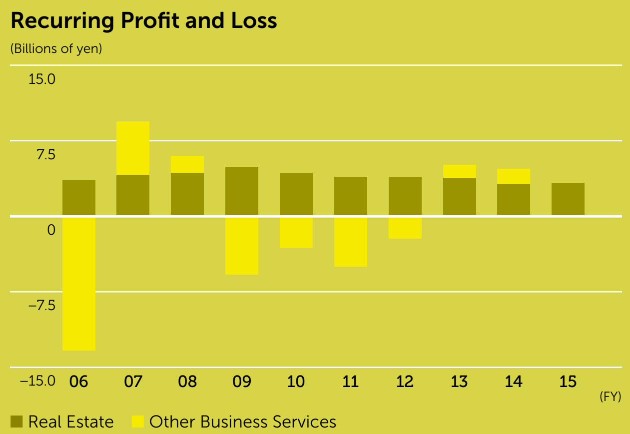


* Cruises business is included in Other Business Services.



* Figures for the Air Cargo Transportation segment in fiscal 2006 are included in Other Business Services.





* Cruises business is included in Other Business Services.

Liner Trade

The container shipping market continued to face extremely challenging conditions and reached a historically low freight level during the fiscal year under review. Although cargo volume was comparatively brisk along trans-Pacific routes, the supply and demand balance in Europe widened as demand for freight shipments to the region declined due to its sluggish economy, while the appearance of newly built ultra-large containerships on European routes exacerbated the oversupply situation. The usage of these new ships in Europe has caused a chain reaction worldwide as increasingly larger capacity ships have entered other shipping routes, severely disrupting the balance between supply and demand.

In response to these circumstances, the NYK Group worked to keep its services competitive. Without reorganising the main routes it handles as a member of the G6 Alliance, the Group rationalised its services according to demand, reorganised routes in Asia and along the east coast of South America in order to make them more efficient, and suspended service for some unprofitable routes. Owing to these and other factors, revenues in the Liner Trade segment increased overall compared with the previous fiscal year, supported by year-on-year growth in handling volume at container terminals in Japan and around the world. On the other hand, the NYK Group posted a segment loss in the fiscal year under review.

Air Cargo Transportation

In its Air Cargo Transportation segment, the NYK Group improved the quality of its transport services and responded quickly to customers' needs in order to maintain orders for cargo shipments specifically for cargo aircraft. It also strove to expand its network by operating code-share flight services. Despite these efforts, segment revenues declined compared with the previous fiscal year, largely owing to shrinking fuel surcharges in line with falling jet fuel prices. Nevertheless, segment income increased year on year as a result of the Group's ongoing efforts to cut costs and brisk business handling cargo transferred to its cargo aircraft due to the high congestion at ports on the North American west coast since the previous fiscal year.

Logistics

Handling volume in the Group's air forwarding business tapered off following the end of a sudden surge in demand brought on by the high congestion at ports on the North American west coast and did not reach the amount of the previous fiscal year. In the ocean forwarding business, handling volume was up year on year, particularly in Asia, while competitiveness improved on the back of sales growth. In its logistics business, the Group strove to cut costs through business restructuring while offering more comprehensive services, particularly in Asia. Meanwhile, the Group finished replacing ships operating on the main routes of its coastal transportation business with all-new vessels, and shipments were brisk. As a result of these factors and initiatives, both revenues and income in the Logistics segment increased compared with the previous fiscal year.

Dry Bulk

In the dry bulk shipping market, shipments of iron ore and grain were up, while shipments of coal were on the decline. Despite the ongoing scrapping of bulk carriers, particularly capesize bulkers, excess tonnage has not been cancelled out in the market because of the ongoing production of new vessels. Reflecting these factors, the Baltic Dry Index fell to all-time low levels in February 2016, and market conditions as a whole were extremely sluggish in all regions and for all types of vessels. Under these circumstances, the NYK Group strove to conclude shipping contracts that are less susceptible to market fluctuations while continuing to cut costs by selling off or returning surplus vessels and taking exhaustive measures for improving the operational efficiency of its fleet. At the same time, the Group worked to improve its balance of income and expenditures through a number of initiatives, such as reducing ballast voyages by combining cargoes and more efficiently assigning vessels.

Liquid and Offshore

Although new ships continued to be built without progress in scrapping older vessels, conditions improved overall compared with the previous fiscal year as the diversification of shipments resulted in longer transport distances. The market for shipments by very large crude-oil carriers (VLCCs) was bolstered by surplus demand from China, and shipments by petrochemical tankers increased year on year. Meanwhile, the Group increased the overall distance of shipments by its liquefied petroleum gas (LPG) tankers from the United States to East Asia and secured a stable source of earnings from its fleet of liquefied natural gas (LNG) tankers through long-term contracts. Consequently, both of these businesses performed solidly. In the offshore business, operations of shuttle tankers and drillships contributed substantially to results, and the Group began operating its second FPSO (Floating Production, Storage, and Offloading) unit off the coast of Brazil.

Car Carrier

In automobile transportation, the Group took advantage of robust demand for automobile shipments to North America and Asia by steadily and effectively assigning vessels to those regions. Consequently, the total number of new vehicles shipped by sea increased slightly compared with the previous fiscal year. Moreover, since the previous fiscal year, the Group has been commissioning a series of highly fuel-efficient, ultra-large carriers, which have contributed to results in this business. In its automotive logistics business, the Group jointly established automobile logistics service subsidiaries in Saudi Arabia and Columbia after reaching agreements with local business partners in each respective country and began operations of new automotive logistics centres in China and India in response to growing demand in those countries. By providing a diverse range of value-added services through these new operations, the NYK Group has been making steady progress towards expanding its businesses while meeting the needs of customers.

Real Estate and Others Businesses

In the Real Estate segment, the Group sold off certain properties, acquired new properties, and rebuilt a number of properties with the goal of rejuvenating its portfolio. Segment revenues and income were generally on par with results in the previous fiscal year. In the Others segment, revenues and income decreased year on year as a result of several factors, including a steep fall in the trading business' selling price of vessel bunker oil caused by the low price of crude oil as well as the cancellation of several Asuka Cruises trip due to typhoons. In addition, due to the selloff of Crystal Cruises LLC in the first quarter of the fiscal year under review, NYK Line has integrated its cruise business in the Others segment, and changed its accounting methods accordingly.

Business Conditions

(As of March 31, 2016)

Liner Trade

Container Market Freight Rates*1

(January 1, 1998 = 1,000 points)

Throughout fiscal 2015, cargo demand was weak and spot freight rates declined. A rapid recovery of spot freight rates is not expected in fiscal 2016.

see P.60

Dry Bulk

Dry Bulk Freight Rates

(January 4, 1985 = 1,000 points)

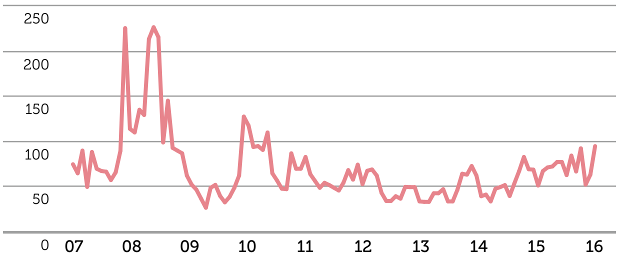
Freight rates are expected to recover gradually as the supply-demand balance tightens due to the bottoming out of freight rates from historically low levels and the advancement of scrapping.

see P.64

Liquid

Tanker Freight Rates

(World scale)



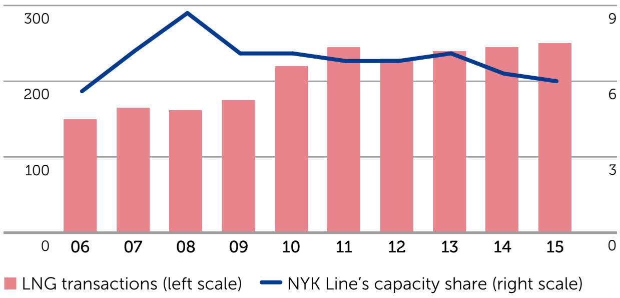
In fiscal 2015, tanker freight rates were favourable. However, they are likely to soften as increased delivery of newbuilt tonnage counteracts steady cargo movements.

see P.66

Liquid

LNG Transactions*2

(Millions of tons) (%)



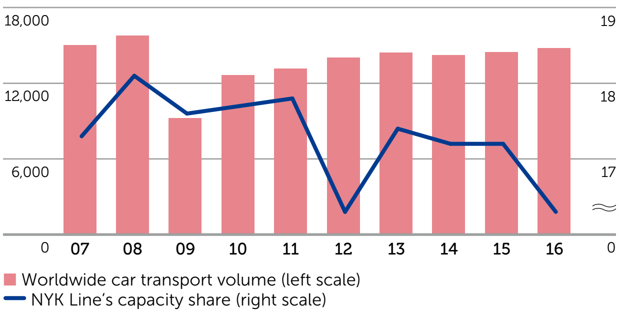
Fiscal 2015 saw LNG transactions rise slightly year on year. Although short-term LNG demand is lacklustre, demand and supply are expected to grow over the medium-to-long term.

see P.67

Car Carrier

Worldwide Car Transport Volume*3

(Thousands of automobiles) (%)



In fiscal 2015, cargo movements were steady and trended largely in line with projections. As for fiscal 2016, demand is expected to flag among emerging countries and resource-producing countries.

see P.70

Environmental Regulations

International Convention for the Control and Management of Ships' Ballast Water and Sediments	2017 (expected)	The fitting of a ballast water management system will become mandatory.
Hong Kong Convention (Ship Recycling Convention)	Ratification timing undecided	This is a convention on safe, environmentally appropriate vessel scrapping, which the IMO*4 has adopted.
MARPOL Annex VI Tier III NOx emissions regulations	2016	This requires an 80% reduction versus currently permitted levels in emission control areas.
MARPOL Annex VI SOx emissions regulations	2020 or 2025 (expected)	Sulphur content of vessel fuel used in general seas must not exceed 0.5%.

*1. Source: China (Export) Containerized Freight Index
*2. Source: Compiled by NYK Line referring to *IHS-CERA Report*
*3. Sources: Estimates of NYK Line Research Group (left scale) and Hesnes Shipping AS, *The Car Carrier Market 2015* (right scale)
*4. International Maritime Organization

Business Strategy

Global Logistics Business

Hidetoshi Maruyama
Chief Executive of Global Logistics Services Headquarters
Director, Senior Managing Corporate Officer
Oversees Liner Trade Segment (comprising Container Shipping Division and Terminal Division) and Logistics Segment

Liner Trade

Fiscal 2015 Overview

We worked steadily to reduce costs.

Earnings declined because falling freight rates counteracted steadily improving profitability, which reflected a drop in bunker oil prices and cost reduction efforts.

On trans-Pacific routes, cargo movements were strong. On Asia-European routes, however, demand remained weak. Although we reduced the number of vessels on Asia-European routes, the supply-demand gap widened. Further, we decided to withdraw from Australian routes, which were part of the NYK Group's service network for many years. The reason for this decision was the unlikelihood of any improvement in chronic structural deficits on these shipping routes.

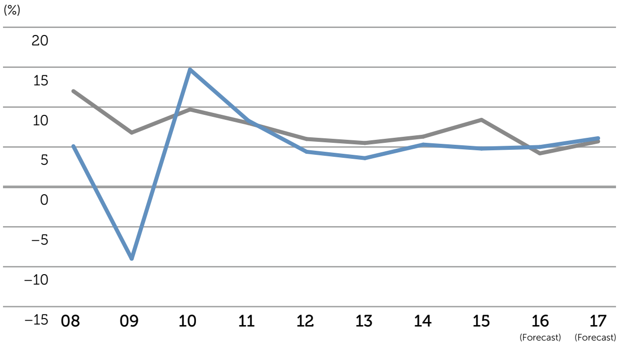
We will win in mega-competition by focusing on quality rather than volume.

The momentum towards alliances and realignment is gaining in the liner trade industry. For example, the industry's third largest company, France's CMA CGM S.A., has decided to acquire Singapore's Neptune Orient Lines Limited (NOL). Meanwhile, China Ocean Shipping (Group) Company (COSCO) and China Shipping Container Lines Co. Ltd. (CSCL), a member of China Shipping (Group) Company, will integrate to form the fourth largest company in the liner trade industry, China COSCO Shipping Corporation Limited.

As the shipping industry is commodified, the pursuit of economies of scale is an effective strategy. However, we do not intend to seek scale unnecessarily. While ensuring organic growth rather than pursuing greater market share, we will increase flexibility to heighten earning power.

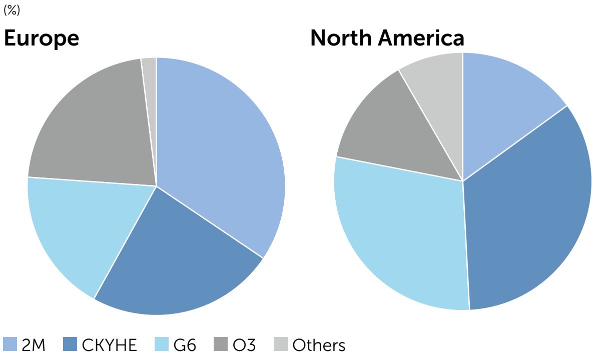
A feature of the G6 Alliance, to which the NYK Group belongs, is that it allows highly flexible adjustments to freight rate fluctuations compared with other consortiums. We have organised our services in accordance with the G6 Alliance brand. The flexibility that the consortium provides is a major advantage given the unpredictability of current business conditions.

Containership Supply-Demand (Year-on-Year Percentage Changes)



Note: The above graph is based on model calculations and does not reflect the NYK Group's unified official opinion.
Source: Compiled by NYK Line referring to *Drewry Maritime Research 2016*

Share of Megacarriers and Alliances on Core Routes



2M: Maersk, MSC
CKYHE: COSCO, K-LINE, Yang Ming, Hanjin, Evergreen
G6: APL, Hapag-Lloyd, OOCL, MOL, Hyundai, NYK
O3: CMA-CGM, UASC, CSCL

We will take delivery of leading-edge 14,000 TEU containerships.

We will introduce 15 new 14,000 TEU containerships that combine industry-leading, energy-saving performance and improved cargo-loading. After considering containerships between 14,000 TEUs and 20,000 TEUs, we concluded that 14,000 TEU containerships were the optimal vessel class. We plan to allocate the new containerships to Asia-European routes in the short term and have them pass through the expanded Panama Canal in the long term.

Fiscal 2016 Strategy

We will establish a business structure that is not susceptible to market fluctuation.

In fiscal 2016, although container cargo movements are forecast to rise 2% year on year, shipping capacity is projected to increase 4%. On a single fiscal year basis, the supply-demand gap is expected to contract from fiscal 2015's 7% to 2% in fiscal 2016. Nevertheless, the supply-demand gap that has developed over many years is unlikely to close without significant demand growth or supply reduction.

In response to these business conditions, the NYK Group will continue to reduce costs rigorously while optimising its business portfolio. Under the medium-term management plan, the Group will combine vessels under long-term NYK management (including long-term chartered vessels), short-term chartered vessels, and forwarding with a view to handling 5 million TEUs. With respect to the targets of 4 million TEUs for vessels under long-term NYK management and short-term chartered vessels and 1 million TEUs for forwarding, in fiscal 2015 we handled approximately 5 million TEUs as a whole. However, forwarding as a percentage of this total was slightly below target.

Establishment of a New Alliance

The NYK Group has concluded a basic agreement with five major containership operators to establish an alliance, THE Alliance, which will cover all east–west shipping routes: Asia–Europe/Mediterranean, Asia–North American east coast/west coast, transatlantic, and Asia–Middle East. The six companies will form one of the container shipping industry's leading alliances, boasting more than 620 containerships and 3.5 million TEUs of shipping capacity—18% of worldwide container shipping capacity. The new alliance's initial term of cooperation will be five years. Aiming to begin operations in April 2017, alliance members are proceeding with applications to all relevant authorities for approval and other required procedures.

Our task is to increase the handling volume of forwarding.

To this end, we will heighten the competitiveness of purchasing even further to move closer to the 1 million TEU target. When freight rates for the liner trade slump, forwarders can purchase transport space cheaply. Therefore, current market conditions provide an excellent opportunity to increase the cost competitiveness and handling volume of forwarding. Because the synergies between forwarding and the liner trade business are one of our major strengths, we will work patiently to grow the handling volume of forwarding.

Terminal

Fiscal 2015 Overview and Fiscal 2016 Strategy

We will invest carefully based on terminal user needs.

Partly thanks to synergies with the liner trade, the handling volume of the container terminals that the NYK Group operates is rising each year. In fiscal 2015, the handling volume of these container terminals increased to roughly 8 million TEUs. We will continue with a strategy of pursuing synergies with the liner trade.

Also, we intend to continue basing investment decisions on careful analysis of demand from the view of a terminal user, thereby steadily entrenching the operations of the Terminal Division as businesses with stable freight rates. Our investment strategy reflects this approach and comprises the following three main components.

1. Cater to the increase in hub-and-spoke structures, particularly the rise in hub ports' importance, that is likely to accompany larger vessels and consortiums
2. Focus on Asia, as a major manufacturing bloc and as a major consumption and logistics bloc, particularly regions promising further growth
3. Respond to significant structural changes in logistics in mature markets, including responses to the shift of production bases westward in Asia and the revision of our portfolio on the east and west coasts of North America in response to the expansion of the Panama Canal

Logistics

Fiscal 2015 Overview

We grew earnings by increasing handling volume.

Air forwarding, ocean forwarding, and contract logistics continued to grow earnings. Air forwarding benefited significantly in fiscal 2014 due to the higher demand that resulted from a shortage of shipping capacity in Asia and a slowdown in terminal operations on the west coast of North America that lasted until the end of 2014. Since the last quarter of fiscal 2014, however, air cargo demand trended at low levels. Meanwhile, in ocean forwarding the handling volume and profitability of seaborne cargo improved considerably. Also, earnings from contract logistics stabilised due to the rationalisation of unprofitable projects. During the five years since the establishment of Yusen Logistics Co. Ltd., the benefits of integration have clearly emerged. In fiscal 2015, the company steadily built its presence as a provider of comprehensive global logistics services.

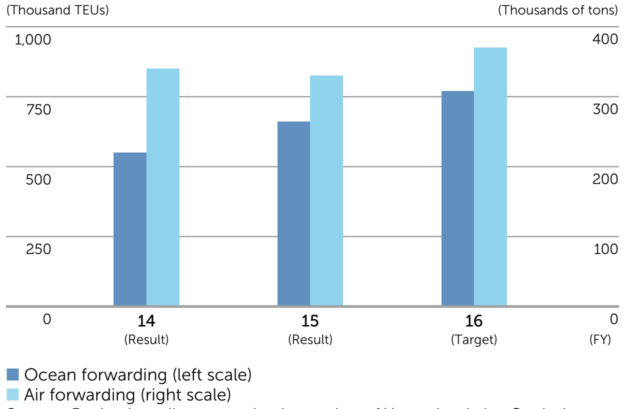
Fiscal 2016 Strategy

We will shift focus from volume to profitability.

A breakdown of the sales of Yusen Logistics Co. Ltd. by segment and region testifies to the balanced operations of the logistics segment and its ability to provide global logistics services catering to customers' diverse needs. Contract logistics represents 40%, ocean forwarding 30%, and air forwarding 30% of sales, while Japan, eastern Asia, southern Asia, North America, and Europe each account for sales of ¥100 billion. Five years have passed since integration of two legacy companies, and we believe that now is the appropriate time to shift focus from volume to profitability.

With that in mind, we are integrating and evolving IT systems. In particular, we are unifying the systems each company used before integration, revising the many customised applications offered to clients, and introducing platforms for common functions. We expect the benefits of these efforts to emerge in one or two years.

Long-Term Target for Ocean Forwarding and Air Forwarding (Total for Yusen Logistics Group, export basis)



Source: Revised medium-term business plan of Yusen Logistics Co. Ltd. (April 28, 2016)

Comparison of Global Freight Forwarders (Fiscal 2014)

Provider	Ocean Freight Forwarding (thousand TEUs)	Air Freight Forwarding (thousand tons)
DHL Supply Chain & Global Forwarding	2,935	2,272
Kuehne & Nagel	3,820	1,194
DB Schenker	1,983	1,112
Nippon Express	863	654
Panalpina	1,607	858
Sinotrans	2,733	482
Expeditors International of Washington	1,013	823
SDV (Bollore Group)	835	550
CEVA Logistics	706	496
DSV A/S	835	288
UPS Supply Chain Solutions	600	913
Hellman Worldwide Logistics	784	507
Geodis	655	271
Agility	514	373
Yusen Logistics	570	310
UTI Worldwide	528	368
C.H. Robinson	450	115
Kerry Logistics	786	282
Damco	396	190
Kintetsu World Express	396	478

Source: Compiled by NYK Line based on data from ARMSTRONG ASSOCIATES, INC.

Air Cargo Transportation

Eiichi Takahashi
Chief Financial Officer
Chief Executive of Management Planning Headquarters
In charge of Air Freighter Business Group
Director, Managing Corporate Officer

Air Cargo Transportation

Fiscal 2015 Overview

The Air Cargo Transportation segment achieved two consecutive years of profitability.

At the beginning of fiscal 2015, demand for air transport was firm as the effect of port congestion on the west coast of North America continued from the previous fiscal year. In the second quarter of fiscal 2015, however, cargo movements slumped below expected levels.

Under such business circumstances, both transport volume and average freight rates of Nippon Cargo Airlines Co. Ltd. (NCA) decreased year on year, and as a result, net sales for fiscal 2015 were ¥91.1 billion, ¥8.0 billion decline compared with fiscal 2014. Nevertheless, the air cargo transportation segment achieved two consecutive years of profitability, posting ¥1.5 billion recurring profit, which is a ¥0.9 billion year-on-year increase compared with the previous fiscal year. This favourable performance is attributed not only to a significant fall in jet fuel oil prices but also to continuous efforts by NCA to reduce costs and reform its business model, which the company had been working on for several years.

We intend to maintain a fleet of 13 aircraft, dominated by the new-generation B747-8Fs, to provide efficient transport service. Further, after careful investigation of the latest air transport demand forecast, we reassessed the optimal size of the NCA fleet, reviewed the introduction plan for the B747-8F and decided to cancel orders for four B747-8F aircraft out of the remaining six aircraft on order.

Fiscal 2016 Strategy

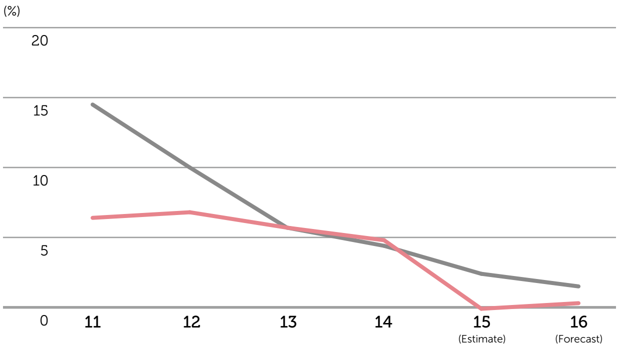
The Air Cargo Transportation segment aims for a third consecutive year of profit by reduced costs and increased cargo volume.

We forecast the demand for air cargo out of Asia, including Japan, to grow steadily, and we will endeavour to capture the demand in a flexible and responsive manner. In fiscal 2016, we plan ¥1.0 billion recurring profit and to remain profitable for a third consecutive fiscal year by realising reduced costs and increased cargo volume, even though air freight rates may hang low due to oversupply of air transportation capacity.

Dry Bulk Division

Masahiro Samitsu
Chief Executive of Dry Bulk Division
Director, Senior Managing Corporate Officer

Increase in Seaborne Trade and Fleet Tonnage



Source: Compiled by NYK Line referring to Clarkson's *Dry Bulk Trade Outlook* (February 2016)

Fiscal 2015 Overview

The Baltic Dry Index hit a record low, and we undertook a range of efforts during the fiscal year under review.

In 2015, overall global transport volume of the three major bulk cargoes—iron ore, coal, and grain—rose 1.5% year on year because increases in iron ore and grain cargo movements surpassed the decline in coal cargo movements. Meanwhile, dry bulk carrier shipping capacity grew 2.5% globally compared with the previous year. This increase reflected that the delivery of newbuilt tonnage were more than counteracted vessel scrapping. Unfortunately, due to an expansion of shipping capacity supply, the Baltic Dry Index, an indicator of freight rates for dry bulk carriers, reached its lowest-ever level in 2015. However, in 2015 capesize bulk carriers, which have the greatest effect on the overall dry bulk market, saw year on year increases of 0.4% in both supply and demand of shipping capacity. Despite this unchanged supply-demand gap, annual average freight rates for capesize bulk carriers decreased by half from the previous year's US$13,700 to US$6,900 in 2015. This decrease cannot be explained by the supply-demand gap. I believe freight rates slumped due to a dramatic cooling of market sentiment, which resulted from a hypersensitive response to the global economic uncertainty that emerged as economic growth flagged in China.

In these market conditions, we outperformed the market benchmark return by undertaking a range of efforts in full accordance with the Dry Bulk Division's strategies. For example, we reduced bunker consumption by selecting optimal shipping routes based on weather forecasts and implementing slow-steaming operations. We also improved utilisation of our fleet by reducing ballast voyages. Further, we secured medium-to-long-term freight contracts with steel manufacturers and mining companies in Japan and overseas as well as with electric power companies. As a result, we were able to accumulate more stable earnings in accordance with the medium-term management plan.

We took decisive action in response to the downturn in the shipping market.

Aiming to build a business model able to withstand market fluctuations, we continued the previous fiscal year's efforts to advance a light-asset business model by selling and scrapping surplus vessels and redelivering long-term chartered vessels. Also, given the long-term slump in freight rates, we recognised an impairment loss of approximately ¥33.5 billion in losses for certain owned dry bulk carriers in 2015. In relation to consolidated statements of income, this recognition is expected to enhance profitability going forward.

Other initiatives included mitigating the NYK Group's shipping capacity surplus by laying up some capesize bulk carriers. Because other major operators are implementing similar measures worldwide, we expect market conditions to recover gradually.

Fiscal 2016 Outlook and Strategy

While carefully analysing the supply-demand gap, we will strengthen our ability to withstand market fluctuations.

Although China's production of crude steel is likely to remain at the same level in 2016 as in the previous year, sourcing of the raw material required is shifting from domestically produced iron ore to high-quality iron ore from overseas. Therefore, cargo movements are expected to improve slightly year on year. Overall, however, dry bulk cargo movements to China are unlikely to grow significantly because environmental countermeasures are expected to result in a year-on-year decline in coal demand.

As for supply, the delivery of newbuilt tonnage is scheduled to be approximately the same in 2016 as in 2015. On the other hand, for capesize bulk carriers, panamax bulk carriers, and handysize bulk carriers, scrapping is projected to be roughly equivalent to the delivery of newbuilt tonnage. Moreover, in 2016 we expect a slight improvement in the supply-demand balance given the acceleration of a trend towards curbing supply through such measures as the previously mentioned laying up of capesize bulk carriers. The supply-demand balance will improve steadily over the medium-to-long term. For all dry bulk carrier classes, orders for new vessels reached 780 vessels in 2014 but decreased steeply to 250 vessels in 2015. In addition, new orders for capesize bulk carriers declined from 145 vessels to about 20 vessels during the same period. In keeping with this trend, the NYK Group aims to balance the supply-demand gap by only ordering new vessels in connection with medium-to-long-term freight contracts.

Southeast Asia is also seeing the construction of numerous coal-fired power stations, most of which are expected to begin operating by 2020. With a view to securing new medium-to-long-term freight contracts, we will respond positively to related business enquiries concerning the transport of raw materials.

Shin Sekiyo

We will advance initiatives aimed at strengthening our competitiveness.

In the previous fiscal year, we began initiatives to increase the accuracy of market forecasts. These initiatives have been improving our short-term market forecasts steadily. We gather and analyse a range of different data to project demand trends for the coming weeks or months. By forecasting where we can get better freight rates, in the Pacific Ocean, the Atlantic Ocean, or the Indian Ocean, and allocating vessels accordingly, we are able to achieve freight rates that are above the overall average worldwide. Before we are able to prepare medium-to-long-term market forecasts—which will be useful when ordering new tonnage and acquiring long-term freight contracts—we have to overcome certain hurdles. However, through a continuous process of trial and error, we intend to establish a model for medium-to-long-term market forecasts.

Another existing initiative that is producing benefits is the exploitation of big data for slow-steaming operations. Although the benefit of slow-steaming operations has lessened due to the fall in fuel prices, slow-steaming operations reduce shipping capacity supply, which helps to improve the supply-demand balance. Currently, we are concentrating efforts on using big data to optimise maintenance costs. By optimising the timing of maintenance during a vessel's service life, which is between 15 and 20 years, we plan to reduce costs without sacrificing service quality. Furthermore, we will install data collection equipment not only on owned vessels but also on chartered vessels. We will provide feedback to shipowners so that they can conduct maintenance at appropriate times. As well as reducing costs, this initiative will prevent accidents by detecting the signs of problems. Consequently, we will be able to offer customers even safer transport services.

The Dry Bulk Division can be one of the NYK Group's stable businesses if it can resolve the mismatch of supply and demand of shipping capacity. For society, iron ore, coal, and grain are indispensable resources. Demand for the transport services of dry bulk carriers will continue rising steadily as the economies and populations of emerging countries grow. We are confident that by appropriately reducing the number of vessels in the fleet that are exposed to the market, and concluding medium-to-long-term freight contracts, the Dry Bulk Division can become a business with stable earnings. Although achieving that end will take a little time, we intend to carefully analyse the dry bulk market rather than being pessimistic and realise Creative Solutions in an array of operational areas to gain a competitive advantage.

Liquid Division

Hitoshi Nagasawa
Chairman of Tramp Shipping Strategy Committee
Chief Executive of Energy Division
Representative Director, Senior Managing Corporate Officer

Crude Oil Transport

Fiscal 2015 Overview

Market conditions for crude oil carriers were favourable.

Market conditions for crude oil carriers exceeded expectations. Ton-miles grew as a result of more long-distance cargo movements between such regions as West Africa and Asia. Also, China's increasing number of automobiles and stepped-up oil stockpiling ensured steady oil demand worldwide.

Fiscal 2015 was a very fruitful year for crude oil transport. We concluded more contracts with customers not only in Japan but also in China and other countries. Moreover, we concluded a greater number of medium-to-long-term contracts than in previous fiscal years. With tapering oil demand as a premise, we have been shrinking our fleet of crude oil carriers. However, while taking into consideration demand for alternatives to oil, we will discuss the possibility of ordering new vessels.

Further, shipment demand for product tankers increased, reflecting brisk arbitrage.

Fiscal 2016 Strategy

Freight rates are expected to soften amid excessive supply.

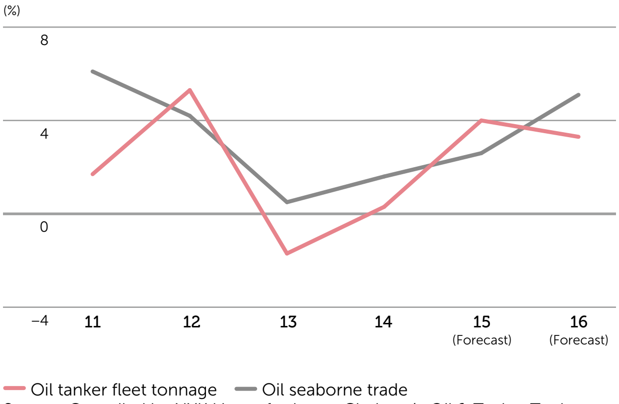
Although cargo movements continue to trend upwards, we expect a decline in freight rates for crude oil carriers due to excessive supply as a series of new vessels are completed. In excess of 60 very large crude-oil carriers (VLCCs) will be completed during fiscal 2016, more than triple the previous fiscal year's level. In addition, several dozen VLCCs from Iran are scheduled to enter the market because economic sanctions on the country have been lifted. Given that supply in a market comprising roughly 620 VLCCs will rise more than 10%, we are prepared for the current fiscal year's conditions to be more challenging than those of the previous fiscal year.

We are catering to the needs of comprehensive energy companies.

As the oil wholesale industry in Japan continues reorganising and customers evolve into comprehensive energy companies, I am urging people to listen carefully to customers and identify their needs. The ability to provide total solutions will lead to major business opportunities for the NYK Group.

Worldwide, few companies have the expertise and technology to provide a wide range of energy transport. Recently, customers who have never handled LNG have sought our advice on the construction of LNG terminals. If customers launch projects encompassing a range of energy sources, we intend to build systems that meet customers' expectations by organically combining technological capabilities for all types of energy transport, including oil, coal, and LNG.

Increase in Seaborne Trade and Fleet Tonnage



Source: Compiled by NYK Line referring to Clarkson's *Oil & Tanker Trades Outlook* (February 2016)

Also, against the backdrop of Japan's flattening energy demand, energy companies in Japan are embarking upon a variety of projects aimed at finding new opportunities overseas. Catering to such international initiatives is becoming important.

Tanker Fleet Ranking (As of January 1, 2016)

Ranking	Company	Kt (dwt)	Vessels
1	Teekay Corporation	18,275	137
2	Mitsui O.S.K. Lines	14,045	145
3	NIOC	13,520	54
4	SCF Group	12,076	125
5	Euronav NV	11,788	48
6	NYK Line	11,635	86
7	Bahri	11,209	62
8	China Merchants Group	11,153	41
9	Fredriksen Group	10,912	55
10	Angelicoussis Group	10,680	41
11	Petronas	9,475	74
12	Dynacom Tankers Management	8,711	53
13	Ocean Tankers	7,788	87
14	China Shipping Group	7,480	70
15	COSCO Group	7,075	56

Source: Compiled by NYK Line based on Clarkson's database

LNG Transport

Fiscal 2015 Overview

We acquired more long-term contracts.

Aiming to establish a structure less susceptible to market fluctuations, we acquired long-term contracts mainly for shale gas and oil projects during the fiscal year. In the Cameron LNG Project, following on from the time-charter contract concluded with Mitsui & Co. Ltd. in fiscal 2014, we concluded time-charter contracts for two vessels with Mitsubishi Corporation in fiscal 2015. Also, we concluded time-charter contracts for two vessels with Chubu Electric Power Co. Inc. for the Freeport LNG Project in Texas, the United States. Although the recent fall in oil prices is leading to the postponement of LNG projects, all of the contracts cited above are long-term contracts that are less susceptible to market fluctuations.

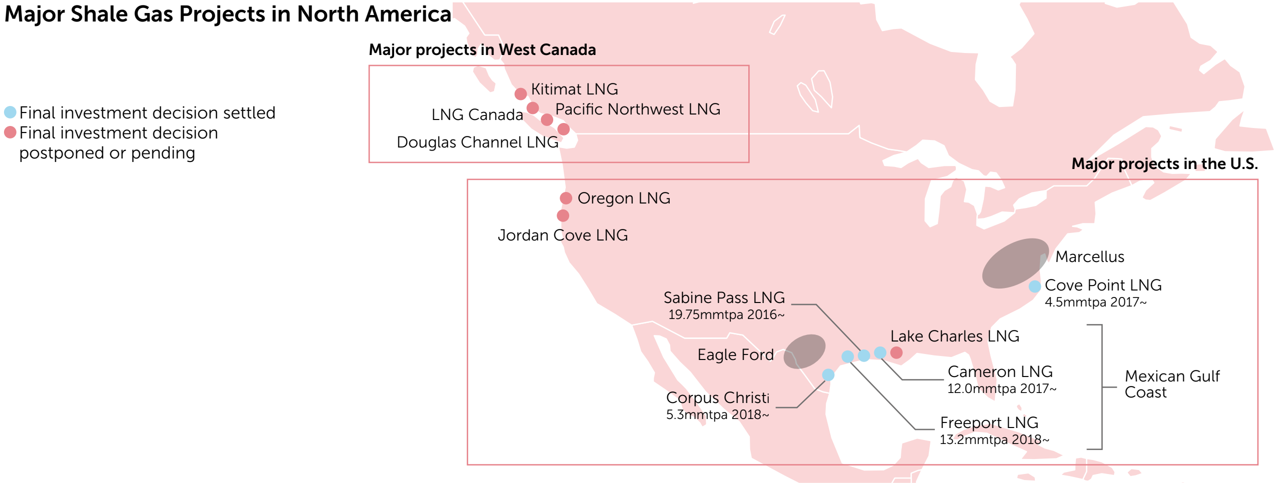
Fiscal 2016 Strategy

We will develop businesses steadily in light of near-term market conditions.

The medium-term management plan calls on us to expand our LNG carrier fleet to more than 100 vessels by fiscal 2018. Given the many project postponements and recent market conditions, we expect to have only about 90 vessels by then. However, we are not pessimistic. We want to steadily implement the long-term contracts that we have concluded while ensuring new business discussions continuing behind the scenes produce concrete results. Because LNG demand is set to grow, we will conduct stable sales activities.

In October 2016, we will take delivery of an LNG bunkering vessel. Initially, we will deploy it in Europe. In future, however, we plan to develop operations in other areas.

Major Shale Gas Projects in North America



LPG Transport

Fiscal 2015 Overview

We reinforced relationships with customers.

For many years, the NYK Group has been developing its LPG carrier fleet and strengthening LPG transport capabilities with Astomos Energy Corporation, one of the world's foremost LPG operating companies. Amid generally favourable market conditions, we concluded our 12th time-charter contract with the company for a very large gas carrier (VLGC).

Fiscal 2016 Strategy

We will develop the LPG carrier fleet in line with freight rate fluctuation.

Since the beginning of 2016, LPG carrier freight rates have been flagging due to a steep rise in shipping capacity. As a result, freight rates are unlikely to reach their former plateau of between US$80,000 and US$90,000 per day. However, we are not pessimistic because LPG derived from shale gas is traded on the market.

Further, by 2017 Astomos Energy Corporation plans to increase handling volume by 20% from the current level to produce more than 12 million tons annually. Therefore, we intend to continue strengthening our relationship with the company.

Offshore Business

Fiscal 2015 Overview

We established a structure less susceptible to external conditions.

Although falling crude oil prices resulted in postponements of oil and gas field development worldwide, this situation only negligibly affected the business results of our offshore business because it is mainly based on long-term contracts.

The FPSO business and the drillship business maintained high utilisation rates. Also, the shuttle tanker business achieved tangible results, such as concluding a long-term contract with BG Group plc, of the United Kingdom, a subsidiary of Royal Dutch Shell plc, of the United Kingdom and the Netherlands.

We are acquiring further expertise and technological capabilities.

We sent four employees to the Martin Linge field in the North Sea to gain experience in EPC (Engineering, Procurement, and Construction) projects related to FSO (Floating Storage and Offloading) units. Our goal is to have personnel with experience of such EPC projects lead forays into new fields. To this end, we intend to become immersed in the frontline operations of the offshore business while exploiting our existing expertise and technological capabilities. Of course, we have already acquired enough expertise and technological capabilities to receive orders for FSO units. However, it would not be an exaggeration to say that we now have sufficient capabilities to win our first order for an FSRU (Floating Storage and Regasification Unit).

We are setting our sights on participating in new businesses.

We are considering participation in the subsea business as a new area. This business area promises synergies because we can apply expertise and technological capabilities acquired for FPSO units and shuttle tankers. We are proceeding with analysis, taking into account the considerable potential of the subsea business and the window of opportunity that the current slump in crude oil prices is providing.

Fiscal 2016 Strategy

We intend to broaden the scope of the offshore business while laying a firm foundation.

In existing businesses and candidate businesses, such as the subsea business, we will establish a track record steadily and broaden the scope of the offshore business. If the crude oil price stabilises somewhat, the pace of oil field development will pick up again, demand for drillships and FPSO units will recover, and demand for shuttle tanker transport will reach new highs.

Further, full-scale development of methane hydrate resources may begin in Japan in the future. With that in mind, we will make studies to determine whether there are business opportunities in this area. We do not intend to participate in business areas that are susceptible to market fluctuations or which have low entry barriers. Around the world, there are still many business areas with which we are not familiar and there is much to learn. Accordingly, we will concentrate on steadily accumulating expertise and continuing to lay a firm foundation as we move forward.

Furthermore, we will not exclude partnerships, M&As, and other initiatives as ways of advancing the offshore business.

Offshore Business and LNG Value Chain

Workflow	Services provided by NYK		
Exploration, mining Development, drilling	Scientific deep-sea drillship (*Chikyu*)	Scientific deep-sea drillship (*Etesco Takatsugu J*) 35% investment by NYK. Engaged in deep-see drilling off the coast of Brazil over a maximum period of 20 years from April 2012.	
Production facilities Production, storage	FSO Floating Storage and Offloading system	FPSO Floating Production, Storage, and Offloading system	Wheatstone LNG Project (Australia) Joint participation with trading companies and electric utility companies in an LNG project being promoted in Australia by companies, including U.S.-based Chevron.
Inter-regional transport	Shuttle tankers 50% investment in Knutsen NYK Offshore Tankers (KNOT), the world's second largest shuttle tanker operator.		
Refining, liquefaction, storage	Cameron LNG Project (United States) Participation in an LNG liquefaction business aiming to begin production of LNG from the second half of 2017.		
Transport	LNG carriers	Tankers	
Customers	FSRU (Floating Storage and Regasification Unit)	LNG-fuelled vessels	

□ Participated ■ Considering participation

Car Carrier Division

Koichi Chikaraishi
Chief Executive of Automotive Transportation Headquarters
Representative Director, Senior Managing Corporate Officer

Fiscal 2015 Overview

We increased automobile transport volume by capturing demand growth.

In 2015, worldwide vehicle unit sales edged up 0.5% year on year, to 87.80 million units. Similarly, shipping cargo movements of finished automobiles were firm, rising 2% year on year, to 33.35 million units. Among these shipping cargo movements, exports of finished automobiles from Japan grew 5%, to 4.25 million units. This marked growth was attributable to Japan having more surplus production capacity than other countries as automotive manufacturers establish global production capabilities to hedge exchange rate risk.

In fiscal 2015, the NYK Group saw ocean transport increase 50,000 units year on year, to 3.70 million units. Exports from Japan accounted for most of this increase, testifying to our success in capturing the rise in exports from Japan during the fiscal year.

Mainly in emerging countries, the automotive logistics business increased the number of terminals, expanded intra-regional transport, and extended inland transport networks. Consequently, the business has 37 bases in 18 countries. Further, we are working on the development of solutions based on the Internet of Things (IoT), and we have implemented the G-CAP system, which locates vehicles using the Global Positioning System (GPS) and smartphones. Also, we expanded and improved a service that uses IT to indicate optimal truck deployment for inland transport and a service that uses IT to allow the individual management of finished automobiles.

Local production for local consumption and regionally optimised mass production are gathering speed.

The structure of the automotive manufacturing industry, which dictates finished automobile transport patterns, has changed significantly in the past 30 years. At one time, the principal cargo movements were between developed countries. Subsequently, cargo movements from developed countries to emerging countries became dominant. Currently, cargo mostly moves from emerging countries to developed countries and other emerging countries. To enable flexible adjustments to exchange rate fluctuations, automotive manufacturers are establishing plants overseas. Furthermore, they are moving production bases closer to consumption regions, known as local production for local consumption. They are also advancing regionally optimised

Global Car Transport Fleet Ranking (As of January 1, 2016)

Ranking	Operator	Vessels	Vessels Share (%)	Capacity (Cars)	Share (%)
1	NYK	112	15.4	668,000	16.3
2	Mitsui O.S.K. Lines	98	13.5	573,000	14.0
3	K-LINE	84	11.6	471,000	11.5
4	EUKOR	76	10.5	504,000	12.3
5	GRIM	58	8.0	247,000	6.0
6	GLOVIS	57	7.8	337,000	8.2
7	WWL	52	7.2	345,000	8.4
8	HAL	41	5.6	264,000	6.5
9	ECL	10	1.4	38,000	0.9
10	NEPTUN	9	1.2	32,000	0.8
10	UECC	9	1.2	37,000	0.9
12	NMCC	8	1.1	43,000	1.1
12	SALLAUM	8	1.1	35,000	0.9
12	Toyofuji Shipping Co. Ltd.	8	1.1	43,000	1.1
15	SCC	6	0.8	35,000	0.9
—	Others	67	9.2	310,000	7.6
	Total	703		3,982,000	

Source: Hesnes Shipping AS, *The Car Carrier Market 2015*
Note: This table includes only vessels with a capacity of 2,000 cars or more.

The NYK Group's Automobile Transport Volume

mass production, entailing the worldwide distribution of models manufactured in a specific region. Thus, the NYK Group is facing an increasingly complex operating environment, making flexibility in fleet development and the establishment of shipping routes more important than ever.

We intend to proceed with fleet development cautiously.

The NYK Group operates approximately 120 car carriers, with most having a capacity for between 6,000 and 6,500 units. However, we are steadily developing our fleet of post-Panamax car carriers having capacity for 7,000 units. In fiscal 2015, we took delivery of two leading-edge car carriers in this class, giving us eight in total.

We intend to keep the fleet at its present size until about the end of fiscal 2018. Before the global recession in 2008, demand for car carriers was strong, so we ordered many new vessels. After the global economy moved into recession, an oversupply of car carriers forced us to reduce the fleet, mainly by scrapping aged vessels. In light of this experience and the youth of the fleet—the average age of vessels is nine years—maintaining the flexibility of the fleet is important. Accordingly, we intend to proceed with fleet development cautiously.

The foundations of construction machinery and heavy machinery transport have stabilised.

We created our High and Heavy RORO Team in 2009. Since then, it has established an impressive track record. The team currently transports 3.30 million tons per year, which is equivalent to roughly 300,000 finished automobiles and mainly comprises exports from Europe, the United States, Japan, and Asia.

We have improved the overall profitability of construction machinery and heavy machinery transport through a range of Creative Solutions. For example, we exploit our regular services and worldwide network to transport construction machinery and heavy machinery and automobiles together while meeting customers' demands concerning schedules and cargo destinations.

Aries Leader, the very first post-Panamax car carrier in Japan

Fiscal 2016 Strategy

We will focus on keeping transport quality high and creating new value.

Worldwide demand for automobiles is expected to remain solid as emerging countries' economies and populations grow. In fiscal 2016, however, we project a 170,000 unit year-on-year decline in the ocean transport volume for automobiles, to about 3.53 million units. We anticipate this decrease because falling prices for crude oil and other resources are likely to lower demand for automobiles in the Middle East and Australia, despite robust demand in the Chinese and North American markets.

In response to these challenging business conditions, we will take advantage of our shipping-route network and outstanding transport quality to cater not only to demand for finished automobiles, construction machinery, and heavy machinery but also demand for the transport of new cargoes, such as railcars. In conjunction with these efforts, we will increase the number of bases to 42, thereby expanding the automotive logistics business.

In addition, in the current fiscal year we plan to take delivery of two LNG-fuelled car carriers, which will be the world's first such vessels. Environmental awareness is steadily rising among customers and other stakeholders. We will concentrate on creating new added value by reflecting the priorities of customers, such as their increased demand for environment-friendly services.

Cruises Business

Eiichi Takahashi
Chief Financial Officer
Chief Executive of Management Planning Headquarters
Oversees Cruise Enterprise Group
Director, Managing Corporate officer

Fiscal 2015 Overview

We continued to perform favourably thanks to innovative marketing.

Because the sale of Crystal Cruises LLC, of the United States, left only businesses related to the Asuka brand in the NYK Group's cruises segment, from fiscal 2015 the NYK Group stopped disclosing business results of the 'Cruises segment' and began including the segment's business results in 'Others'.

In fiscal 2015, although more overseas cruise companies entered Japan's market, we secured earnings by continuing to garner the support of customers through innovative marketing methods and further enhancement of the product appeal of *Asuka II*, which overseas cruise companies cannot match.

Fiscal 2016 Strategy

We expect to benefit from creative reform of cruise packages.

Partly due to uncertain environment abroad, we have decided not to propose the World Cruise. Instead, we are increasing the number of short domestic cruises enhanced package options and variable pricing to capture new demand to maximise earnings.

Celebrating its 25th anniversary in 2016, Asuka Cruises will aggressively seek to attract customers to *Asuka II* cruises. We will increase the number of theme-orientated cruises, such as SUMO, BUNRAKU (Japanese traditional puppet theatre), and WORLD HERITAGE as well as enrich the all-time favourites HANABI (fireworks) and MATSURI (festival) cruises.

Outside Evaluations

The NYK Group advances compliance measures, environmental preservation efforts, and other initiatives focused on sustainability.

The Environment

We are the only Japanese shipping company to have received an Environmental Ship Index award, which we received from France's HAROPA port authorities for the fourth consecutive year in 2015.

The NYK Group has been included in the Climate Disclosure Leadership Index (CDLI) for four consecutive years.

The Dow Jones Sustainability Indices have included the NYK Group for 13 years in a row.

We have been included in the FTSE4Good Index for 13 straight years.

We have been first in the Toyo Keizai CSR Ranking's industry-specific category for nine consecutive years.

At the 17th Logistics Environmental Grand Prize event, we received an award for our LNG-fuelled tugboat, *Sakigake*, in recognition of the development of technology that reduces the environmental burden of logistics.

Disclosure

NYK Report 2015
The *NYK Report 2015* received an Award for Excellence at the 19th Environmental Communication Awards, the fourth consecutive year we have received this award. The report also received an Award for Excellence at the 18th Nikkei Annual Report Awards, the third consecutive year we have received this award.

Investor Relations
We won an Award for Excellence at the 2015 Internet IR Awards.

Technology

SIMS (Ship Information Management System)
At the 12th Eco Products Awards, we received a Ministry of Land, Infrastructure, Transport and Tourism Award.

The NYK Group received the 2015 Minister of the Environment Award in the Technical Development and Commercialization category for the promotion of measures to address climate change.

We received a special award from the Japan Institute of Navigation in 2015.

The NYK Group was selected as a Competitive IT Strategy Company in 2016.

NYK TOPICS

Supplementary Volume *NYK SPARK BOOK*

In each workplace, regardless of whether it is in a business unit or a corporate division, we seek Creative Solutions that lead to new value and differentiation. *NYK SPARK BOOK* is a compendium of these forward-looking efforts and their benefits. We recommend reading it as a supplementary volume to this report.

Summary of CSR Activities in Fiscal 2015 and Outline of Next Year's Goals

Aiming to improve CSR activities continuously, the NYK Group's business divisions set CSR activity goals for each fiscal year at periodic meetings of CSR Task Force members and Group companies' CSR officers and pursue these goals through PDCA cycles. This report outlines progress in fiscal 2015 and goals for fiscal 2016, following the structure of the seven core subjects of the ISO 26000 standard.

ISO 26000 core subjects	Initiatives	Fiscal 2015 targets / programmes
Organisational governance	Strengthening of CSR management	• Step up coordination between members of internal CSR Task Force • Coordinate CSR activity programmes • Hold meetings of Group company managers liaison committee
		• Prepare integrated report and communicate process for increasing corporate value • Enhance content of CSR website to strengthen ability to provide information through Internet
	Dialogue with stakeholders	• Keep first position in transportation category (shipping) of Securities Analysts Association of Japan's evaluation ranking • Conduct individual investors' seminars • Hold briefings and facility tours for institutional investors
Human rights	Respect for human rights, prohibition of discrimination	• Conduct human rights training • Integrate CSR training with new employee training
	Promotion of diversity	• Participate in respective subcommittees of Global Compact Japan Network (ISO 26000, Human Rights Due Diligence, etc.) • Continue human rights initiatives through Global Compact Promotion Committee (jointly controlled with the Human Resources Group) and its subcommittee
		• Enhance ability to provide diversity-related information through NYK Report and CSR website
Labour practices	Support for diverse work styles	Conduct hearings at divisions with chronically high levels of overtime, examine possible countermeasures together with employees, investigate conditions and consider responses through Work-Life Balance Promotion Committee, and raise time management awareness through announcements informing employees of 'go-home-early' days
	Human resources development	• Review NYK's seafarers education program at NYK Maritime College, including response to new agreements • Enhance Philippine training center by reconstructing and extending building to ensure cultivation of high-quality seafarers
Fair operating practices	Compliance enforcement	Institute comprehensive compliance inspection month activities, anonymous surveys, and other initiatives; communicate results to relevant divisions; and resolve issues
	Promotion of fair competition and trade	Institute antitrust law compliance surveys, hearings, and risk assessments at corporate divisions and domestic and overseas Group companies
	Protection and management of information	Introduce Groupwide communication tools to strengthen intra-Group coordination and thereby make better proposals to customers; simultaneously raise Groupwide security level
Consumer issues	Improvement of customer satisfaction surveys	Continue rigorous quality assurance by CS Improvement Committee
	Promotion of safety	• Effectively utilise NAV9000 audit results • Conduct evaluations of ship-management companies through coordination between dry bulk carrier, PCC, containership, liquid, and NBP divisions and institute comprehensive performance checks, including cost-management assessments, to ensure safe and efficient vessel operations
	Development of safety programmes	Thoroughly enforce terminal safety standards for companies operating at three inland NYK-operated terminals
Community involvement and development	Social contribution activities	Continue introducing social contribution (volunteer) activities to Group employees (introduce activities through NPOs, NGOs, and other organisations)
		Continue cooperation activities using transport services, including new initiatives
		• Continue social contribution activities and provide education on maritime topics at NYK Maritime Museum and *Hikawa Maru* • Invite and cater to corporate training and school field trips • Hold events and collaborate with city of Yokohama and nearby facilities • Collaborate with relevant institutions
	Involvement in community development	• Utilise coal carriers to contribute to local measures • Hold tours and other community events to help foster mutual understanding between shippers and local communities
		• Conduct the new Yusen Mirai Project in fiscal 2015 • Provide education on maritime topics and communicate the appeal of working on oceangoing ships to elementary school, junior high school, and maritime academy students throughout Japan

NBC: NYK Business College **HR:** Human Resources **NMC:** NYK Maritime College **ISMS:** Information Security Management System

Achievement as at the end of March 2015	Evaluation	Fiscal 2016 targets
• CSR Task Force members (in-house): Convened two in total, 38 departments, 37 participants, Group company managers liaison committee: Convened four times in total, 38 companies, 46 participants		• Step up coordination between members of internal CSR Task Force • Coordinate CSR activity programmes • Hold meetings of Group company managers liaison committee
• *NYK Report 2015* received favourable evaluations from various organizations and increased opportunities to make presentations. Received award for excellence in the environmental reporting category at 19th Environmental Communication Awards at Nikkei Annual Report Awards • Renewed CSR website		• Prepare integrated report and communicate process for increasing corporate value • Enhance content of CSR website to strengthen ability to provide information through the Internet
• Maintained first position in transportation category (shipping) of Securities Analysts Association of Japan's evaluation ranking • Individual investors' seminars: Held seven times • Briefings and facility tours for institutional investors: Held three times in Japan		• Maintain first position in transportation category (shipping) of Securities Analysts • Conduct individual investors' seminars • Hold briefings and facility tours for institutional investors
Held training for raising employee awareness		• Conduct human rights training • Conduct information dissemination activities during human rights week • Hold meetings of Global Compact Promotion Committee
• Continued activities through Global Compact Promotion Committee (jointly controlled with the Human Resources Group) • Participated in respective subcommittees of Global Compact Japan Network		• Step up coordination between members of internal CSR Task Force • Coordinate CSR activity programmes • Hold meetings of Group company managers liaison committee
Established Diversity Promotion Team in April 2016 and stepped up and enhanced diversity initiatives		Coordinate with OLIVE POPEYE project to build workplace environment and cultivate corporate culture in which diverse human resources can exercise their talents regardless of gender
Commenced OLIVE project in July 2015 to promote work-style reforms; took steps to cultivate efficiency and productivity awareness by encouraging employees to come to and leave work earlier, establishing twice-weekly 'go-home-early' days and tracking late-night and weekend work; and realised reductions in overtime work by investigating circum-stances at high-overtime divisions, proposing improvement measures, and issuing warnings		Advance work-style reforms and reduced work hours seeking not only to comply with relevant laws but also to improve employee health and work-life balance
Held meetings of N-MEC Technology Committee and reviewed seafarer education; revised seafarer training programmes as a preventative measure for accident-related troubles; and enhanced facilities at Philippine training centre		• Improve seafarer education: Review NYK's seafarers education programme at NYK Maritime College, including response to new agreements • Maintain appropriate supply of seafarers: Monitor seafarer supply and demand based on NYK fleet size to maintain appropriate supply of seafarers
• Transmitted CCO messages and then instituted named Code of Conduct self-checks and anonymous surveys and posted results on Company bulletin board • Held Compliance Committee meetings in April and November 2015		Transmit CCO messages and then institute surveys and other measures
Conducted antitrust law assessments throughout year		Continue conducting antitrust law compliance surveys, hearings, and risk assessments at corporate divisions and extend activities to domestic and overseas Group companies to ensure strict antitrust law compliance throughout Group
Extended activities to Group companies and stepped up intra-Group coordination		Introduce Groupwide communication tools to strengthen intra-Group coordination, and thereby make better proposals to customers, and simultaneously raise Groupwide security level
Instituted customer surveys, confirmed results, and relayed information back to relevant divisions to pursue improvements; increased themed cruise lineups and campaigns in response to strong demand; and took various steps to improve customer satisfaction, including replacing spa floors with non-slip flooring and prohibiting smoking on prom-enade decks during events		Implement rigorous quality assurance through CS Improvement Committee
Conducted audits of ships and ship-management companies based on NAV9000 through coordination between dry bulk carrier, PCC, containership, liquid, and NBP divisions, achieving target of evaluating 300 ships and 30 companies, and promoted safe and efficient vessel operations by fully leveraging slow-steaming operations and weather and sea condition forecast services, but issues remain in relation to comprehensive perfor-mance checks, including cost-management assessments		• Re-analyse information on past vessel operation problems and compare these analyses to NAV9000 audit results to continue promoting safety and prevent future trouble • Conduct evaluations of ship-management companies through coordina-tion between dry bulk carrier, PCC, containership, liquid, and NBP divisions to maintain safe and efficient vessel operations
• Held monthly safety meetings with contractors and operators • Conducted checks of safe operation compliance at meetings every morning before beginning operations at NYK-operated terminals • Conducted bottom-up reviews of dangers identified during operations through *hiyarihatto* (near-miss) reporting		• Carry out analyses of accident causes and institute new safety standards • Collect information on accidents and safety measures at overseas terminals and in other industries and share this information among NYK-operated terminals for use in accident prevention • Request thorough compliance with safety standards by contractors and operators with regard to cargo handling
Continued new and existing volunteer activities in the Tohoku region, switched to fair trade coffee for visitors to head office, and held fair trade goods sales events		Conduct education activities aimed at Group employees (introduce activities through NPOs, NGOs, and other organisations)
Continued usual cooperation activities using transport services despite lack of demand for new and rush transport		Continue cooperation activities using transport services, including new initiatives
• Offered explanations at NYK Maritime Museum and *Hikawa Maru* during new employee training and for Group company representatives and other visitors (whenever necessary) • Provided free service for maritime academy students (whenever necessary) and accepted interns • Participated in Mois de la France à Yokohama (France Month) an event hosted by the city of Yokohama (June 13 and July 11, 2015, at NYK Maritime Museum and June 19, 2015, at *Hikawa Maru*) • Aided Yokohama Sparkling Twilight event hosted by the city of Yokohama (July 18, 2015) • Aided city of Yokohama's sea floor cleaning and marathon events • Sold tickets that could be used at NYK Maritime Museum and *Hikawa Maru* and at neighbouring facility (Yokohama Port Museum) • Participated in special exhibition commemorating Marine Day held by Maritime Bureau of Ministry of Land, Infrastructure, Transport and Tourism (July 18–August 9, 2015) • Participated in stamp rally commemorating Marine Day held by Kanto District Transport Bureau (July 18–August 9, 2015) • Participated in Tokyo Metropolitan Area Cool Share event held by the city of Yokohama's Climate Change Policy Headquarters (July 1–September 30, 2015)		Exchange information with, provide information to, jointly conduct events with, and collaborate with cooperative institutions related to the Ministry of Land, Infrastructure, Transport and Tourism, Kanagawa prefecture, city of Yokohama, and neighbouring facilities
Held ship tour events in various regions for community members as part of events conducted by Japanese Shipowners' Association		Continue support for various tours and community events
Conducted all activities planned based on external requests	–	Provide education on maritime topics and communicate appeal of working on oceangoing ships to elementary school, junior high school, and maritime academy students throughout Japan

CS: Customer Satisfaction

[Self-evaluation standard] Achieved Almost Achieved Partially

Advancement of Environmental Management Programme and Progress toward Goals

This environmental management programme is designed as a general plan encompassing the entire NYK Group. More detailed programmes have been established for specific vessel types, businesses, and regions.

Fiscal Year Ended March 31, 2016, Review of the Environmental Management Programme (Year-End Review)

ISO 26000 core subjects	Initiatives	Fiscal 2015 targets	Fiscal 2015 programmes
The environment	Use of ISO 14001 certification to promote environmental activities	1) Maintain and expand NYK Group multi-site environmental certification 2) Step up NYK Group multi-site environmental initiatives 3) Continually improve EMS manual 4) Prepare for new certification standard, ISO 14001:2015	1) Maintain activities appropriate for communities and businesses, and expand certification as requested by customers 2) Implement internal audits of corporate divisions, hold discussions with Group companies, and external audits by external organizations 3) Operate and continually improve systems based on EMS manual 4) Hold workshop based on final draft of revised ISO requirement
	Adherence to domestic and international laws and regulations, formulation of and adherence to industry and Company standards	1) Identify and rigorously adhere to treaties, laws, and regulations that impact ships 2) Maintain and comply with laws and regulations for non-vessel businesses 3) Contribute to formulation of international rules for realization of sustainable societies through industry-wide effort	1) Update NAV9000 audit contents (ship-management companies and ships) 2) Confirm status at Group companies through questionnaire (Internal Audit Chamber) 3) Institute comprehensive compliance inspections 4) Proactively participate in the formulation of international rules
	Reduction of fleet accidents	1) Eliminate major accidents 2) Reduce fleet downtime (10 hours/year/ship) 3) Conduct emergency preparedness and response	1-1) Conduct NAV9000 audits (ship-management companies and ships) 1-2) Near Miss 3000 activities (increase companies to be covered) 1-3) Hold various safety promotion meetings and safety seminars 1-4) Distribute safety information 1-5) Conduct safety campaigns 2) Continue activities to minimize fleet downtime 3-1) Conduct emergency response exercises and reviews 3-2) Conduct media response training and reviews
	Maintenance and reinforcement of security and sharing of information	Share information throughout the NYK Group and with concerned parties	1) Hold meetings of Safety and Environmental Management Committee 2) Conduct assemblies of the NYK Group Environmental Management Conference 3) Permeate understanding of the NYK Group Environmental Management Guidelines 4) Conduct emergency drills in NYK building
	Prevention of global warming (Reduction of CO_2 emissions)	1) Establish environmental management benchmarks: improve fiscal 2010 fuel consumption efficiency by 10% by end of fiscal 2015 and by 15% by end of fiscal 2018 2) Determine total CO_2 emissions for NYK Group	1) Extract data from SPAS for more accurate monitoring and calculation of environmental management indicator 2) Use environmental performance data tabulation system (NYKECOM)
	Prevention of air pollution (Reduction of NOx and SOx emissions)	Reduce NOx and SOx emissions	1) Increase usage of electronically controlled engines 2) Cooperate with California Speed Reduction Programme 3) Make onshore power charging (AMP) equipment compliant with global standards 4) Utilise AMP equipment (container-type) 5) Cooperate with SCR onboard testing 6) Rigorously enforce EU and California low-sulfur fuel guidelines
	Introduction and use of equipment that reduces marine pollution, conserves and recycles resources, lowers emissions of toxic substance emissions, and protects biodiversity	1) Advance installation of ballast water management systems 2) Scrap ships in an environment-friendly manner 3) Advance installation NYK Total Bilge System	1) Expand installation 2) Adhere to 'NYK Standards' on ship recycling 3) Actively install in new built ships
	Reduction of office environmental burden	Maintain paper, water, and electricity use at same levels as in fiscal 2014	Endeavour to reduce usage of paper, water, and electricity
	Contribution to environmental protection through research and development of new technologies	1) Enhance precision of measurement of ship speed relative to water 2) Expand functionality of application (LiVE for Shipmanager) for monitoring performance and condition of main engine 3) Enhance efficiency of air-blower and scavenging-air-type air-lubrication methods	1) Finalise specifications by July 2) Utilise to prevent serious engine trouble, conduct preventative maintenance, and realise status and remote monitoring of onboard equipment 3) Establish usage guidelines covering wide range of vessel operation conditions and confirm effectiveness for hull design optimisation based analyses of benefit differences between hull design for air-blower air-lubrication methods Take steps to prevent flow of air into propellers for scavenging-air-bypass-type air-lubrication
	Stimulation of interest in environmental protection activities	1) Conduct environmental training 2) Conduct environmental e-learning programs 3) Step up dissemination of information to employees	1) Hold training and workshops 2) Create content for environmental e-learning program, and increase participant numbers 3) Feature environmental activities in internal newsletter, and conduct environmental preservation campaign
	Disclosure of environmental information	1) Provide up-to-date environmental information through website 2) Disclose CO_2 emissions information	1) Revise and update information contained on website 2) Update CO_2 e-calculator data, participate in CCWG of BSR (U.S. NPO), and verify Scope 3 data

EMS: Environmental Management System SEMC: Safety & Environmental Management Committee SPAS: Ship Performance Analyzing System SCR: Selective Catalytic Reduction

Achievement as at the end of March 2016	Evaluation	Fiscal 2016 targets
1) Added one new site (YLK (Turkey)), subtracted four sites (Nippon Nozzle Seiki, NYYT, and two offices in Europe) Total: 54 companies, 147 sites 2) Improvement requests resulting from audits: Internal audits 44, external audits 21 3) Manual revisions: 1 4) Held workshop in February and March 2016	☘☘☘	1) Maintain and expand NYK Group multi-site environmental certification 2) Step up NYK Group multi-site environmental initiatives 3) Continually improve EMS manual 4) Prepare for new certification standard, ISO 14001:2015
1) Revised NAV9000 Checklist for ships (ver. 6.0.0) and Company audit Checklist (ver. 3.1.0) 2) Instituted internal control status questionnaires aimed at newly established companies (June and December 2015), and conducted internal compliance awareness survey (September 2015) 3) Participated in industry body steering committees and the Marine Environment Protection Committee of the International Marine Organization (IMO)	☘☘☘	1) Identify and rigorously adhere to treaties, laws, and regulations that impact ships 2) Maintain and comply with laws and regulations for non-vessel businesses 3) Contribute to formulation of international rules for realization of sustain-able societies through industry-wide effort
1-1) Audited 300 ships / 30 companies, 1,366 improvement proposals 1-2) Scope: 35 companies / 57,483 reports 1-3) Held fleet safety promotion meetings; Global SEMC Safety Meeting; meetings between president, captains, and chief engineers (July–August 2015) 1-4) Total of 49 reports 1-5) Visited 512 ships / 941 participants 2) 19.1 hours/ship/year; Downtime due to engine accidents: 9.9 hours/ship/year 3-1) 6 times 3-2) Conducted training based on scenario of a serious accident occurring on a VLCC	☘☘☘	1) Eliminate major accidents 2) Reduce fleet downtime (10 hours/year/ship) 3) Conduct emergency preparedness and response
1) Held at appropriate times for each vessel type (April-July 2015) 2) Conducted in November 2015 3) Collected Environmental Action Plans (100% collection rate) 4) Conducted twice (September 2015, March 2016)	☘☘☘	Share information throughout the NYK Group and with concerned parties
1) Accomplished fiscal 2015 target (14.3% improvement from fiscal 2010), Collected data from 617 ships, 6,630 reports 2) Collected data from 158 operating bases (overseas), 52 companies / 258 operating bases (Japan)	☘☘☘	1) Establish environmental management benchmarks (improve fiscal 2010 fuel consumption efficiency by 15% by the end of fiscal 2018) 2) Determine total CO_2 emissions for NYK Group
1) Adopted for seven ships in fiscal 2015 2) Compliance percentages, Los Angeles: 99% (20 miles), Long Beach: 97% (40 miles) 3) Took measures to comply with international unified standards issued in July 2012 4) Shoreside generator usage: 157 times; Ships equipped to make use of shoreside generators: 19 5) NOx (EGR) onboard testing: 1 ship; NOx / SOx emission reduction equipment (LNG fuelled): 1 ship 6) All vessels using low-sulfur bunker oil	☘☘☘	Reduce NOx and SOx emissions
1) Installed on five ships in fiscal 2015 2) Implemented for two ships in fiscal 2015 3) Installed in six ships in fiscal 2015	☘☘☘	1) Advance installation of ballast water management systems 2) Scrap ships in an environment-friendly manner 3) Advance installation NYK Total Bilge System
Paper usage: −2.19%, water usage: −1.86%, electricity usage: +0.36% compared with levels in fiscal 2014	☘☘	Maintain paper, water, and electricity use −0.1% compared with levels in fiscal 2015
1) Analysed usage data and formulated ideas to improve accuracy and decided to develop a prototype with greater accuracy. 2) Added serious accident precursor detection logic function to LiVE for Shipmanager and began deployment at management companies 3) Analysed usage data for air-blower air-lubrication method. Discussed measures to improve energy saving effect for scavenging-air-bypass-type air-lubrication method. Devised a system to control blowing air volume.	☘☘☘	1) Modify containerships to realise energy-efficient operations 2) Construct smart fleet operation system
1) Conducted training for new employees and CSR training 2) Held environmental e-learning programs; realized year-on-year increase of 1,500 participants 3) Continued to feature environmental activities and conducted in-house environmental protection campaign (June–October 2015)	☘☘☘	1) Conduct environmental training 2) Conduct environmental e-learning programs 3) Step up dissemination of information to employees
1) Updated once (October 2015) 2) Participated in CCWG, and completed third-party data verification for Scope 1, 2, and 3 and acquired certification	☘☘☘	1) Provide up-to-date environmental information through website 2) Disclose CO_2 emissions information

CCWG: **C**lean **C**argo **W**orking **G**roup

Promotion of Group Environmental Management

The NYK Group's Environmental Management Vision and Three Strategies (Formulated March 2005)

To contribute to the global environment and the creation of sustainable societies by managing environmental risks and arriving at an optimal balance between environment and economy

Strategy 1 **Reducing greenhouse gas emissions** Strategy 2 **Promoting social contribution through activities to conserve the global environment** Strategy 3 **Strengthening group environmental management**

Scope of the NYK Group's Environmental Management System

① Worldwide transportation of goods by sea on a fleet of owned and chartered ships and feeder vessels, and on land by rail and truck and through the use of warehouse operations
② Cruise ship business
③ Container terminal business
④ Ship-management business
⑤ Offshore business
⑥ Airfreight business
⑦ Ocean & air forwarding and contract logistics business
⑧ Other businesses associated with the NYK Group

The NYK Group's Environmental Green Policy

① We, the NYK Group, adopt responsible practices with due regard to the environmental impacts of our corporate activities. We set and continually review objectives and targets for achieving our goal to protect our entire global environment.
② We seek not only to comply with safety and environmental regulations but also to implement in-house standards to improve our environmental performance and prevent pollution.
③ We commit ourselves to the safe operation of all our logistics services via sea, land, and air-transport modes, including not only our oceangoing vessels but also our water-front, inland, and air-transport services, as well as terminal and warehouse operations.
④ We seek to reduce environmental loads by efficiently using resources, saving energy, reducing waste, encouraging material recycling, and particularly by minimizing emissions of greenhouse gases, ozone-depleting substances, and toxic matter.
⑤ We endeavor to minimize environmental loads and adopt environmentally friendly technologies when ordering and purchasing necessary resources, such as vessels and aircraft, for transportation services and cargo operations.
⑥ We endeavor to use education programs to raise environmental awareness among our employees and to ensure that they recognize the essence of this Green Policy by actively addressing environmental concerns.
⑦ We make wide-ranging social contributions in close partnership with local communities by disclosing environmental information and supporting environmental conservation initiatives.

President
Constituted on September 1, 2001
Amended on April 1, 2009

Global Environmental Management System

The NYK Group has built a unique global system for ISO 14001 environmental certification, the likes of which cannot be found in other companies. Under the Group's common Environmental Green Policy, roughly 150 operating sites and approximately 800 vessels, including chartered vessels, in Japan and four overseas regional blocs have obtained ISO 14001 environmental certification. The aggregate sales of the approximately 50 companies that have obtained this certification account for roughly 80% of the Group's total sales. Furthermore, some Group companies in Japan have received Green Management certification.

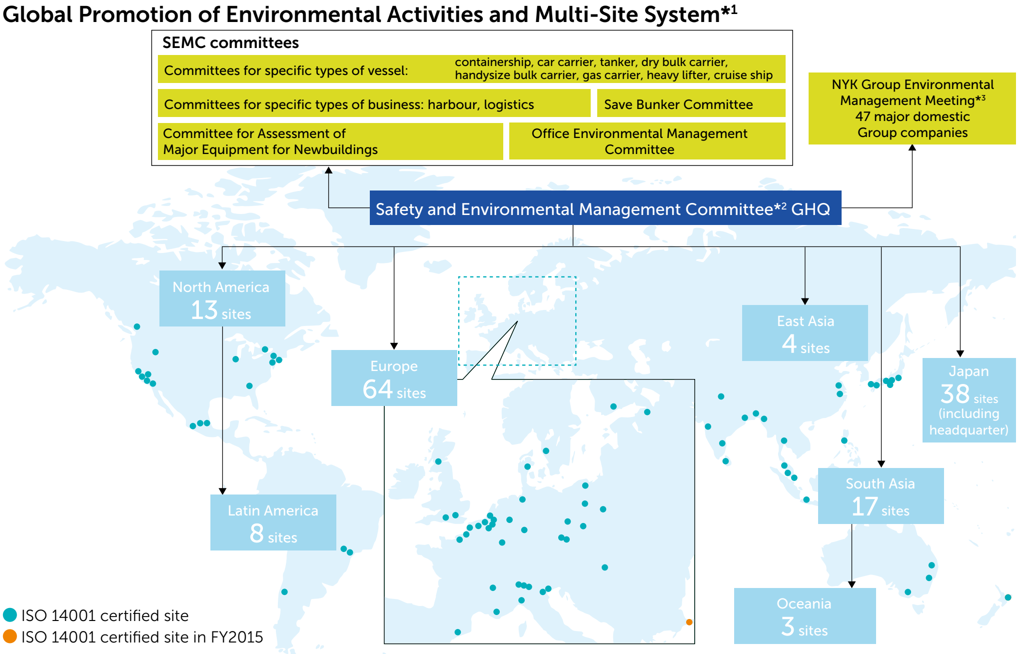
ISO 14001 environmental certification
This is the collective term for the international standard for environmental management systems issued by the International Organisation for Standardization.

Chartered vessels
Ships leased from shipowners along with their fixtures and crew in a state capable of safe operation

Green Management certification
This indicates the certification that the Foundation for Promoting Personal Mobility and Ecological Transportation provides to transportation operators that make voluntary efforts above a certain threshold, such as implementing eco-driving or introducing low-emission vehicles, as described in the Green Management Promotion Manual.

Eight companies certified as practicing Green Management: Nippon Container Yuso Co., Ltd., Yusen Koun Co., Ltd., UNI-X Corporation, Asahi Unyu Kaisha, Ltd., Kaiyo Kogyo Corporation, Yokohama Kyoritsu Warehouse Co., Ltd., Narita Transport Section of Yusen Logitec Co., Ltd., and Hokuyo Kaiun Co., Ltd. (As of April 1, 2016)

Global Promotion of Environmental Activities and Multi-Site System*1



***1. Multi-Site System**
This system allows blanket certification of all a company's operating bases.

***2. Safety and Environmental Management Committee**
At NYK's headquarters, the president chairs this committee, tasked with formulating Groupwide environmental activity guidelines and conducting annual reviews of environmental management systems. Under this committee, subcommittees are responsible for specific vessel types, businesses, and projects. Also, the Group's six overseas regional blocs have similar committees.

***3. NYK Group Environmental Management Meeting**
Beginning in 2006, this annual liaison meeting is for the main domestic Group companies. Group companies share information about their environmental initiatives. Those companies that have made outstanding efforts receive special commendations.

(As of April 1, 2016)

Green House Gas Emission Reductions

Environmental Management Indicator

Since 2006, NYK has adopted an environmental management indicator based on International Maritime Organization (IMO) Guidelines in order to track the amount of CO_2 emissions from vessels versus distance traveled. This information has been used to pursue improvement in vessels' fuel efficiency. In fiscal 2015, we reduced CO_2 emissions (improved fuel consumption efficiency) by 14.3% compared with the fiscal 2010 level, successfully achieving the target of 'More Than Shipping 2013', the medium-term management plan established in 2011, of a 10% improvement in fuel consumption efficiency compared with the fiscal 2010 level by fiscal 2015. Moving ahead, we will work towards a 15% reduction from the fiscal 2010 level by fiscal 2018, as indicated in our medium-term management plan 'More Than Shipping 2018—Stage 2 Leveraged by Creative Solutions', by implementing ongoing fuel saving measures to optimise vessel operation.

$$\text{Environmental management indicator (Based on IMO Guidelines)} = \frac{\text{Environmental load } (CO_2 \text{ emissions from vessel transportation})}{\text{Value added by the business (Mass of cargo in tons} \times \text{Transport distance in kilometres)}}$$

IMO: International Maritime Organization
UN specialist organisation to promote intergovernmental cooperation and formulate treaties and protocols covering technical and legal questions in ocean transport and shipbuilding

Environmental Data Disclosure and Third-Party Evaluation

The NYK Group obtains highly reliable environmental performance data and openly discloses it. The Group uses the Clean Shipping Index (CSI) to disclose the environmental effects of vessel emissions in addition to disclosing information through the Clean Cargo Working Group (CCWG). Information disclosure through the CCWG is utilised in the NYK Group CO_2 e-calculator, a system developed by the Group to calculate CO_2 emissions volumes resulting from cargo transport, and is thus contributing to the calculation of CO_2 emissions by the many domestic and overseas users of the calculator.

In addition, after a 2015 survey conducted by the international NPO (not-for-profit organisation) CDP, in which the disclosures of climate change data from 500 Japanese companies were evaluated, the NYK Group was selected for inclusion in the CDP's Climate Disclosure Leadership Index (CDLI) as a progressive discloser of climate change data, making this the fourth consecutive year of inclusion. Furthermore, the NYK Group has been included in the Dow Jones Sustainability Indices and the FTSE4Good Index for 13 straight years.

In May 2016, NYK received the Technological Development Award at the 17th annual Logistics Environment Awards sponsored by the Japan Federation of Freight Industries along with Keihin Dock Co. Ltd. and Wing Maritime Service Corporation, for the LNG-fuelled tugboat *Sakigake*. NYK was also recognised with a Technology Special Award at the 2015 Ship of the Awards sponsored by the Japan Society of Naval Architects and Ocean Engineers.

CSI:
Comprising 20 categories related to the environment, this index was developed by the NPO Clean Shipping Project.

CCWG:
This working group, whose members include major container cargo shippers and ship operators from around the world, sets uniform standards for measuring environment performance in sea transport.

CDP:
On behalf of institutional investors, this NPO requests companies to disclose information about their initiatives in response to climate change.

Big Data Initiatives for Heightening Safety and Energy Savings

The 'More Than Shipping 2018—Stage 2 Leveraged by Creative Solutions' medium-term management plan calls on us to achieve differentiation by leveraging Creative Solutions. Specifically, NYK is working to utilise big data on nautical instruments equipment and the engine collected during voyages to realise safe and energy-efficient vessel operation. The foundations for such big data utilisation are formed by our ship information management systems (SIMS), which enable the timely sharing of data between vessels and onshore staff. As of April 2016, more than 150 of our ships were equipped with these systems. Big data is also employed in the IBIS TWO Project, which entails fuel-saving efforts for each type of vessel.

To ensure the effective utilisation of big data, we are developing such tools as LiVE, which displays and monitors various data, and Vessel Performance Analysis System (VPAS), which analyses fleet performance. As an example of data utilisation, we previously modified the bulbous bows of existing containerships to match specifications for slow-streaming operations and installed energy-saving equipment in order to improve propulsion performance, thereby reducing CO_2 emissions. However, after analysing performance based on speed, revolutions, horse-power, sea draft, water displacement, and other data collected under actual sea conditions, we found that the actual benefits exceeded our estimations with the total CO_2 emissions reductions coming to 23%, which was subsequently certified by the ship classification society ClassNK. Going forward, NYK will refine the technologies of its SIMS while enhancing related data analysis technologies with the aim of establishing this system as a form of vessel operation infrastructure matched to the needs of each vessel type. The application of this system will be expanded in future to help reduce and prevent engine breakdowns with a view to lowering repair costs, minimising lost time, and realising cargo transport that is even safer and more reliable.

Vessels Equipped with Energy-Saving Technologies

In May 2014, we took delivery of Japan's first post-Panamax car carrier, *Aries Leader*. Anticipating the widening of the Panama Canal, the new vessel has a maximum capacity of 7,000 vehicles. This enlarged capacity combined with the car carrier's incorporation of a range of energy-saving equipment promises to reduce CO_2 emissions by 30% compared with the previous vessel type. The vessel's equipment includes an air-lubrication system, hybrid turbochargers, and the use of water-emulsified fuel in the boiler.

February 2016 saw the completion of *NYK Blue Jay*, the first in a line of 14,000-TEU containerships equipped with state-of-the-art technologies. This containership's main engine is equipped with the world's first dual rating system (patent pending) that allows for the ideal power range to be selected for either high-speed operations or slow-steaming operations. This system thereby realises optimal fuel consumption for the selected speed and consequently reduces CO_2 emissions. Moreover, by minimising engine room space and maximising cargo space, this ship boasts substantially lower CO_2 emissions per unit of cargo transported. Through the practical application of these various technologies, we will steadily move towards the realisation of *NYK Super Eco Ship 2030*.

Air-lubrication system
This system lowers CO_2 emissions by reducing friction between the vessel's bottom and seawater by supplying air bubbles to the bottom of the vessel. In 2010, the NYK Group launched the world's first operating vessels equipped with an air-lubrication system based on an air-blower. And in 2012, the Group launched the world's first operating vessel equipped with an air-lubrication system featuring a main engine scavenging air bypass.

Hybrid turbocharger
Device to utilise the extra rotational power generated by the turbine for electric power generation.

Water-emulsified fuel-combustion equipment
This equipment is used to combust a fuel compound composed of a stable mixture of water and heavy oil, known as water-emulsified fuel, in vessels' auxiliary boilers. The equipment heightens combustion efficiency, which reduces CO_2 emissions. It also reduces NOx emissions by lowering the combustion temperature.

Car carrier, *Aries Leader*

Containership, *NYK Blue Jay*

Prevention of Air Pollution

Transition to LNG-Fuelled Vessels

Vessels traditionally consume heavy oil. However, changing from heavy oil to liquefied natural gas (LNG) is expected to enable emissions reductions of about 30% for CO_2, about 80% for NOx, and 100% for SOx. Amid the institution of stricter environmental regulations for vessels, NYK has been pushing forward with research and technology development geared towards realising practical application of LNG-fuelled vessels, seeking to utilise LNG as a next-generation alternative to heavy oil. A product of these efforts, *Sakigake* was completed in August 2015, becoming Japan's first LNG-fuelled tugboat. In addition, two LNG-fuelled car carriers, the first in the world of their kind, are scheduled for completion in the latter half of fiscal 2016. We plan to deploy these vessels in the North Sea

Rendering of an LNG-fuelled car carrier

LNG-fuelled tugboat *Sakigake*

and the Baltic Sea, both areas with strict regulations limiting fuel sulphur content to less than 0.1%. Moreover, we have decided to build LNG bunkering vessels and participate in an LNG fuel sales business by selling LNG and supplying fuel to LNG-fuelled vessels operating in these waters.

NOx (nitrogen oxide)
Toxic substance that has been identified as a key element of photochemical smog, which pollutes the air and causes acid rain

SOx (sulphur oxide)
Toxic substance that has been identified as one of the causes of air pollution and acid rain

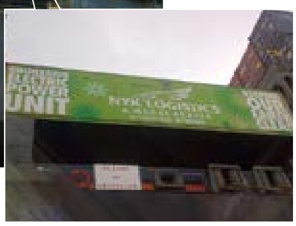
Use of Onshore Power while in Port

The California Air Resource Board requires containerships, cruise ships, and refrigerated cargo ships docked at Californian ports to deactivate their onboard generators and receive their electricity supply from shore. At NYK, we outfit containerships stopping at ports that are subject to this regulation with alternative maritime power (AMP) units and encourage port terminals to install AMP compatible facilities to ensure that our containerships are able to use onshore power supplies while in port. To increase the ratio of vessels capable of receiving such power supply, we will revise our containership modification and allocation plans. In this way, we will make ongoing contributions to environmental preservation by reducing the emission of such pollutants as CO_2, NOx, SOx, and particulate matter (PM) from vessels.

AMP:
AMP refers to container units that reduce air pollutant emissions by enabling vessels to shut down onboard diesel power generators and receive electricity from shore while at berth.

PM
Particulate matter (PM) is a harmful substance said to affect health adversely and cause such conditions as respiratory diseases.

Containership receiving electricity from shore



AMP container unit

Reducing NOx Emissions

Bunker oil, when burned, generates nitrogen oxide (NOx) compounds, which are greenhouse gases. International Maritime Organization (IMO) regulations aimed at reducing vessels' NOx emissions have been in effect for several years, with a second set of regulations becoming effective from 2011. As part of measures to comply with these regulations, the Group has been equipping vessels with electronically controlled engines, which reduce NOx by electronically controlling—and thereby optimising—fuel injection and exhaust valve opening and closing. In fiscal 2015, we equipped seven new vessels with electronically controlled engines.

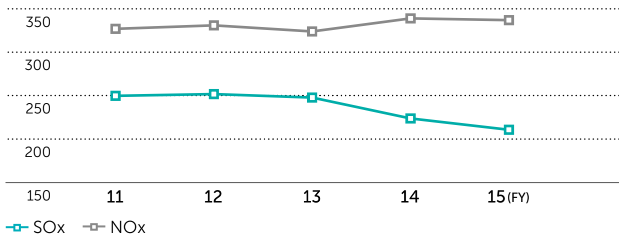
In response to a decision to introduce a third set of stricter regulations in the IMO-stipulated emission control areas of Canada and the United States in 2016, we are researching such new technologies as an exhaust gas recirculation (EGR) system.

EGR (Exhaust Gas Recirculation) system
Technology that reduces NOx emissions by recirculating a portion of an engine's exhaust gas to the engine intake

Reducing SOx Emissions

The burning of fuel that contains sulphur results in the emission of sulphur oxide compounds (SOx). IMO regulations aimed at reducing the SOx emission from vessels have come into force over the past several years. In 2012, the organisation introduced regulations on bunker oil sulphur content, reducing the maximum allowable concentration in general ocean waters from 4.5% to 3.5%. Furthermore, in the emission control areas of Europe, the United States, and Canada—which are subject to even stricter regulations—the upper limit on sulphur concentration was lowered from 1.0% to 0.1%. The NYK Group ensures compliance with regulations and furthermore pursues a variety of initiatives to realise safe vessel operations and environmental preservation simultaneously. For example, we have established a task force to examine measures that can be taken, such as improving vessels' onboard equipment for existing vessels and building specifications for new vessels.

SOx / NOx Emission
(Thousands of tons)

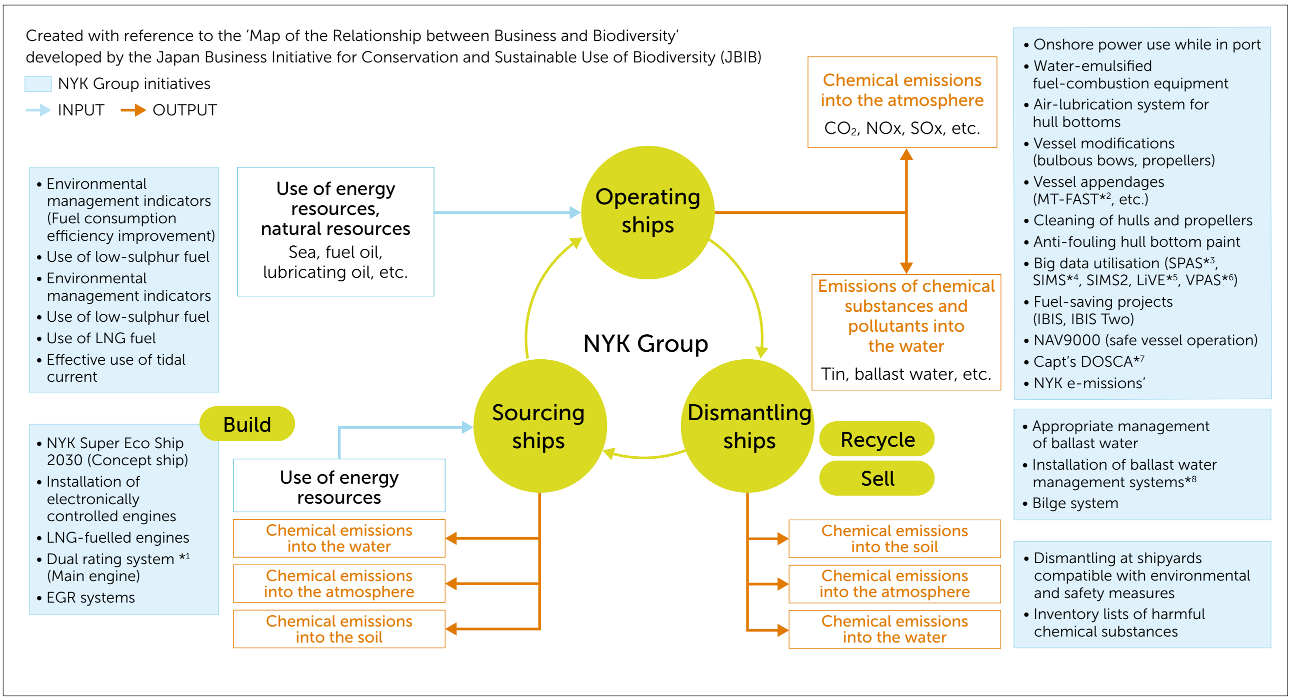


Preservation of Biodiversity

Initiatives for the Preservation of Biodiversity

Recognising that all stages in a vessel's life cycle, from vessel sourcing through to disposal, can affect biodiversity, the NYK Group has created a flowchart showing the relationship between its business activities and biodiversity. Based on this flowchart, we analyse the potential impact on biodiversity at each stage of our business activities, from vessel sourcing and vessel operations to dismantling. The Group is working to preserve biodiversity through initiatives focused on hardware and systems. For example, as well as developing environment-friendly technology and incorporating it in vessels, we have introduced our original NAV9000 safety management system to prevent environmental damage arising from accidents. Also, the Group has been a promoting partner of the Declaration on Biodiversity by Keidanren (Japan Business Federation) since 2009 and has participated in the Japan Business and Biodiversity Partnership since 2010. The NYK Group will continue preserving biodiversity through business activities that reflect the declaration and its related Code of Conduct.

Mapping the Relationship between the NYK Group and Biodiversity



*1. Dual rating system
This system allows for the ideal power range to be selected for either high-speed operations or slow-steaming operations.

*2. MT-FAST
This is a multi-blade device that can be attached to a ship's hull just in front of its propeller to catch the lost energy from the swirl flow generated by propeller rotation, improving propulsion efficiency while also saving energy.

*3. SPAS: Ship Performance Analyzing System

*4. SIMS: Ship Information Management System

*5. LiVE: Latest Information for Vessel Efficiency
This system (portal site) aids ship managers in making decisions for realising optimal operation by tracking big data collected through our SIMS.

*6. VPAS: Vessel Performance Analysis System
This software analyses vessel performance based on the various data collected from the vessel.

*7. Capt's DOSCA
This system supplies vessels with up-to-date weather and sea condition forecast information.

*8. Ballast water management systems
These systems ensure that the marine life carried along with the ballast water does not upset other ecosystems. Ballast water is seawater carried by the vessels to maintain their balance. Normally, tanks at the bottom of vessels take on ballast water at unloading ports and release it at the loading port.

Fiscal 2015 Marine Pollution Incidents

Leakage due to marine casualties	1
Leakage due to machinery troubles	3
Leakage due to failure to comply with operating procedures	1

The five incidents noted above were appropriately reported and treated.

Introducing Ballast Water Management Systems

To prevent the cross-boundary movement of aquatic organisms affecting the marine environment, in 2004 the IMO adopted the International Convention for the Control and Management of Ship's Ballast Water and Sediments. Currently, various countries are moving to ratify the convention so that it comes into effect. Anticipating the convention's enforcement, the Group began equipping its vessels with ballast water management systems approved by the Ministry of Land, Infrastructure, Transport and Tourism in 2010. As of March 31, 2016, a total of 64 of the Group's vessels have ballast water management systems installed, including 24 existing vessels and 40 newly built vessels. We will continue installing owned vessels and directly managed vessels with these systems while monitoring progress towards the ratification of the International Convention for the Control and Management of Ship's Ballast Water and Sediments.

Furthermore, we plan to conduct test installations of the SKY-System® ballast water management system on car carriers operated by the Company. This system was developed jointly by Group company Nippon Yuka Kogyo Co. Ltd. and Katayama Chemical Inc. and received approval from the Ministry of Land, Infrastructure, Transport and Tourism in October 2014. SKY-System® sterilises and kills aquatic organisms by automatically injecting a chemical agent into ballast tanks when they take on ballast water. This system is easily installed without dry-docking, readily maintained, and energy efficient. Going forward, the Group will continue to advance a concerted effort to preserve biodiversity.

SKY-SYSTEM®

Ship Recycling

To minimise industrial accidents and environmental pollution when ships are dismantled, the IMO adopted a ship-recycling convention in 2009. With a view to the convention's entry into force, countries worldwide are progressing towards ratification. As the convention requires, the NYK Group prepares inventory lists of the volumes and locations of hazardous materials on board and posts the lists inside vessels. In addition, we have established an internal scrapping policy that takes IMO Guidelines into consideration and is based on securing scrapping locations that are reliable and conducting dismantling in an environment-friendly manner. Following this policy, we select yards at which to perform dismantling that are not only environment-friendly but also emphasise work safety. Moreover, based on our original agreements for the sale of vessels for scrapping, after delivering a vessel we conduct on-site inspections of the locations to check safety and environmental measures as needed.

Consolidated Balance Sheets

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(March 31, 2016 and 2015)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
ASSETS			
CURRENT ASSETS:			
Cash and deposits (Notes 4 and 13)	¥ 237,219	¥ 260,900	$ 2,105,251
Notes and operating accounts receivable–trade (Note 4)	222,831	287,518	1,977,558
Short-term investment securities (Notes 4 and 5)	24,000	73,400	212,992
Inventories (Note 7)	27,495	48,717	244,011
Deferred and prepaid expenses	57,554	70,510	510,780
Deferred tax assets (Note 15)	3,326	7,083	29,524
Other	82,596	96,589	733,021
Allowance for doubtful accounts (Note 4)	(2,284)	(2,222)	(20,275)
Total current assets	652,740	842,496	5,792,866
NON-CURRENT ASSETS:			
VESSELS, PROPERTY, PLANT, AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION (Notes 8, 10, 11, and 13):			
Vessels	802,324	937,245	7,120,377
Buildings and structures	76,963	79,650	683,027
Aircraft	23,576	21,621	209,229
Machinery, equipment, and vehicles	34,967	37,337	310,328
Equipment	7,217	6,446	64,051
Land	72,511	67,162	643,519
Construction in progress	43,952	34,113	390,064
Other	6,430	6,883	57,065
Net vessels, property, plant, and equipment	1,067,943	1,190,460	9,477,664
INTANGIBLE ASSETS:			
Leasehold right	4,102	4,625	36,407
Software	15,138	15,585	134,348
Goodwill	21,205	23,955	188,195
Other	2,123	4,621	18,842
Total intangible assets	42,569	48,787	377,794
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4, 5, 9, and 13)	358,090	348,665	3,177,937
Long-term loans receivable (Note 4)	29,678	30,196	263,384
Net defined benefit asset (Note 21)	39,403	50,238	349,692
Deferred tax assets (Note 15)	6,777	6,104	60,144
Other	50,032	54,848	444,021
Allowance for doubtful accounts (Note 4)	(2,812)	(2,462)	(24,961)
Total investments and other assets	481,168	487,589	4,270,218
Total non-current assets	1,591,681	1,726,837	14,125,676
DEFERRED ASSETS	350	493	3,111
TOTAL ASSETS	¥2,244,772	¥2,569,828	$19,921,655

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
LIABILITIES			
CURRENT LIABILITIES:			
Notes and operating accounts payable–trade (Note 4)	¥ 178,065	¥ 217,470	$ 1,580,272
Short-term loans payable (Notes 4, 12, and 13)	92,374	99,566	819,792
Income taxes payable (Note 15)	8,963	20,628	79,550
Deferred tax liabilities (Note 15)	5,522	3,017	49,012
Advances received	40,653	78,102	360,788
Provision for bonuses	9,906	9,983	87,914
Provision for directors' bonuses	353	369	3,135
Provision for losses related to antitrust law	—	7,175	—
Provision for losses related to contracts	8,678	2,649	77,020
Other	76,826	97,894	681,808
Total current liabilities	421,343	536,858	3,739,295
NON-CURRENT LIABILITIES:			
Bonds payable (Notes 4 and 12)	145,445	195,445	1,290,779
Long-term loans payable (Notes 4, 12, and 13)	690,005	788,832	6,123,580
Deferred tax liabilities (Note 15)	38,684	46,749	343,315
Net defined benefit liability (Note 21)	18,708	19,480	166,029
Provision for directors' retirement benefits	1,717	1,786	15,245
Provision for periodic dry docking of vessels	21,295	20,959	188,990
Provision for losses related to contracts	—	8,678	—
Other	63,301	70,115	561,784
Total non-current liabilities	979,158	1,152,047	8,689,726
Total liabilities	1,400,502	1,688,905	12,429,021
EQUITY (Notes 12, 16, and 25)			
SHAREHOLDERS' CAPITAL:			
Common stock	144,319	144,319	1,280,793
Capital surplus	155,691	155,616	1,381,713
Retained earnings	470,483	467,092	4,175,397
Treasury stock	(2,098)	(2,070)	(18,622)
Total shareholders' capital	768,396	764,957	6,819,282
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Unrealized gain (loss) on available-for-sale securities	34,147	54,665	303,046
Deferred gain (loss) on hedges	(35,411)	(41,857)	(314,265)
Foreign currency translation adjustments	7,527	27,196	66,800
Remeasurements of defined benefit plans	(981)	5,348	(8,709)
Total accumulated other comprehensive income (loss)	5,281	45,353	46,872
Non-controlling interests	70,591	70,611	626,478
Total equity	844,269	880,923	7,492,633
TOTAL LIABILITIES AND EQUITY	¥2,244,772	¥2,569,828	$19,921,655

	Yen		U.S. dollars (Note 2)
Equity per share	¥456.21	¥477.79	$4.05

See notes to consolidated financial statements.

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2016 and 2015)

(Consolidated Statements of Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
REVENUES	¥2,272,315	¥2,401,820	$20,166,091
COST AND EXPENSES	2,009,547	2,127,207	17,834,113
Gross profit	262,767	274,612	2,331,977
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	213,802	208,419	1,897,433
Operating income	48,964	66,192	434,543
NON-OPERATING INCOME:			
Interest income	3,411	3,249	30,280
Dividend income	5,611	5,099	49,803
Equity in earnings of unconsolidated subsidiaries and affiliates	22,068	12,657	195,850
Foreign exchange gains	—	11,955	—
Other	7,305	7,366	64,833
Total non-operating income	38,397	40,328	340,768
NON-OPERATING EXPENSES:			
Interest expenses	16,924	17,755	150,199
Foreign exchange losses	6,652	—	59,042
Other	3,725	4,755	33,066
Total non-operating expenses	27,303	22,510	242,308
Recurring profit	60,058	84,010	533,003
OTHER GAINS:			
Gain on sales of non-current assets	13,368	12,165	118,638
Gain on sales of shares of subsidiaries and affiliates (Note 17)	28,747	36,647	255,124
Other	2,495	2,762	22,148
Total other gains	44,611	51,575	395,911
OTHER LOSSES:			
Loss on sales of non-current assets	2,526	503	22,424
Impairment loss (Note 18)	35,431	6,262	314,442
Provision for losses related to contracts	—	11,328	—
Other	2,963	31,335	26,304
Total other losses	40,922	49,429	363,171
PROFIT BEFORE INCOME TAXES	63,748	86,156	565,743
Income taxes–current	29,106	35,538	258,314
Income taxes–deferred	8,176	(1,661)	72,561
Total income taxes (Note 15)	37,283	33,876	330,876
PROFIT	26,464	52,280	234,867
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	8,226	4,689	73,004
PROFIT ATTRIBUTABLE TO OWNERS OF PARENT	¥ 18,238	¥ 47,591	$ 161,863

PER SHARE OF COMMON STOCK (Note 3. M):	Yen		U.S. dollars (Note 2)
Basic profit	¥10.75	¥28.06	$0.10
Diluted profit	10.75	28.05	0.10
Cash dividends applicable to the year	6	7	0.05

(Consolidated Statements of Comprehensive Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Profit	¥ 26,464	¥ 52,280	$ 234,867
Other comprehensive income (Note 19)			
Unrealized gain (loss) on available-for-sale securities	(20,474)	25,692	(181,701)
Deferred gain (loss) on hedges	5,425	(14,074)	48,149
Foreign currency translation adjustments	(22,461)	29,042	(199,336)
Remeasurements of defined benefit plans	(6,453)	9,459	(57,274)
Share of other comprehensive income of associates accounted for using equity method	229	5,950	2,036
Total other comprehensive income	(43,734)	56,069	(388,126)
Comprehensive income	¥(17,269)	¥108,350	$(153,259)
Comprehensive income attributable to owners of parent	¥(20,700)	¥98,697	$(183,709)
Comprehensive income attributable to non-controlling interests	3,431	9,652	30,450

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2016 and 2015)

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' capital	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income	Non-controlling interests	Total equity
Balance, March 31, 2014	¥144,319	¥155,617	¥428,173	¥(2,034)	¥726,076	¥ 29,169	¥(22,638)	¥ (8,289)	¥(4,046)	¥ (5,805)	¥53,628	¥773,899
Cumulative effects of changes in accounting policies	—	—	(70)	—	(70)	—	—	—	—	—	293	223
Dividends from surplus	—	—	(8,480)	—	(8,480)	—	—	—	—	—	—	(8,480)
Profit attributable to owners of the parent company	—	—	47,591	—	47,591	—	—	—	—	—	—	47,591
Purchase of treasury stock	—	—	—	(38)	(38)	—	—	—	—	—	—	(38)
Disposal of treasury stock	—	(0)	—	1	1	—	—	—	—	—	—	1
Change in scope of consolidation	—	—	(110)	—	(110)	—	—	—	—	—	—	(110)
Increase by merger	—	—	15	—	15	—	—	—	—	—	—	15
Other	—	—	(25)	—	(25)	—	—	—	—	—	—	(25)
Net change of items other than shareholders' capital	—	—	—	—	—	25,495	(19,218)	35,486	9,395	51,158	16,689	67,848
Total changes of items during the period	—	(0)	38,989	(36)	38,952	25,495	(19,218)	35,486	9,395	51,158	16,689	106,800
Balance, March 31, 2015	144,319	155,616	467,092	(2,070)	764,957	54,665	(41,857)	27,196	5,348	45,353	70,611	880,923
Dividends from surplus	—	—	(15,263)	—	(15,263)	—	—	—	—	—	—	(15,263)
Profit attributable to owners of the parent company	—	—	18,238	—	18,238	—	—	—	—	—	—	18,238
Purchase of treasury stock	—	—	—	(30)	(30)	—	—	—	—	—	—	(30)
Disposal of treasury stock	—	(0)	—	2	1	—	—	—	—	—	—	1
Change in equity of parent related to transactions with non-controlling shareholders	—	75	—	—	75	—	—	—	—	—	—	75
Adjustments due to change in the fiscal period of consolidated subsidiaries	—	—	22	—	22	—	—	—	—	—	—	22
Change in scope of consolidation	—	—	255	—	255	—	—	—	—	—	—	255
Change in scope of equity method	—	—	172	—	172	—	—	—	—	—	—	172
Other	—	—	(33)	0	(33)	—	—	—	—	—	—	(33)
Net change of items other than shareholders' capital	—	—	—	—	—	(20,517)	6,445	(19,669)	(6,329)	(40,071)	(20)	(40,091)
Total changes of items during the period	—	74	3,391	(27)	3,438	(20,517)	6,445	(19,669)	(6,329)	(40,071)	(20)	(36,653)
Balance, March 31, 2016	¥144,319	¥155,691	¥470,483	¥(2,098)	¥768,396	¥ 34,147	¥(35,411)	¥ 7,527	¥ (981)	¥ 5,281	¥70,591	¥844,269

Thousands of U.S. dollars (Note 2)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' capital	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income	Non-controlling interests	Total equity
Balance, March 31, 2015	$1,280,793	$1,381,049	$4,145,298	$(18,377)	$6,788,763	$485,137	$(371,471)	$ 241,362	$ 47,466	$ 402,495	$626,659	$7,817,918
Dividends from surplus	—	—	(135,461)	—	(135,461)	—	—	—	—	—	—	(135,461)
Profit attributable to owners of the parent company	—	—	161,863	—	161,863	—	—	—	—	—	—	161,863
Purchase of treasury stock	—	—	—	(269)	(269)	—	—	—	—	—	—	(269)
Disposal of treasury stock	—	(7)	—	24	16	—	—	—	—	—	—	16
Change in equity of parent related to transactions with non-controlling shareholders	—	672	—	—	672	—	—	—	—	—	—	672
Adjustments due to change in the fiscal period of consolidated subsidiaries	—	—	201	—	201	—	—	—	—	—	—	201
Change in scope of consolidation	—	—	2,263	—	2,263	—	—	—	—	—	—	2,263
Change in scope of equity method	—	—	1,532	—	1,532	—	—	—	—	—	—	1,532
Other	—	—	(298)	1	(298)	—	—	—	—	—	—	(298)
Net change of items other than shareholders' capital	—	—	—	—	—	(182,090)	57,205	(174,561)	(56,176)	(355,622)	(181)	(355,803)
Total changes of items during the period	—	664	30,099	(244)	30,519	(182,090)	57,205	(174,561)	(56,176)	(355,622)	(181)	(325,284)
Balance, March 31, 2016	$1,280,793	$1,381,713	$4,175,397	$(18,622)	$6,819,282	$303,046	$(314,265)	$ 66,800	$ (8,709)	$ 46,872	$626,478	$7,492,633

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2016 and 2015)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
OPERATING ACTIVITIES			
Profit before income taxes	¥ 63,748	¥ 86,156	$ 565,743
Adjustments for:			
Depreciation and amortization	103,347	101,045	917,179
Impairment loss	35,431	6,262	314,442
Provision for losses related to contracts	—	11,328	—
Loss (Gain) on sales and retirement of vessels, property, plant, and equipment and intangible assets	(10,633)	(11,113)	(94,367)
Loss (Gain) on sales of short-term and long-term investment securities	(28,976)	(35,244)	(257,156)
Loss (Gain) on valuation of short-term and long-term investment securities	173	7,241	1,541
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	(22,068)	(12,657)	(195,850)
Interest and dividend income	(9,023)	(8,348)	(80,084)
Interest expenses	16,924	17,755	150,199
Foreign exchange (gains) losses	6,373	(11,159)	56,560
Decrease (increase) in notes and accounts receivable–trade	58,107	(12,905)	515,687
Decrease (increase) in inventories	18,774	22,492	166,613
Increase (decrease) in notes and accounts payable–trade	(34,410)	(15,344)	(305,382)
Other, net	(5,194)	38,782	(46,101)
Subtotal	192,573	184,290	1,709,026
Interest and dividend income received	17,600	14,240	156,199
Interest expenses paid	(17,205)	(17,880)	(152,690)
Paid expenses related to antitrust law	(2,898)	(24,782)	(25,726)
Income taxes paid	(47,212)	(19,419)	(418,997)
Net cash provided by operating activities	142,857	136,448	1,267,812
INVESTING ACTIVITIES			
Purchase of vessels, property, plant, and equipment and intangible assets	(115,913)	(189,981)	(1,028,697)
Proceeds from sales of vessels, property, plant, and equipment and intangible assets	74,144	185,298	658,006
Purchase of investment securities	(38,767)	(23,409)	(344,050)
Proceeds from sales and redemption of investment securities	8,605	51,703	76,373
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(70)	—
Payments for sales of shares in subsidiaries resulting in change in scope of consolidation	—	(1,634)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	9,437	—	83,753
Payments of loans receivable	(25,557)	(18,415)	(226,813)
Collections of loans receivable	40,570	25,797	360,049
Other, net	585	(2,532)	5,197
Net cash provided by (used in) investing activities	(46,895)	26,755	(416,180)
FINANCING ACTIVITIES			
Net increase (decrease) in short-term loans payable	(2,016)	(4,068)	(17,893)
Proceeds from long-term loans payable	28,754	27,082	255,184
Repayments of long-term loans payable	(114,208)	(167,473)	(1,013,568)
Redemption of bonds	(50,000)	(40,000)	(443,734)
Proceeds from share issuance to non-controlling shareholders	130	—	1,161
Purchase of treasury stock	(30)	(38)	(269)
Proceeds from sales of treasury stock	1	1	16
Cash dividends paid to shareholders	(15,263)	(8,480)	(135,461)
Cash dividends paid to non-controlling interests	(3,760)	(2,268)	(33,374)
Other, net	(3,867)	(3,761)	(34,321)
Net cash used in financing activities	(160,260)	(199,007)	(1,422,260)
Effect of exchange rate change on cash and cash equivalents	(10,351)	12,869	(91,866)
Net increase (decrease) in cash and cash equivalents	(74,650)	(22,933)	(662,495)
Cash and cash equivalents at beginning of period	327,243	349,723	2,904,182
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	993	338	8,813
Increase in cash and cash equivalents resulting from merger with non-consolidated subsidiaries	—	114	—
Increase (decrease) in beginning balance of cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	32	—	288
Cash and cash equivalents at end of period (Note 14)	¥ 253,618	¥ 327,243	$ 2,250,788

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2016 and 2015)

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards.

In preparing these consolidated financial statements, additional information is provided in order to present the consolidated financial statements in a format familiar to international readers. The result of this does not affect the financial position, results of operations, and cash flows of the consolidated companies as reported in the original consolidated financial statements.

Japanese yen figures less than a million yen are rounded down to the nearest million yen, except for per share data. U.S. dollar figures less than a thousand dollars are rounded down to the nearest thousand dollars, except for per share data.

2. U.S. Dollar Amounts

The accompanying consolidated financial statements are stated in Japanese yen, and the U.S. dollar amounts represent the arithmetical results of translating yen to U.S. dollars using the exchange rate prevailing at March 31, 2016, which was ¥112.68 to USD1.00. The statements in such dollar amounts are solely for the convenience of readers outside Japan, and are not intended to imply that the yen amounts have been, or could be, readily converted, realized, or settled in dollars at that rate, or any other rates, of exchange.

3. Summary of Significant Accounting Policies

A. Consolidation Policies

(1) The consolidated financial statements include the accounts of Nippon Yusen Kabushiki Kaisha (the "Company") and its 560 consolidated subsidiaries at March 31, 2016.

During the fiscal year ended March 31, 2016, the Company newly established 16 companies and judged 10 companies to have a material impact on the consolidated financial statements. Consequently, the Company brought these companies under the scope of consolidation in the consolidated fiscal year ended March 31, 2016.

1 company changed its status from a consolidated subsidiary to an affiliate accounted for using the equity method due to the disposal of shares.

32 companies were excluded from consolidation due to liquidation.

2 companies were excluded from consolidation due to merger.

4 companies were excluded from consolidation due to the sale of shares.

1 company was excluded from consolidation as its impact on the consolidated financial statements decreased in importance.

(2) Investments in unconsolidated subsidiaries and affiliates are accounted for either using the cost method or using the equity method, depending on the extent of influence or fiscal significance each carries. The Company accounted for 7 unconsolidated subsidiaries and 159 affiliates using the equity method at March 31, 2016.

In the consolidated fiscal year ended March 31, 2016, the Company newly established 3 companies and judged 19 companies to have a material impact on the consolidated financial statements. Consequently, these companies are newly included in the scope of companies accounted for using the equity method.

1 company changed its status from a consolidated subsidiary to an affiliate accounted for using the equity method due to the disposal of shares.

1 company was excluded from the scope of companies accounted for using the equity method due to merger.

1 company was excluded from the scope of application of the equity method due to the disposal of shares.

(3) Any material difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary upon inclusion in the consolidation, unless specifically identified and reclassified to the applicable accounts from which the value originates, is treated as goodwill or negative goodwill, as the case may be, and amortized over a period of 5 to 20 years on a straight-line basis.

(4) All significant intercompany balances, transactions, and material unrealized profit within the consolidated group have been eliminated in consolidation.

B. Accounting Period

The Company's accounting period begins each year on April 1 and ends the following year on March 31.

During the fiscal year ended March 31, 2016, December 31 was used by 34 consolidated subsidiaries as the closing date for their financial statements. Necessary adjustments have been made to address transactions that occurred between closing dates different to that of the Company and March 31.

4 companies with a fiscal year end of December 31 provide financial statements based on provisional settlement of accounts as of March 31 to facilitate preparation of the consolidated financial statements.

C. Foreign Currency Financial Statements

The balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” in a separate component of equity and “Non-controlling interests.” Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

D. Valuation of Assets

(1) Short-term and long-term investment securities are classified and accounted for, depending on management’s intent, as follows:
  i) Held-to-maturity debt securities, which are expected to be held to maturity, with the positive intent and ability to hold to maturity, are reported at amortized cost and
  ii) (a) available-for-sale securities with fair value, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity and (b) available-for-sale securities whose fair value was not readily determinable are reported at cost using the moving average method.
(2) Derivatives are valued at market.
(3) Inventories are stated at the lower of cost, determined by the first-in, first-out method, or net selling value, which is defined as the selling price, less additional estimated manufacturing costs and estimated direct selling expenses.

E. Depreciation and Amortization

(1) Vessels, property, plant, and equipment, except for lease assets, are depreciated as follows:
Vessels, property, plant, and equipment are depreciated generally by the straight-line method. Assets for which the purchase price is more than ¥100,000, but less than ¥200,000 are depreciated generally in equal allotments over three years based on the Japanese Corporation Tax Law.
(2) Intangible assets, except for lease assets, are amortized as follows:
Computer software is amortized by the straight-line method based principally on the length of period it can be used internally (five years). Other intangible assets are amortized by the straight-line method.
(3) Leased assets are depreciated as follows:
Leased assets related to financial leases that transfer ownership rights are depreciated by the same depreciation method that is applied to fixed assets owned by the Company. Leased assets related to financial leases that do not transfer ownership rights are depreciated under the straight-line method based on the lease term as the useful life and assuming no residual value.

F. Capitalization of Interest Expenses

Interest expenses are generally charged to income as incurred. However, interest expenses incurred in the construction of certain assets, particularly projects for vessels, are capitalized and included in the costs of assets when a construction period is substantially long and the amount of interest incurred during such a period is significantly material.

G. Provisions

(1) Allowance for doubtful accounts:
The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Company’s past credit loss experience and an evaluation of potential losses in receivables outstanding.
(2) Provision for bonuses:
Bonuses to employees are accrued at the year-end to which such bonuses are attributable.
(3) Provision for directors’ bonuses:
Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.
(4) Provision for directors’ retirement benefits:
To provide for the payment of retirement benefits to directors and corporate auditors, in accordance with internal policies, consolidated subsidiaries record such provisions calculated as the estimated amount that would be payable if all directors and corporate auditors were to retire at the balance sheet date.
(5) Provision for periodic dry docking of vessels:
Provision for periodic dry docking of vessels is provided based on the estimated amount of expenditures for periodic dry docking in the future.
(6) Provision for losses related to antitrust law:
Provided for possible losses associated with surcharge and other payment, as well as action for damages (class action lawsuit) arising from suspected violation of competition laws (including antitrust laws) concerning air cargo freight, international air freight forwarding service, marine transportation of automobiles, etc., based on estimated amounts of losses.
(7) Provision for losses related to contracts:
Provided for possible losses associated with purchase of

non-current assets, as well as performance of lease contracts based on estimated amounts of losses.

H. Accounting Method for Retirement Benefits

(1) Method of attributing estimated amounts of retirement benefits to periods:
In calculating defined benefit obligations, the estimated amount of retirement benefits attributed to a period up to the current fiscal year is primarily determined based on a benefit formula basis.

(2) Amortization of unrecognized actuarial gain (loss) and prior service cost:
Unrecognized actuarial gain (loss) is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a certain period (primarily 8 years), which is not more than the average remaining service period of employees.
Prior service cost is amortized by the straight-line method over a certain period (primarily 8 years), which is not more than the average remaining service period of employees.

I. Income Taxes

The Company and its domestic subsidiaries recognize future tax consequences of temporary differences between assets and liabilities in accounting and tax treatments. Deferred taxes are computed based on the pretax income or loss included in the consolidated statements of income and measured by applying currently enacted laws to the temporary differences. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

J. Freight Revenue and Expense Recognition

Freight revenues and expenses are recognized by two different methods depending on types of cargo transportation.

(1) Transportation by containerships
Revenues and expenses arising from ocean transportation of containers are recognized proportionately as shipments move.

(2) Transportation by vessels other than containerships
Revenues and expenses from transportation by vessels other than containerships are principally recognized upon the voyage completion method.

K. Accounting for Leases

Finance leases that existed at March 31, 2008, and do not transfer ownership of the leased property to the lessee are accounted for as operating lease transactions.

L. Method of Accounting for Material Hedge Transactions

For derivative transactions used to offset the risks of assets and liabilities due to fluctuations in interest rates, foreign currency exchange rates, and cash flow, the Company and its consolidated subsidiaries apply hedge accounting. In addition, hedge accounting is also applied to derivative transactions used to mitigate the risks of price fluctuations in fuel procurement and others. For hedge accounting, the Company and its consolidated subsidiaries adopt a deferred hedge method that requires the Company to mark the derivative transactions effective as hedges to market, and to defer the valuation loss/gain. For forward foreign exchange contracts, etc., that meet the required conditions under the accounting standard, the Company and its consolidated subsidiaries translate hedged foreign currency assets and liabilities at the rates of these contracts. In addition, for interest rate swap contracts, etc., that meet specified conditions under the accounting standard, the related interest differentials paid or received under the contracts are included in the interest income/expense of the hedged financial assets and liabilities. In addition, the following hedging methods for various risks are utilized: interest rate swaps to hedge the risk of interest rate fluctuations related to borrowings, bonds, and others; currency swap contracts, forward foreign currency exchange contracts, debts, and credits in foreign currency to hedge the foreign exchange risk associated with monetary assets and liabilities, expected transactions, and others; and fuel swap contracts to hedge the risk of price fluctuations in fuel oil and others. The Company and its consolidated subsidiaries evaluate the effectiveness of hedging methods at the end of each financial quarter, except for interest rate swaps and interest rate caps that meet specified conditions under the accounting standard by analyzing the ratios of the cumulative amount of market fluctuation or cash flow among the hedging financial instruments and the hedged items.

For foreign currency transactions, both short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at exchange rates in effect at the balance sheet date.

However, short-term and long-term receivables and payables covered by forward exchange contracts are translated at the contract rates.

Any differences between the foreign exchange contract rates and historical rates resulting from the translation of receivables and payables are recognized as income or expense over the lives of the related contracts.

M. Per Share Information

Basic profit per share is computed by dividing profit available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Cash dividends per share consist of interim dividends paid during the year and dividends to be paid after the end of the year.

N. Cash and Cash Equivalents

Cash and cash equivalents are composed of cash on hand, bank deposits that are able to be withdrawn on demand, and short-term investments with original maturities of three months or less that are exposed to minor value fluctuation risk.

O. Additional Information

(1) Changes in accounting policies

After adoption of Revised Accounting Standard for Business Combinations and Other Related Standards Effective from April 1, 2015, the Company applied the following revised standards issued by the Accounting Standards Board of Japan (ASBJ) on September 13, 2013: Revised Accounting Standard for Business Combinations (Statement No. 21), Revised Accounting Standard for Consolidated Financial Statements (Statement No. 22), and Revised Accounting Standard for Business Divestitures (Statement No. 7). In accordance with these revised standards, the Company's accounting methods have been changed as follows:

The balance remaining from changes in the Company's ownership interest in subsidiaries in which it retains a controlling interest is recorded as capital surplus, and acquisition-related costs are recorded under expenses in the fiscal year in which they are incurred. With respect to business combinations implemented during or after the fiscal year ended March 31, 2016, any revision of the amount allocated for acquisition costs based on provisionally determined accounting procedures is reflected in the consolidated financial statements for the fiscal year in which the business combination was conducted. In addition, the presentation of net income and other items in the financial statements have been amended, and minority interests have been reclassified as non-controlling interests. Accordingly, the consolidated financial statements for previous fiscal years have been revised to reflect these changes.

With respect to the consolidated statements of cash flows in the fiscal year ended March 31, 2016, cash flows involving an acquisition or a sale of shares of a subsidiary resulting in no change in the scope of consolidation are recorded under "Financing Activities," while cash flows involving acquisition-related costs of shares of a subsidiary resulting in a change in the scope of consolidation or costs incurred in connection with an acquisition or a sale of shares of a subsidiary resulting in no change in the scope of consolidation are recorded under "Operating Activities."

In accordance with provisional procedures specified under Item 58-2 (4) of the Revised Accounting Standard for Business Combinations, Item 44-5 (4) of the Revised Accounting Standard for Consolidated Financial Statements, and Item 57-4 (4) of the Revised Accounting Standard for Business Divestitures, the Company applied the revised standards effective from April 1, 2015, and will continue to do so in the future.

The changes in accounting policies described above had only a minor impact on financial results during the fiscal year ended March 31, 2016.

(2) Changes in presentation

Consolidated statements of income

"Losses related to antitrust law" and "Loss on valuation of investment securities," which were presented separately in "Other losses" in the fiscal year ended March 31, 2015, are included in "Other" from the fiscal year ended March 31, 2016, because they declined to less than or equal to 10% of the total amount of "Other losses." To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2015, have been reclassified.

Consequently, in the consolidated statement of income for the fiscal year ended March 31, 2015, ¥13,734 million that had been presented as "Losses related to antitrust law" and ¥7,082 million that had been presented as "Loss on valuation of investment securities" in "Other losses" have been reclassified as "Other."

Consolidated statements of cash flows

"Losses related to antitrust law," which were presented separately under "Operating activities" in the consolidated statement of cash flows for the fiscal year ended March 31, 2015, are included in "Other, net" in the fiscal year ended March 31, 2016, because the materiality of the amount of "Losses related to antitrust law" has decreased. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2015, have been reclassified.

Consequently, ¥13,734 million that had been presented as "Losses related to antitrust law" under "Operating activities" in the consolidated statement of cash flows for the fiscal year ended March 31, 2015, has been reclassified as "Other, net."

(3) New accounting pronouncement

Tax effect accounting

On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While "ASBJ Guideline No. 26" continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework, which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit, temporary differences, etc.

The new guidance does not change the basic framework, but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within "Retained earnings" or "Accumulated other comprehensive income (loss)" at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

4. Financial Instruments

(1) Disclosure on Financial Instruments

a. Policy on financial instruments

Internal funding provides the Company and its consolidated subsidiaries with some of the funds they require for capital expenditures for vessels, aircraft, and transport equipment, as well as working capital. Other funds are procured from outside sources. Methods of raising funds include loans from banks and other financial institutions, as well as issuing corporate bonds. Funds are invested mainly in short-term deposits. The Company and its consolidated subsidiaries utilize derivatives to hedge risks mentioned below and do not engage in speculative financial transactions.

b. Contents and risks of financial instruments

Notes and operating accounts receivable–trade are subject to client credit risk. In addition, foreign currency-denominated transactions are subject to foreign exchange rate risk.

Investment securities include held-to-maturity debt securities and corporate shares. The Company and its consolidated subsidiaries used the current value method to evaluate investment securities that have explicit market values, taking as the market value the average market price during the one-month period preceding the end of the fiscal year. Consequently, shifts in stock market conditions could affect the operating performance and financial condition of the Company and its consolidated subsidiaries.

Notes and operating accounts payable–trade are settled in the short term. Of these, transactions denominated in foreign currencies are subject to foreign exchange rate risk.

Loans payable are subject to interest rate risk, and the Company and its consolidated subsidiaries utilize derivative financial instruments to hedge against these risks.

As for derivative financial instruments, to avert interest rate risks associated with loans payable, the Company and its consolidated subsidiaries utilize interest rate swap contracts. To avert foreign exchange risk associated with foreign currency assets and liabilities, the Company and its consolidated subsidiaries utilize forward foreign exchange contracts and currency swap contracts. Similarly, to deal with the risk of price fluctuations in fuel and chartered freight, the Company and its consolidated subsidiaries utilize fuel swap contracts, freight (chartered-freight) forward transactions, and other methods.

The details of hedge accounting for derivative financial instruments are described below. Methods for evaluating effectiveness of hedging are described above in "3. Summary of Significant Accounting Policies," "L. Method of Accounting for Material Hedge Transactions."

① Hedge accounting method

The Company and its consolidated subsidiaries primarily adopt deferral hedge accounting that requires them to mark the derivative financial instruments effective as hedges to market, and to defer the valuation loss/gain. For forward foreign exchange contracts, etc., that meet the required conditions for designation accounting under the accounting standard, the Company and its consolidated subsidiaries translate hedged foreign currency assets and liabilities at the rates of these contracts. In addition, for interest rate swap contracts that meet specified conditions for exceptional accounting under the accounting standard, the related interest differentials paid or received under the contracts are included in the interest income/expense of the hedged financial assets and liabilities.

② Principal hedging methods and items hedged

Principal hedging methods	Principal items hedged
Currency swap contacts	Charterage received and loans payable
Interest rate swap contracts	Loans payable and receivable
Fuel swap contracts	Purchase price of fuel
Forward foreign exchange contracts	Forecasted foreign currency transactions, investments in overseas subsidiaries

③ Risks inherent in derivative transactions

Derivative transactions are subject to inherent market risk, which is derived from future changes in market prices (currency rates, interest rates, and share prices), and credit risk, which arises from the counterparties becoming unable to perform their contractual obligations. The derivative financial instruments utilized by the Company and its consolidated subsidiaries are only those that offset the fluctuation in fair value of the underlying financial assets and liabilities; thereby, the Company and its consolidated subsidiaries are not exposed to material market risk. The counterparties in the derivative transactions are financial institutions with high credit ratings, implying that credit risk is immaterial.

c. Risk management for financial instruments

① Credit risk management

The Company utilizes credit management regulations to minimize its risk on notes and operating accounts receivable–trade and long-term loans receivable. In terms of held-to-maturity debt securities, in line with the asset management regulations, the Company and its consolidated subsidiaries hold only highly rated debt securities, so credit risk is negligible.

② Market risk management

To hedge exchange rate fluctuation risk associated with foreign currency assets and liabilities, the Company and its consolidated subsidiaries make use of forward foreign exchange contracts, currency swap contracts, and other methods.

The Company and its consolidated subsidiaries utilize interest rate swaps and other methods to avert the fluctuation risks of interest paid on loans payable.

The Company and its consolidated subsidiaries periodically ascertain the price of short-term and long-term investment securities and the financial conditions of their issuers (corporate business partners).

The Company and its consolidated subsidiaries review the status of their holdings in instruments other than held-to-maturity debt securities on an ongoing basis, taking into consideration their relationships with their corporate business partners.

The derivative transactions of the Company and its consolidated subsidiaries follow the internal approval process specified in the Company's Rules for Risk Management Employing Financial Instruments and other rules and regulations, and are subject to internal controls operated principally by the divisions in charge of accounting. In addition, to prevent improper transactions, the back-office function for these transactions is performed by personnel of the Company and its consolidated subsidiaries who are not directly involved in the transactions. The contract amounts and other information related to derivative financial instruments are reported to the board of directors periodically.

③ Management of liquidity risk associated with capital-raising activities

Cash planning is made and updated by the financial division of the Company on a timely basis based on reports from business divisions of the Company, and the Company also enters into commitment-line contracts with a number of financial institutions in order to meet unexpected cash demand.

d. Supplementary explanation of fair value of financial instruments and others

The fair value of financial instruments includes, in addition to the value determined based on market prices, valuations calculated on a reasonable basis if no market price is available. However, as certain variables are used for these calculations, the result of such calculations may vary if different assumptions are used.

The contract amounts of interest rate swap transactions and currency swap transactions do not represent the amounts exchanged by the parties and do not measure the Company's and its consolidated subsidiaries' exposure to credit or market risk.

(2) Disclosure of the Fair Value of Financial Instruments and Others

The table below shows the book value of financial instruments as indicated in the consolidated balance sheets as of March 31, 2016 and 2015, as well as their fair values and unrealized gains or losses. Note that financial instruments for which determination of fair value is extremely difficult are not included in this table (Refer to Note b).

	Millions of yen						Thousands of U.S. dollars (Note 2)		
	2016			2015			2016		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
① Cash and deposits	¥ 237,219	¥ 237,219	¥ —	¥ 260,900	¥ 260,900	¥ —	$2,105,251	$ 2,105,251	$ —
② Notes and operating accounts receivable–trade	222,831			287,518			1,977,558		
Allowance for doubtful accounts*1	(1,547)			(1,116)			(13,737)		
Balance	221,283	221,283	—	286,402	286,402	—	1,963,821	1,963,821	—
③ Short-term and long-term investment securities (Note 5)									
Held-to-maturity debt securities	24,117	24,124	7	73,644	73,651	6	214,031	214,095	64
Available-for-sale securities	120,387	120,387	—	144,931	144,931	—	1,068,403	1,068,403	—
Investments in affiliates	13,554	8,750	(4,803)	13,319	16,310	2,990	120,289	77,661	(42,627)
④ Long-term loans receivable	29,678			30,196			263,384		
Allowance for doubtful accounts*1	(87)			(0)			(778)		
Balance	29,590	31,743	2,152	30,196	32,229	2,033	262,605	281,711	19,105
Subtotal	646,152	643,509	(2,643)	809,393	814,424	5,030	5,734,402	5,710,945	(23,457)
① Notes and operating accounts payable–trade	178,065	178,065	—	217,470	217,470	—	1,580,272	1,580,272	—
② Short-term loans payable	92,374	92,374	—	99,566	99,566	—	819,792	819,792	—
③ Bonds payable	145,445	155,011	9,566	195,445	205,429	9,984	1,290,779	1,375,678	84,899
④ Long-term loans payable	690,005	709,102	19,097	788,832	804,892	16,059	6,123,580	6,293,067	169,486
Subtotal	1,105,889	1,134,553	28,664	1,301,315	1,327,359	26,044	9,814,424	10,068,810	254,385
Derivative financial instruments*2	¥ (2,564)	¥ (2,564)	¥ —	¥ (16,256)	¥ (16,256)	¥ —	$ (22,757)	$ (22,757)	$ —

*1. An individual listing of allowance for doubtful accounts on notes and operating accounts receivable–trade and long-term loans receivable has been omitted.
2. Amounts of derivative financial instruments are net of related assets and liabilities.

a. Calculation method for the market value of financial instruments and matters concerning marketable securities and derivative transactions

Assets

① Cash and deposits

These assets are stated at book value as they are settled in the short term and their market values approximate book values.

② Notes and operating accounts receivable–trade

These assets are stated at book value as they are settled in the short term and their market values approximate book values.

Claims with default possibility are stated at adjusted book value. The expected amount of doubtful accounts on these assets is calculated based on either the present value of expected future cash flows or expected recoverable amount of their collateral or guarantees; hence, their market values approximate their book values at the closing date, less the current expected amount of doubtful accounts.

③ Short-term and long-term investment securities

Shares are stated at the stock exchange quoted price and bonds are stated at either the stock exchange quoted price or the price presented by transacting financial institutions.

④ Long-term loans receivable

Long-term loans receivable with variable interest rates are stated at book value. The interest rate on these assets reflects the market rate in the short term; therefore, their market values approximate book values. Those with fixed interest rates are stated at market value, which is calculated by discounting the principal and interest using the assumed rate applied to a similar type of new loan. Meanwhile, loans with default possibility are stated at adjusted book value. The expected amount of doubtful accounts on these assets are calculated based on either the present value of expected future cash flows or expected recoverable amount of their collateral or guarantees; hence, their market values approximate their book values at the closing date, less the current expected amount of doubtful accounts.

Liabilities

① Notes and operating accounts payable–trade and ② short-term loans payable
These assets are stated at book value as they are settled in the short term and their market values approximate book values.

③ Bonds payable
The market value of the corporate bonds issued by the Company is calculated based on the market price.

④ Long-term loans payable
Long-term loans payable with variable interest rates are stated at book value as the interest rate on these loans reflects the market rate in the short term and their market values approximate book values. Long-term loans payable with fixed interest rates are stated at present value. The present value is calculated by discounting a periodically divided portion of the principal and interest of these loans,* using the assumed rate applied to a similar loan.

* As to the long-term loans payable involved in the interest rate swap agreement that meets the requirements for exceptional accounting (Refer to "6. Derivatives"), the total amount of its principal and interest income at the post-swap rate is applied.

Derivative financial instruments

Refer to "6. Derivatives."

b. Financial instruments for which fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Segment	Book value	Book value	Book value
Investments in unconsolidated subsidiaries and affiliates	¥197,252	¥164,493	$1,750,557
Shares in unlisted companies	11,936	12,739	105,931
Others	14,841	12,937	131,717
Total	¥224,031	¥190,169	$1,988,206

As these instruments do not have readily available market values, and their fair values are extremely difficult to determine, they are not included in "③ Short-term and long-term investment securities."

c. Maturity analysis for financial assets and securities with contractual maturities

	Millions of yen							
	2016				2015			
	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years
Cash and deposits	¥237,219	¥ —	¥ —	¥ —	¥260,900	¥ —	¥ —	¥ —
Notes and operating accounts receivable–trade	221,748	1,083	—	—	287,304	214	—	—
Short-term and long-term investment securities:								
Held-to-maturity debt securities (government bonds)	—	100	—	—	—	100	—	—
Held-to-maturity debt securities (corporate bonds)	—	—	—	—	500	—	—	—
Held-to-maturity debt securities (others)	24,000	17	—	—	73,019	25	—	—
Available-for-sale securities with maturity dates (government bonds)	18	42	—	—	—	60	—	—
Available-for-sale securities with maturity dates (others)	—	—	—	—	—	—	—	—
Long-term loans receivable	—	13,840	2,732	13,104	—	5,930	10,999	13,266
Total	¥482,986	¥15,082	¥2,732	¥13,104	¥621,723	¥6,329	¥10,999	¥13,266

	Thousands of U.S. dollars (Note 2)			
	2016			
	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years
Cash and deposits	$2,105,251	$ —	$ —	$ —
Notes and operating accounts receivable–trade	1,967,947	9,611	—	—
Short-term and long-term investment securities:				
Held-to-maturity debt securities (government bonds)	—	887	—	—
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (others)	212,992	150	—	—
Available-for-sale securities with maturity dates (government bonds)	159	372	—	—
Available-for-sale securities with maturity dates (others)	—	—	—	—
Long-term loans receivable	—	122,832	24,252	116,299
Total	$4,286,351	$133,854	$24,252	$116,299

d. Maturity analysis for corporate bonds and long-term loans after the balance sheet date

	Millions of yen					
	2016					
	Within one year	More than one year, within two years	More than two years, within three years	More than three years, within four years	More than four years, within five years	More than five years
Short-term loans payable	¥92,374	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	—	—	30,000	30,000	20,000	65,445
Long-term loans payable	—	91,508	97,516	89,951	51,546	359,482
Total	¥92,374	¥91,508	¥127,516	¥119,951	¥71,546	¥424,927

	Thousands of U.S. dollars (Note 2)					
	2016					
	Within one year	More than one year, within two years	More than two years, within three years	More than three years, within four years	More than four years, within five years	More than five years
Short-term loans payable	$819,792	$ —	$ —	$ —	$ —	$ —
Bonds payable	—	—	266,240	266,240	177,493	580,804
Long-term loans payable	—	812,106	865,426	798,295	457,458	3,190,294
Total	$819,792	$812,106	$1,131,666	$1,064,535	$634,952	$3,771,098

	Millions of yen					
	2015					
	Within one year	More than one year, within two years	More than two years, within three years	More than three years, within four years	More than four years, within five years	More than five years
Short-term loans payable	¥99,566	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	—	—	50,000	30,000	30,000	85,445
Long-term loans payable	—	87,811	95,967	101,884	94,419	408,749
Total	¥99,566	¥87,811	¥145,967	¥131,884	¥124,419	¥494,194

5. Securities

(1) Short-term and long-term investment securities held-to-maturity with fair value as of March 31, 2016 and 2015, are summarized as follows:

	Millions of yen						Thousands of U.S. dollars (Note 2)		
	2016			2015			2016		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities for which fair value exceeds book value:									
Government bonds and others	¥ 100	¥ 104	¥ 4	¥ 100	¥ 104	¥ 4	$ 888	$ 927	$39
Corporate bonds	—	—	—	500	500	0	—	—	—
Others	17	19	2	44	45	1	150	175	24
Subtotal	117	124	7	644	651	6	1,039	1,103	64
Securities for which fair value is equal to or less than book value:									
Government bonds and others	—	—	—	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—	—	—	—
Others	24,000	24,000	—	73,000	73,000	—	212,992	212,992	—
Subtotal	24,000	24,000	—	73,000	73,000	—	212,992	212,992	—
Total	¥24,117	¥24,124	¥ 7	¥73,644	¥73,651	¥ 6	$214,031	$214,095	$64

(2) Short-term and long-term investment securities classified as available-for-sale securities with fair value as of March 31, 2016 and 2015, are summarized as follows:

	Millions of yen						Thousands of U.S. dollars (Note 2)		
	2016			2015			2016		
	Book value	Acquisition costs	Difference	Book value	Acquisition costs	Difference	Book value	Acquisition costs	Difference
Securities for which book value exceeds acquisition costs:									
Corporate shares	¥104,962	¥51,717	¥53,245	¥139,668	¥61,641	¥78,026	$ 931,507	$458,973	$472,534
Government bonds and others	60	59	0	59	59	0	535	529	6
Corporate bonds	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—
Subtotal	105,022	51,776	53,245	139,727	61,701	78,026	932,042	459,502	472,540
Securities for which book value is equal to or less than acquisition costs:									
Corporate shares	15,356	20,992	(5,635)	5,189	6,046	(857)	136,286	186,297	(50,011)
Government bonds and others	—	—	—	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—	—	—	—
Others	8	16	(8)	14	30	(16)	73	149	(75)
Subtotal	15,365	21,008	(5,643)	5,203	6,076	(873)	136,360	186,447	(50,087)
Total	¥120,387	¥72,785	¥47,602	¥144,931	¥67,778	¥77,153	$1,068,403	$645,949	$422,453

"Acquisition costs" are the book value after recording of impairment losses. Impairment losses were recognized in the fiscal year ended March 31, 2016, and were recorded as a loss on valuation of investment securities in the amount of ¥150 million ($1,333 thousand).

(3) Proceeds, gains, and losses on sales of available-for-sale securities in the fiscal years ended March 31, 2016 and 2015, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Proceeds from sales	¥1,309	¥641	$11,609
Gross realized gains	468	175	4,154
Gross realized losses	(30)	(0)	(266)

6. Derivatives

Derivative financial instruments with fair value as of March 31, 2016 and 2015, are summarized as follows:

(1) Derivative transactions not qualifying for hedge accounting

	Millions of yen						Thousands of U.S. dollars (Note 2)		
	2016			2015			2016		
	Contracts outstanding	Contracts outstanding (more than one year)	Fair value	Contracts outstanding	Contracts outstanding (more than one year)	Fair value	Contracts outstanding	Contracts outstanding (more than one year)	Fair value
a. Currency-related									
Forward foreign currency exchange contracts:									
Buy U.S. dollar, sell Japanese yen	¥ 1,184	¥ —	¥ (2)	¥ 8,667	¥ —	¥ 15	$ 10,511	$ —	$ (18)
Sell U.S. dollar, buy Japanese yen	191,579	—	7,179	210,656	—	(1,141)	1,700,208	—	63,711
Sell Thai baht, buy Japanese yen	5,360	—	(22)	—	—	0	47,570	—	(201)
Sell Euro, buy Japanese yen	1,891	—	38	2,088	—	148	16,785	—	345
Sell Euro, buy U.S. dollar	—	—	—	2,130	—	21	—	—	—
Others	6,069	—	(41)	4,261	—	(65)	53,865	—	(364)
Currency swaps:									
Receive Thai baht, pay Euro	942	—	(9)	1,247	—	137	8,362	—	(87)
Receive Thai baht, pay Japanese yen	957	—	(31)	—	—	—	8,493	—	(277)
	¥207,984	—	¥7,111	¥229,052	¥ —	¥ (884)	$1,845,796	$ —	$63,108
b. Interest rate-related									
Interest rate swaps:									
Receive fixed, pay floating	¥ 3,021	¥1,280	¥ 43	¥ 7,018	¥3,021	¥ 99	$ 26,818	$11,366	$ 385
Receive floating, pay fixed	2,993	1,257	(52)	6,986	2,993	(132)	26,564	11,163	(463)
	¥ 6,015	¥2,538	¥ (8)	¥ 14,005	¥6,015	¥ (32)	$ 53,382	$22,530	$ (77)
c. Commodity-related									
Freight (chartered-freight) forward transactions:									
Forward chartered-freight agreements on buyer's side	¥ 64	¥ —	¥ (8)	¥ 608	¥ —	¥ (299)	$ 574	$ —	$ (77)
Forward chartered-freight agreements on seller's side	—	—	—	114	—	46	—	—	—
Fuel swap:									
Receive floating, pay fixed	—	—	—	10	—	(5)	—	—	—
	¥ 64	¥ —	¥ (8)	¥ 733	¥ —	¥ (257)	$ 574	$ —	$ (77)

*1. Indicated values are based on the market rates reported by the financial institutions handling these transactions for the Company or present value as of March 31, 2016 and 2015.

(2) Derivative transactions qualifying for hedge accounting

		Millions of yen						Thousands of U.S. dollars (Note 2)		
		2016			2015			2016		
		Contracts outstanding	Contracts outstanding (more than one year)	Fair value	Contracts outstanding	Contracts outstanding (more than one year)	Fair value	Contracts outstanding	Contracts outstanding (more than one year)	Fair value
a. Currency-related										
Derivative transactions qualifying for general accounting policies, deferral hedge accounting										
Forward foreign currency exchange contracts:	Principal items hedged:									
Sell U.S. dollar, buy Japanese yen	Investment for equity of overseas subsidiary	¥ 84,779	¥ 16,629	¥ 5,954	¥ 19,500	¥ –	¥ (249)	$ 752,387	$ 147,583	$ 52,844
Sell Euro, buy Japanese yen		6,489	–	364	6,632	–	380	57,592	–	3,237
Others		395	188	(38)	217	173	(9)	3,506	1,672	(341)
Currency swaps:	Principal items hedged:									
Receive Japanese yen, pay U.S. dollar	Charterage received	279	–	(28)	547	279	(94)	2,477	–	(255)
Receive U.S. dollar, pay Malaysian ringgit	Loans payable	1,319	918	166	1,866	1,351	208	11,706	8,152	1,479
Receive Singapore dollar, pay U.S. dollar	Loans receivable	588	524	(46)	684	617	(94)	5,224	4,652	(412)
Currency options:	Principal items hedged:									
Buy U.S. dollar put option, sell U.S. dollar call option	Freight	–	–	–	7,228	–	2	–	–	–
Foreign exchange contracts and other derivative transactions qualifying for designation accounting										
Forward foreign currency exchange contracts:	Principal items hedged:									
Buy U.S. dollar, sell Japanese yen	Forecasted capital expenditures	¥ 23,217	¥ 7,116	¥ 1,963	¥ 31,132	¥ 17,207	¥ 7,312	$ 206,052	$ 63,157	$ 17,427
Sell U.S. dollar, buy Japanese yen		337	–	(0)	4,114	–	6	2,995	–	(1)
Others		1,072	–	(10)	–	–	–	9,517	–	(91)
Integration treatment of interest rate and currency swaps (qualifying for designation accounting and exceptional accounting)										
Interest rate and currency swaps:	Principal items hedged:									
Receive fixed U.S. dollar, pay floating Japanese yen	Accounts payable	¥ 7,486	¥ 6,125	¥ 1,009	¥ 8,847	¥ 7,486	¥ 1,860	$ 66,437	$ 54,358	$ 8,962
		¥125,964	¥ 31,502	¥ 9,335	¥ 80,772	¥ 27,115	¥ 9,322	$1,117,898	$ 279,576	$ 82,848
b. Interest rate-related										
Derivative transactions qualifying for general accounting policies, deferral hedge accounting										
Interest rate swaps:	Principal items hedged:									
Receive fixed, pay floating		10,000	10,000	1,173	10,000	10,000	606	88,746	88,746	10,414
Receive floating, pay fixed	Long-term loans payable	¥134,905	¥115,625	¥(13,948)	¥160,651	¥128,285	¥(13,058)	$1,197,241	$1,026,142	$(123,787)
Interest rate swap derivative transactions qualifying for exceptional accounting										
Interest rate swaps:	Principal items hedged:									
Receive fixed, pay floating	Long-term loans payable	¥ 25,000	¥ 25,000	*2	¥ 25,000	¥ 25,000	*2	$ 221,867	$ 221,867	*2
Receive floating, pay fixed		66,973	53,684		69,745	64,122		594,370	476,431	
		¥236,878	¥204,310	¥(12,774)	¥265,396	¥227,407	¥(12,452)	$2,102,225	$1,813,188	$(113,373)
c. Commodity-related										
Derivative transactions qualifying for general accounting policies, deferral hedge accounting										
Freight (chartered-freight) forward transactions:	Principal items hedged:									
Forward chartered-freight agreements on seller's side	Charterage received	¥ 40	¥ –	¥ (6)	¥ 1,596	¥ –	¥ 876	$ 362	$ –	$ (57)
Fuel swaps:	Principal items hedged:									
Receive floating, pay fixed	Fuel	13,552	700	(4,812)	40,133	5,930	(10,015)	120,276	6,212	(42,706)
Fuel oil collar transactions:	Principal items hedged:									
Buy call option, sell put option	Fuel	10,207	–	(400)	9,534	–	(950)	90,588	–	(3,551)
		¥ 23,801	¥ 700	¥ (5,218)	¥ 51,264	¥ 5,930	¥(10,090)	$ 211,227	$ 6,212	$ (46,315)

*1. Indicated values are based on the market rates reported by the financial institutions handling these transactions for the Company or present value as of March 31, 2016 and 2015.
2. As exceptional accounting for interest rate swaps is handled together with the long-term loans payable hedged, their fair value is included in that of the long-term loans payable.
3. The currency options and fuel oil collar transactions are zero-cost option transactions, and call options and put options are shown as a lump sum because they are included in integrated contracts.

7. Inventories

Inventories as of March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Products and goods	¥ 2,089	¥ 2,880	$ 18,543
Work in progress	516	548	4,587
Raw materials, fuel and supplies	24,888	45,287	220,880

8. Accumulated Depreciation

As of March 31, 2016 and 2015, accumulated depreciation of vessels, property, plant, and equipment is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Accumulated depreciation	¥977,814	¥975,961	$8,667,798

9. Investment in Non-consolidated Subsidiaries and Affiliates

Amounts corresponding to non-consolidated subsidiaries and affiliates as of March 31, 2016 and 2015, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Investment securities (stocks)	¥210,806	¥177,812	$1,870,846
Other in investment and other assets (investment in capital)	13,919	14,392	123,534

10. Investment and Rental Property

The Company and some of its consolidated subsidiaries own offices and other buildings (including land) for earning rentals and other purposes in Tokyo and other regions. Profit from rentals related to these properties (with main rental income recorded as revenues and main rental expense recorded as costs and expenses) in the consolidated fiscal year ended March 31, 2016, totaled ¥5,009 million ($44,455 thousand), and profit from sales totaled ¥2,564 million ($22,756 thousand) (with gain on sales as other gains and loss on sales as other losses).

The amounts recorded in the consolidated balance sheets, the increase (decrease) during the fiscal years ended March 31, 2016 and 2015, and the fair values of the relevant investment and rental property as of March 31, 2016 and 2015, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Amount recorded in consolidated balance sheet:			
Balance at beginning of year	¥ 39,923	¥ 40,632	$354,309
Increase (decrease) during the fiscal year	9,251	(708)	82,104
Balance at end of year	49,175	39,923	436,414
Fair value as of fiscal year end	¥110,619	¥100,162	$981,711

*1. The amount recorded in the consolidated balance sheet is the acquisition cost, net of accumulated depreciation and impairment losses.
2. Of the increase (decrease) during the fiscal year ended March 31, 2016, the primary increase was ¥11,829 million ($104,982 thousand) from acquisition and the primary decreases were −¥1,138 million (−$10,102 thousand) from depreciation and −¥1,757 million (−$15,596 thousand) from sales.
3. The market value as of the fiscal year end is the amount calculated primarily based on the Real Estate Appraisal Standard (including adjustments made using indexes).

11. Deferred Capital Gains

Under certain conditions, such as exchanges of fixed assets of similar kinds, gains from insurance claims, and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer gains arising from such transactions by reducing the cost of the assets acquired. As such, deferred capital gains from insurance claims were deducted from the cost of properties acquired in replacement, which amounted to ¥6,687 million ($59,346 thousand) and ¥6,246 million as of March 31, 2016 and 2015, respectively.

12. Short-Term and Long-Term Debt

(1) Bonds as of March 31, 2016 and 2015, consisted of the following:

	Interest rate	Maturity date	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 2) 2016
Unsecured Straight Bonds No. 23	2.36%	June 7, 2024	¥ 10,000	¥ 10,000	$ 88,746
Unsecured Straight Bonds No. 24*1	2.06%	June 22, 2016	—	—	—
Unsecured Straight Bonds No. 25	2.65%	June 22, 2026	10,000	10,000	88,746
Unsecured Straight Bonds No. 27*1	2.05%	June 20, 2017	—	30,000	—
Unsecured Straight Bonds No. 29	1.782%	August 9, 2019	30,000	30,000	266,240
Unsecured Straight Bonds No. 30*1	0.475%	September 9, 2016	—	—	—
Unsecured Straight Bonds No. 31	1.218%	September 9, 2021	25,000	25,000	221,867
Unsecured Straight Bonds No. 32	2.13%	September 9, 2031	10,000	10,000	88,746
Unsecured Straight Bonds No. 33*1	0.472%	June 16, 2017	—	20,000	—
Unsecured Straight Bonds No. 34	0.594%	June 18, 2018	10,000	10,000	88,746
Unsecured Straight Bonds No. 35	1.177%	June 17, 2022	10,000	10,000	88,746
Unsecured Straight Bonds No. 36	0.572%	September 13, 2018	20,000	20,000	177,493
Unsecured Straight Bonds No. 37	0.939%	September 11, 2020	20,000	20,000	177,493
Convertible bonds*2	0%	September 24, 2026	445	445	3,949
Total			¥145,445	¥195,445	$1,290,779

*1. Unsecured Straight Bonds No. 24, Unsecured Straight Bonds No. 27, Unsecured Straight Bonds No. 30, and Unsecured Straight Bonds No. 33 were treated as a redemption as a debt assumption contract was entered into and debts to be discharged were transferred. Further, bond redemption obligations with respect to bond holders have been noted as contingent liabilities in the consolidated balance sheets.
2. Details of convertible bonds were as follows:

	Euroyen-denominated convertible bonds with issuer option to settle for cash upon conversion
Class of shares to be issued	Ordinary shares of common stock
Issue price for warrants	—
Exercise price per share	¥777.96 ($6.9 (Note 2))
Total amount of debt securities issued	¥445 million ($3,949 thousand (Note 2))
Total amount of shares issued by exercising warrants	—
Percentage of shares with warrants (%)	100
Exercise period	October 4, 2006 – September 10, 2026

The aggregate annual maturities of convertible bonds and bonds as of March 31, 2016, were as follows:

Millions of yen 2016				
Within one year	More than one year, within two years	More than two years, within three years	More than three years, within four years	More than four years, within five years
¥ —	¥ —	¥30,000	¥30,000	¥20,000

Thousands of U.S. dollars (Note 2) 2016				
Within one year	More than one year, within two years	More than two years, within three years	More than three years, within four years	More than four years, within five years
$ —	$ —	$266,240	$266,240	$177,493

(2) Loans payable, obligations under finance lease, and other interest-bearing liabilities as of March 31, 2016 and 2015, were as follows:

			Millions of yen		Thousands of U.S. dollars (Note 2)
			2016	2015	2016
Classification	Average interest rate	Repayment deadline			
Short-term loans payable (including overdraft)	0.68%	—	¥ 10,157	¥ 12,174	$ 90,145
Current portion of long-term loans payable	0.99%	—	82,216	87,392	729,647
Current portion of obligations under finance lease	4.13%	—	3,854	2,074	34,206
Long-term loans payable	1.06%	2017~2031	690,005	788,832	6,123,580
Obligations under finance lease	1.80%	2017~2025	8,897	12,438	78,964
Other interest-bearing liabilities:					
Current portion of long-term accounts payable	1.61%	—	1,361	1,361	12,079
Long-term accounts payable	1.78%	2021	9,230	10,798	81,920
Total			¥805,723	¥915,071	$7,150,545

* Average interest rate is the weighted average interest rate for amounts outstanding as of the fiscal year end.

Long-term loans payable, obligation under finance lease, and long-term accounts payable (excluding current portion) scheduled for repayment within five years from March 31, 2016, are as follows:

	Millions of yen			
	2016			
	More than one year, within two years	More than two years, within three years	More than three years, within four years	More than four years, within five years
Long-term loans payable	¥91,508	¥97,516	¥89,951	¥51,546
Obligation under finance lease	1,041	964	877	824
Long-term accounts payable	1,361	1,361	1,361	1,361

	Thousands of U.S. dollars (Note 2)			
	2016			
	More than one year, within two years	More than two years, within three years	More than three years, within four years	More than four years, within five years
Long-term loans payable	$812,106	$865,426	$798,295	$457,458
Obligation under finance lease	9,240	8,559	7,788	7,317
Long-term accounts payable	12,079	12,079	12,079	12,079

13. Pledged Assets and Secured Liabilities

As of March 31, 2016, the following assets were pledged as collateral for short-term loans payable, long-term loans payable, and others:

	Net book value	
Pledged assets	Millions of yen	Thousands of U.S. dollars (Note 2)
Cash and deposits	¥ 1,544	$ 13,707
Vessels*	196,241	1,741,579
Buildings and structures	914	8,118
Land	3,763	33,404
Investment securities*	55,546	492,957
Total	¥258,011	$2,289,768

Secured liabilities	Millions of yen	Thousands of U.S. dollars (Note 2)
Short-term loans payable	¥ 15,454	$ 137,157
Long-term loans payable	149,516	1,326,911
Total	¥164,971	$1,464,068

* Vessels include ¥336 million ($2,985 thousand) and investment securities include ¥55,508 million ($492,618 thousand) pledged as collateral for the debt of affiliates, etc.

14. Supplementary Information on Consolidated Statements of Cash Flows

Cash and cash equivalents in the accompanying consolidated statements of cash flows for the years ended March 31, 2016 and 2015, are reconciled to cash and deposits reflected in the accompanying consolidated balance sheets as of March 31, 2016 and 2015, as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Cash and deposits	¥237,219	¥260,900	$2,105,251
Time deposits with a maturity of more than three months	(7,600)	(6,656)	(67,455)
Certificate of deposit with a maturity of not more than three months after the purchase date (included in short-term investment securities in consolidated balance sheets)	24,000	73,000	212,992
Cash and cash equivalents	¥253,618	¥327,243	$2,250,788

15. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Deferred tax assets:			
Provision for bonuses	¥ 2,364	¥ 2,537	$ 20,986
Net defined benefit liabilities	5,056	5,548	44,871
Impairment loss on vessels, property, plant, and equipment	13,270	4,159	117,773
Losses on revaluation of securities	4,773	4,864	42,359
Tax loss carryforwards	51,232	41,389	454,669
Unrealized gains on sale of vessels, property, plant, and equipment	1,559	1,571	13,838
Provision for periodic dry docking of vessels	5,611	6,247	49,800
Accrued expenses	1,903	1,719	16,895
Foreign tax credit carryforwards	—	6,626	—
Deferred loss on derivatives under hedge accounting	10,322	13,122	91,608
Others	9,161	15,582	81,308
Subtotal of deferred tax assets	105,255	103,370	934,110
Valuation allowance	(89,110)	(80,344)	(790,831)
Total deferred tax assets	16,144	23,026	143,279
Deferred tax liabilities:			
Net defined benefit asset	(9,603)	(12,639)	(85,230)
Gain on securities contribution to employee retirement benefit trust	(2,858)	(2,968)	(25,366)
Depreciation	(4,132)	(4,056)	(36,677)
Reserve for reduction entry	(4,406)	(4,142)	(39,109)
Valuation difference on available-for-sale securities	(16,381)	(24,622)	(145,379)
Deferred gain on derivatives under hedge accounting	(3,641)	(3,000)	(32,317)
Others	(9,223)	(8,176)	(81,858)
Total deferred tax liabilities	(50,248)	(59,605)	(445,938)
Net deferred tax (liabilities) assets	¥ (34,103)	¥ (36,579)	$(302,659)

(2) Reconciliation of the statutory income tax rate to the effective income tax rate for the years ended March 31, 2016 and 2015, was as follows:

	2016	2015
Normal statutory income tax rate	29.8%	31.9%
Increase (decrease) in taxes resulting from:		
Amortization of goodwill	0.9	0.7
Equity in earnings of unconsolidated subsidiaries and affiliates	(7.9)	(3.3)
Permanently non-deductible expenses for tax purposes, such as entertainment expenses	1.1	5.4
Changes in valuation allowance	29.2	10.3
Tax exemption of shipping business	(10.1)	(6.6)
Effects of foreign tax included in deductible expenses	13.1	—
Income tax for prior periods	1.2	0.4
Other	1.2	0.5
Actual effective income tax rate	58.5%	39.3%

(3) New tax reform laws enacted in 2016 in Japan changed the normal effective statutory income tax rate for the fiscal year beginning on or after April 1, 2016, from approximately 29.65% to 28.79% and for the fiscal year beginning on or after April 1, 2018, to approximately 28.55%. This change had only a negligible impact on deferred tax assets in the consolidated balance sheet as of March 31, 2016.

16. Equity

The consolidated financial statements have been reported in accordance with the provisions set forth in the Japanese Companies Act (the "Companies Act").

(1) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (a) having a board of directors, (b) having independent auditors, (c) having a board of corporate auditors, and (d) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the board of directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the company as stipulated. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(2) Increases/decreases and transfer of common stock, reserve, and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as legal retained earnings (a component of retained earnings) or as legal capital surplus (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal retained earnings and legal capital surplus equals 25% of the amount of common stock. Under the Companies Act, the total amount of legal retained earnings and legal capital surplus may be reversed without limitation. The Companies Act also provides that common stock, legal retained earnings and legal capital surplus, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution by the shareholders.

(3) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock upon resolution by the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a component of equity. The Companies Act also provides that companies can purchase both treasury stock purchase rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

(A) Matters concerning outstanding shares

Changes in the number of outstanding shares in the consolidated fiscal year ended March 31, 2016, were as follows:

	Shares of common stock (Thousands)	Shares of treasury stock (Thousands)
At March 31, 2015	1,700,550	4,581
Increase in number of shares	—	96
Decrease in number of shares	—	(6)
At March 31, 2016	1,700,550	4,671

(B) Matters concerning dividends

(1) Total dividend payments to be paid for the consolidated fiscal year ended March 31, 2016, are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Approved at the ordinary general meeting of shareholders on June 23, 2015	¥8,480	$75,257
Approved by the Board of Directors on October 30, 2015	6,783	60,204

(2) The effective date for dividends, including retained earnings, as of March 31, 2016, shall be determined in the subsequent consolidated fiscal year as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
At the ordinary general meeting of shareholders on June 20, 2016	¥3,391	$30,101

17. Notes to Consolidated Statements of Income

Gain on sales of shares of subsidiaries and affiliates

This includes a ¥28.6 billion ($253 million) capital gain on transfer of all equity interest in CRYSTAL CRUISES, LLC., which was a subsidiary operating two cruise ships.

18. Impairment Losses

The Company and its consolidated subsidiaries divide operating assets based on management accounting and group such assets according to the business that makes investment decisions. For rental property, assets to be disposed of by sale, and idle assets, the Company and its consolidated subsidiaries group the assets by structure. In the consolidated fiscal year ended March 31, 2016, the estimated sales prices of assets held for sale are falling below their book value and the economic performance of operating assets is, or will be, worse, causing a noticeable deterioration in profitability. The Company reduced the book value on these asset groups to recoverable amounts and booked the reductions as impairment losses of ¥35,431 million ($314,442 thousand).

The breakdown is as follows:

Location	Application	Type	Millions of yen	Thousands of U.S. dollars (Note 2)
Japan	Assets for operations	Vessels (Dry bulk carriers)	¥12,235	$108,583
Japan	Assets held for sale	Vessels and others	1,099	9,759
Belgium	Assets for operations	Vessels (Dry bulk carriers)	20,811	184,695
Others	Assets for operations	System and others	1,284	11,403
Total			¥35,431	$314,442

The recoverable amount for these asset groups will be the higher of the net selling price of the asset or its value in use. The net selling price is based on an appraisal value reasonably calculated by a third party, etc., and the value in use is calculated from the projected future cash flows discounted at 5.60%.

19. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥(29,576)	¥ 34,609	$(262,483)
Reclassification adjustments to profit or loss for the year	(181)	(307)	(1,609)
Amount before income tax effect	(29,757)	34,302	(264,092)
Income tax effect	9,283	(8,610)	82,391
Total	(20,474)	25,692	(181,701)
Deferred gain (loss) on hedges:			
Gains (losses) arising during the year	(10,678)	(12,714)	(94,770)
Reclassification adjustments to profit or loss for the year	19,557	12,346	173,567
Adjustment for the acquisition cost of assets	(1,796)	(15,937)	(15,939)
Amount before income tax effect	7,082	(16,305)	62,857
Income tax effect	(1,657)	2,230	(14,707)
Total	5,425	(14,074)	48,149
Foreign currency translation adjustments:			
Gains (losses) arising during the year	(22,002)	31,988	(195,261)
Reclassification adjustments to profit or loss for the year	(459)	(2,945)	(4,074)
Amount before income tax effect	(22,461)	29,042	(199,336)
Income tax effect	—	—	—
Total	(22,461)	29,042	(199,336)
Remeasurements of defined benefit plans:			
Gains (losses) arising during the year	(10,469)	11,310	(92,917)
Reclassification adjustments to profit or loss for the year	1,489	2,431	13,214
Amount before income tax effect	(8,980)	13,741	(79,703)
Income tax effect	2,527	(4,281)	22,428
Total	(6,453)	9,459	(57,274)
Share of other comprehensive income of associates accounted for using equity method:			
Gains (losses) arising during the year	(4,443)	1,155	(39,435)
Reclassification adjustments to profit or loss for the year	4,606	4,794	40,878
Adjustment for the acquisition cost of assets	66	—	592
Total	229	5,950	2,036
Total other comprehensive income (loss)	¥(43,734)	¥ 56,069	$(388,126)

20. Commitments and Contingent Liabilities

(1) Commitments made by the Company and its consolidated subsidiaries as of March 31, 2016, totaled ¥162,174 million ($1,439,250 thousand) for the construction of vessels and ¥56,319 million ($449,821 thousand) for the purchase of aircraft.

Contingent liabilities for notes receivable discounted and endorsed, guarantees of loans, and debt assumption as of March 31, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Notes receivable discounted and endorsed	¥ 7	$ 68
Guarantees of loans	183,482	1,628,354
Debt assumption:		
Unsecured Straight Bonds No. 24	20,000	177,493
Unsecured Straight Bonds No. 27	30,000	266,240
Unsecured Straight Bonds No. 30	20,000	177,493
Unsecured Straight Bonds No. 33	20,000	177,493

(2) Certain operating lease agreements that the NYK Group concluded on its respective vessels incorporate a residual value guarantee clause. The maximum amount of potential future payment under the guarantee obligation is ¥23,150 million ($205,450 thousand). The guarantee may be paid if the companies choose to return the leased property rather than exercise an option to buy it. The operating lease agreements will expire by December 2020.

(3) Some operating lease agreements that the NYK Group concluded on its aircraft incorporate a residual value guarantee clause. The maximum amount of potential future payment under the guarantee obligation is ¥71,241 million ($632,248 thousand).

The companies may pay the guarantee if they choose to return the leased properties at the end of the lease term. The operating lease agreements will expire by December 2026.

(4) The NYK Group has been under investigation by the European and other authorities overseas on account of suspected violations of the antitrust laws concerning the shipping of cargo, including automobiles handled in or after September 2012. Also, the Group has been sued in class action lawsuits in the United States and other regions for damages and suspension of shipments, etc., without specific amount of damage, for its conspiracy to fix prices of shipping with major automobile shipping companies concerning marine transportation of assembled automobiles, etc. It is difficult to reasonably predict the results of the investigations by overseas authorities and class action lawsuits at present.

21. Accounting for Leases

As discussed in Note 3. K, the Company accounts for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

Pro forma information of such leases existing at the transaction date on an "as if capitalized" basis for the years ended March 31, 2016 and 2015, was as follows:

(1) Finance leases accounted for as operating leases, which started before the consolidated fiscal year ended March 31, 2009

As lessees

a. Acquisition cost, accumulated depreciation, accumulated impairment loss, and net balance at the end of the year of leased assets as of March 31, 2016 and 2015, which included the portion of interest thereon, would have been shown in the consolidated balance sheets as follows, if the leased assets had been capitalized:

	Millions of yen							
	2016				2015			
	Vessels	Equipment	Other	Total	Vessels	Equipment	Other	Total
Acquisition cost	¥—	¥2	¥—	¥2	¥12,170	¥7,877	¥267	¥20,315
Accumulated depreciation	—	1	—	1	11,640	7,670	263	19,574
Accumulated impairment loss	—	—	—	—	—	—	—	—
Net balance at end of the year	—	0	—	0	529	207	4	741

	Thousands of U.S. dollars (Note 2)			
	2016			
	Vessels	Equipment	Other	Total
Acquisition cost	$—	$17	$—	$17
Accumulated depreciation	—	12	—	12
Accumulated impairment loss	—	—	—	—
Net balance at end of the year	—	5	—	5

b. Future lease payments as of March 31, 2016, which included the portion of interest thereon, are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Within one year	¥0	$3
More than one year	0	1
Total	¥0	$5

c. Lease expenses, depreciation, interest expenses, and impairment loss for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Lease expenses for the year	¥742	¥3,172	$6,585
Depreciation	741	3,395	6,583
Interest expenses	4	63	40

d. Calculation of depreciation equivalent
Assumed depreciation amounts are computed using the straight-line method over the lease terms assuming no residual value.

e. Calculation of interest equivalent
The excess of total lease payments over acquisition cost equivalents is regarded as amounts representing interest payable equivalents, and is allocated to each period using the interest method.

(2) Operating leases

As lessees

Future lease payments as of March 31, 2016, are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Within one year	¥ 81,667	$ 724,775
More than one year	264,447	2,346,886
Total	¥346,114	$3,071,661

As lessors

Future lease income as of March 31, 2016, is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Within one year	¥ 6,000	$ 53,249
More than one year	47,003	417,145
Total	¥53,004	$470,394

22. Accounting for Employees' Retirement Benefits

1. Outline of employees' retirement benefit plans

The Company and its domestic consolidated subsidiaries maintain the following defined benefit plans: the national government's Employees' Pension Fund and a retirement lump-sum allowance system.

Some overseas consolidated subsidiaries also maintain defined contribution plans or defined benefit plans.

2. Defined benefit plans

(1) Changes in defined benefit obligation for the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Balance at beginning of year	¥86,718	¥81,768	$769,598
Cumulative effects of changes in accounting policies	—	(671)	—
Restated balance	86,718	81,097	769,598
Service costs	3,604	3,161	31,988
Interest costs	1,192	1,345	10,582
Actuarial (gains) losses	413	3,361	3,666
Benefits paid	(3,595)	(3,581)	(31,911)
Prior service cost	(118)	43	(1,054)
Decrease due to exclusion from consolidation	(2,866)	—	(25,441)
Others	(1,927)	1,291	(17,105)
Balance at end of year	¥83,419	¥86,718	$740,322

(2) Changes in plan assets for the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Balance at beginning of year	¥124,446	¥108,291	$1,104,427
Expected return on plan assets	1,766	1,777	15,680
Actuarial gains (losses)	(10,388)	14,499	(92,194)
Contributions from the employer	1,312	1,467	11,646
Benefits paid	(2,628)	(2,611)	(23,322)
Decrease due to exclusion from consolidation	(2,222)	—	(19,721)
Others	(1,397)	1,023	(12,403)
Balance at end of year	¥110,889	¥124,446	$ 984,111

(3) Reconciliation between the balance at beginning of year and the balance at end of year in relation to net defined benefit liability for which the shortcut method was applied for the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Balance at beginning of year	¥6,971	¥7,042	$61,867
Net periodic benefit costs	1,303	989	11,564
Benefits paid	(758)	(455)	(6,729)
Contributions from the employer	(674)	(679)	(5,988)
Other	(66)	74	(588)
Balance at end of year	¥6,775	¥6,971	$60,126

(4) Reconciliation between the liability recorded in the consolidated balance sheets and the balances of defined benefit obligation and plan assets as of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Funded defined benefit obligation	¥ 84,294	¥ 88,266	$ 748,087
Plan assets	(118,028)	(131,770)	(1,047,468)
	(33,734)	(43,504)	(299,380)
Unfunded defined benefit obligation	13,039	12,746	115,718
Net liability (asset) arising from defined benefit obligation	(20,695)	(30,757)	(183,662)
Net defined benefit liability	18,708	19,480	166,029
Net defined benefit asset	(39,403)	(50,238)	(349,692)
Net liability (asset) arising from defined benefit obligation	¥ (20,695)	¥ (30,757)	$ (183,662)

(5) Components of net periodic benefit costs for the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Service costs	¥ 3,604	¥ 3,161	$ 31,988
Interest costs	1,192	1,345	10,582
Expected return on plan assets	(1,766)	(1,777)	(15,680)
Recognized actuarial (gains) losses	635	2,262	5,643
Amortization of prior service cost	(54)	463	(480)
Net periodic benefit costs calculated using the shortcut method	1,303	989	11,564
Other	70	41	622
Net periodic benefit costs	¥ 4,985	¥ 6,487	$ 44,240

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Prior service cost	¥ 9	¥ 410	$ 84
Actuarial gains (losses)	(8,991)	13,331	(79,792)
Transitional obligation	0	(0)	4
Total	¥(8,980)	¥13,741	$(79,703)

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Unrecognized prior service cost	¥ (20)	¥ (29)	$ (180)
Unrecognized actuarial gains (losses)	(1,228)	7,860	(10,904)
Unrecognized transitional obligation	—	(0)	—
Total	¥(1,249)	¥7,829	$(11,085)

(8) Components of plan assets

Plan assets consisted of the following as of March 31, 2016 and 2015:

	2016	2015
Debt investments	**38%**	35%
Equity investments	**47%**	51%
Cash and cash equivalents	**4%**	4%
Others	**11%**	10%
Total	**100%**	100%

A retirement benefit trust established for a corporate pension plan accounts for 32% and 36% of plan assets as of March 31, 2016 and 2015, respectively.

(9) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(10) Assumptions in calculation of the above information

Discount rate	Mainly 1.1%
Expected rate of return on plan assets	Mainly 2.0%
Expected rate of salary increase	Mainly 1.2%~7.1%

Note: A point system has been adopted for certain employees, and the expected rate of salary increase includes the expected rate of point increase.

3. Defined contribution plan

Certain consolidated subsidiaries had ¥2,519 million ($22,356 thousand) for the fiscal year ended March 31, 2016, in defined contribution retirement benefit costs. Besides the retirement benefit costs shown above, certain consolidated subsidiaries treated the amount of defined contributions paid to the multiemployer plan as retirement benefit costs.

23. Segment Information

The Company and its consolidated subsidiaries operate in six businesses: Liner Trade, Bulk Shipping, Logistics, Air Cargo Transport, Real Estate, and Others.

During the first quarter of the fiscal year ended March 31, 2016, the Company sold all of its ownership interest in Crystal Cruises, LLC, which was the main consolidated subsidiary in its Cruises segment. Therefore, effective from the fiscal year ended March 31, 2016, the Cruises segment was integrated into the Other Business Services segment, and accounting methods were changed accordingly. Segment-related information for previous fiscal years has been modified to reflect this new classification of segments.

The table below presents certain segment information for the years ended March 31, 2016 and 2015.

Year ended March 31, 2016:

	Millions of yen								
	Global Logistics				Others				
	Liner Trade	Air Cargo Transport	Logistics	Bulk Shipping	Real Estate	Others	Total	Adjustments*	Consolidated Total
I Revenues:									
(1) Revenues from customers	¥691,922	¥84,694	¥493,059	¥ 901,279	¥ 8,377	¥ 92,980	¥2,272,315	¥ —	¥2,272,315
(2) Intersegment revenues	14,443	6,407	3,449	1,011	1,404	54,034	80,751	(80,751)	—
Total	706,366	91,101	496,509	902,291	9,781	147,015	2,353,066	(80,751)	2,272,315
Segment profit (loss)	(321)	1,585	11,869	46,595	3,379	(53)	63,056	(2,997)	60,058
Segment assets	¥419,247	¥47,597	¥250,303	¥1,338,549	¥63,542	¥251,326	¥2,370,568	¥(125,795)	¥2,244,772
II Other items:									
Depreciation and amortization	¥ 20,173	¥ 2,160	¥ 8,202	¥ 68,942	¥ 1,118	¥ 2,916	¥ 103,514	¥ (166)	¥ 103,347
Amortization of goodwill and negative goodwill	394	—	310	1,246	—	1	1,952	—	1,952
Interest income	438	51	352	2,305	3	2,435	5,586	(2,174)	3,411
Interest expenses	2,429	361	776	13,590	53	1,886	19,099	(2,174)	16,924
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	1,651	—	(6)	20,361	37	24	22,068	—	22,068
Investments in equity method affiliates	11,860	—	1,178	175,143	965	216	189,362	(40)	189,322
Increase in vessels, property, plant, and equipment and intangible assets	20,489	3,122	8,027	70,467	12,313	1,370	115,791	—	115,791
III Information about impairment loss by reportable segments:									
Impairment loss	¥ 10	¥ —	¥ 1,003	¥ 34,408	¥ —	¥ —	¥ 35,422	¥ 9	¥ 35,431
IV Information about balance of goodwill by reportable segments:									
Balance of goodwill (negative goodwill) at the end of current period	¥ 2,540	¥ —	¥ 2,641	¥ 16,023	¥ —	¥ 1	¥ 21,205	¥ —	¥ 21,205

	Thousands of U.S. dollars (Note 2)								
	Global Logistics				Others				
	Liner Trade	Air Cargo Transport	Logistics	Bulk Shipping	Real Estate	Others	Total	Adjustments*	Consolidated Total
I Revenues:									
(1) Revenues from customers	$6,140,599	$751,640	$4,375,748	$ 7,998,574	$ 74,350	$ 825,177	$20,166,091	$ —	$20,166,091
(2) Intersegment revenues	128,180	56,861	30,616	8,979	12,460	479,543	716,641	(716,641)	—
Total	6,268,780	808,501	4,406,365	8,007,553	86,810	1,304,720	20,882,733	(716,641)	20,166,091
Segment profit (loss)	(2,849)	14,068	105,341	413,522	29,993	(471)	559,604	(26,600)	533,003
Segment assets	$3,720,695	$422,416	$2,221,366	$11,879,209	$563,920	$2,230,446	$21,038,055	$(1,116,400)	$19,921,655
II Other items:									
Depreciation and amortization	$ 179,036	$ 19,173	$ 72,796	$ 611,845	$ 9,925	$ 25,882	$ 918,659	$ (1,479)	$ 917,179
Amortization of goodwill and negative goodwill	3,499	—	2,758	11,058	—	11	17,328	—	17,328
Interest income	3,893	458	3,127	20,459	31	21,610	49,580	(19,299)	30,280
Interest expenses	21,563	3,210	6,892	120,609	478	16,745	169,499	(19,299)	150,199
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	14,656	—	(56)	180,705	328	216	195,850	—	195,850
Investments in equity method affiliates	105,254	—	10,456	1,554,341	8,565	1,919	1,680,537	(361)	1,680,175
Increase in vessels, property, plant, and equipment and intangible assets	181,838	27,710	71,237	625,380	109,282	12,166	1,027,616	—	1,027,616
III Information about impairment loss by reportable segments:									
Impairment loss	$ 95	$ —	$ 8,902	$ 305,362	$ —	$ —	$ 314,360	$ 81	$ 314,442
IV Information about balance of goodwill by reportable segments:									
Balance of goodwill (negative goodwill) at the end of current period	$ 22,541	$ —	$ 23,439	$ 142,202	$ —	$ 11	$ 188,195	$ —	$ 188,195

* Adjustments of segment profit or loss are −¥89 million (−$798 thousand) of internal exchanges or transfers among segments and −¥2,907 million (−$25,802 thousand) of corporate expense which are not attributed to specific segments.
The Company treats general and administrative expenses that do not belong to any single segment as corporate expenses.
Adjustments of segment assets are −¥249,529 million (−$2,214,495 thousand) of receivables or assets relating to internal exchanges among segments and ¥123,733 million ($1,098,095 thousand) of corporate assets.
Major corporate assets are the excess of operating funds (cash and deposits).

Year ended March 31, 2015:

	Millions of yen								
	Global Logistics				Others				
	Liner Trade	Air Cargo Transport	Logistics	Bulk Shipping	Real Estate	Others	Total	Adjustments*	Consolidated Total
I Revenues:									
(1) Revenues from customers	¥683,426	¥92,433	¥483,224	¥ 995,205	¥ 7,880	¥139,650	¥2,401,820	¥ —	¥2,401,820
(2) Intersegment revenues	12,925	6,677	3,695	645	1,624	79,904	105,472	(105,472)	—
Total	696,352	99,110	486,919	995,851	9,504	219,554	2,507,292	(105,472)	2,401,820
Segment profit (loss)	9,807	699	10,794	60,082	3,257	1,521	86,163	(2,153)	84,010
Segment assets	¥499,804	¥56,221	¥274,382	¥1,501,200	¥56,835	¥431,259	¥2,819,703	¥(249,875)	¥2,569,828
II Other items:									
Depreciation and amortization	¥ 17,660	¥ 2,595	¥ 8,043	¥ 68,688	¥ 1,090	¥ 3,188	¥ 101,266	¥ (220)	¥ 101,045
Amortization of goodwill and negative goodwill	345	—	316	1,214	—	1	1,877	—	1,877
Interest income	462	26	381	2,017	6	4,000	6,895	(3,646)	3,249
Interest expenses	2,574	525	825	13,158	31	4,360	21,476	(3,721)	17,755
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	1,004	—	(49)	11,646	29	26	12,657	—	12,657
Investments in equity method affiliates	11,370	—	1,028	143,626	939	137	157,103	(40)	157,062
Increase in vessels, property, plant, and equipment and intangible assets	21,263	33,052	10,623	130,091	1,323	2,988	199,343	—	199,343
III Information about impairment loss by reportable segments:									
Impairment loss	¥ —	¥ 942	¥ 369	¥ 4,872	¥ —	¥ 14	¥ 6,199	¥ 62	¥ 6,262
IV Information about balance of goodwill by reportable segments:									
Balance of goodwill (negative goodwill) at the end of current period	¥ 3,057	¥ —	¥ 2,582	¥ 18,312	¥ —	¥ 2	¥ 23,955	¥ —	¥ 23,955

*Adjustments of segment profit or loss are −¥85 million (−$757 thousand) of internal exchanges or transfers among segments and −¥2,067 million (-$18,352 thousand) of corporate expense which are not attributed to specific segments.
The Company treats general and administrative expenses that do not belong to any single segment as corporate expenses.
Adjustments of segment assets are −¥337,645 million (−$2,996,496 thousand) of receivables or assets relating to internal exchanges among segments and ¥87,770 million ($778,933 thousand) of corporate assets.
Major corporate assets are the excess of operating funds (cash and deposits).

24. Related Information

Information by geographical segment is as follows. As there were no customers that accounted for more than 10% of consolidated revenues, information about revenues from major customers is omitted.

Year ended March 31, 2016:

	Millions of yen					
	Japan	North America	Europe	Asia	Others	Total
I Revenues	¥1,690,920	¥176,688	¥171,937	¥212,189	¥20,578	¥2,272,315
II Tangible fixed assets	786,365	36,796	170,685	73,489	607	1,067,943

	Thousands of U.S. dollars (Note 2)					
	Japan	North America	Europe	Asia	Others	Total
I Revenues	$15,006,396	$1,568,058	$1,525,892	$1,883,119	$182,624	$20,166,091
II Tangible fixed assets	6,978,745	326,553	1,514,778	652,195	5,391	9,477,664

Year ended March 31, 2015:

	Millions of yen					
	Japan	North America	Europe	Asia	Others	Total
I Revenues	¥1,801,885	¥200,387	¥174,689	¥208,000	¥16,857	¥2,401,820
II Tangible fixed assets	860,967	42,156	206,114	80,325	896	1,190,460

25. Related Party Transactions

The Company was contingently liable as guarantor of indebtedness of related parties at March 31, 2016 and 2015, as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
	¥66,911	¥28,286	$593,815

26. Subsequent Events

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2016, was approved at the Company's shareholders' meeting held on June 20, 2016:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Year-end cash dividends, ¥2.00 ($0.02) per share	¥3,391	$30,101

Management's Report on Internal Control Over Financial Reporting

1. Matters relating to the basic framework of internal control over financial reporting

Tadaaki Naito, President, President Corporate Officer, and Eiichi Takahashi, Director, Managing Corporate Officer, are responsible for designing and operating effective internal control over financial reporting of the Company and have designed and operated internal control over financial reporting of the consolidated financial statements in accordance with the basic framework for internal control set forth in "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that material misstatements may not be completely prevented or detected by internal control over financial reporting.

2. Matters relating to the scope of assessment, the basis date of assessment, and the assessment procedures

The assessment of internal control over financial reporting was performed as of March 31, 2016, which is the end of this fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on our entire financial reporting on a consolidated basis ("company-level controls"), and based on the results of this assessment, we selected business processes to be tested. We analyzed these selected business processes, identified key controls that may have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of the Company.

We determined the required scope of assessment of internal control over financial reporting for the Company, as well as its consolidated subsidiaries and equity-method affiliated companies, from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality that may affect the reliability of the financial reporting is determined taking into account the materiality of quantitative and qualitative impacts on financial reporting. In light of the results of assessment of company-level controls conducted for the Company and consolidated subsidiaries, we reasonably determined the scope of assessment of process-level controls. Regarding the consolidated subsidiaries and the equity-method affiliated companies that do not have a material effect on financial reporting, we did not include them in the scope of assessment of company-level controls.

Regarding the scope of assessment of process-level controls, we selected locations and business units to be tested in descending order of revenues, and the companies whose combined revenues reach two thirds of revenues on a consolidated basis were selected as "significant locations and/or business units". We included in the scope of assessment, at the selected significant locations and/or business units, business processes leading to revenues, costs and expenses, accounts receivable–trade, and fixed assets as significant accounts that may have a material impact on the business objectives of the Company. Further, in addition to selected significant locations and/or business units, we also selected for testing the business processes having greater materiality, taking into account their impact on the financial reporting.

3. Matters relating to the results of the assessment

As a result of the assessment described above, as of the end of this fiscal year, we concluded that the Company's internal control over financial reporting of the consolidated financial statements was effectively maintained.

4. Additional Matters

After the end of this fiscal year, the NYK headquarters and some consolidated subsidiaries changed the backbone software, and this change could have a significant impact on the effectiveness of internal controls related to financial reporting by the Company from next fiscal year.

内藤 忠顕

President, President Corporate Officer
June 20, 2016

高橋 栄一

Director, Managing Corporate Officer

Independent Auditor's Report

To the Board of Directors of Nippon Yusen Kabushiki Kaisha:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Nippon Yusen Kabushiki Kaisha and its consolidated subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Yusen Kabushiki Kaisha and its consolidated subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts, and in our opinion, such translation has been made in accordance with the basis stated in Note 2 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Report on Internal Control

We have audited management's report on internal control over financial reporting of the consolidated financial statements of Nippon Yusen Kabushiki Kaisha as of March 31, 2016.

Management's Responsibility for Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on management's report on internal control based on our audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes examining representations on the scope, procedures, and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, management's report on internal control referred to above, which represents that the internal control over financial reporting of the consolidated financial statements of Nippon Yusen Kabushiki Kaisha as of March 31, 2016, is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Deloitte Touche Tohmatsu LLC

June 20, 2016

Major Consolidated Subsidiaries

(As of March 31, 2016)

(Millions of yen)

		Company	Voting rights held (%)	Paid-in capital
Domestic	Liner	UNI-X CORPORATION	83.60	¥934
		GENEQ CORPORATION	55.14	242
		NIPPON CONTAINER TERMINALS CO., LTD.	51.00	250
		ASAHI UNYU KAISHA, LTD.	95.00	100
		YUSEN KOUN CO., LTD.	81.00	100
		NIPPON CONTAINER YUSO CO., LTD.	51.00	250
		KAIYO KOGYO CORP.	100.00	90
		ASIA PACIFIC MARINE CORPORATION	100.00	35
	Air Cargo Transportation	NIPPON CARGO AIRLINES CO., LTD.	100.00	¥10,000
	Logistics	YUSEN LOGISTICS CO., LTD.	59.73	¥4,301
		KINKAI YUSEN KAISHA LTD.	100.00	465
		CAMELLIA LINE CO., LTD.	51.00	400
	Bulk Shipping	NYK BULK & PROJECTS CARRIERS LTD.	100.00	¥2,100
		HACHIUMA STEAMSHIP CO., LTD.	74.86	500
		ASAHI SHIPPING CO., LTD.	69.67	495
	Real Estate	YUSEN REAL ESTATE CORPORATION	100.00	¥450
	Others	NYK CRUISES CO., LTD.	100.00	¥2,000
		NYK BUSINESS SYSTEMS CO., LTD.	100.00	¥99
		SANYO TRADING CO., LTD.	45.23	100
		NYK TRADING CORPORATION	79.25	1,246
		BOLTECH CO., LTD.	100.00	30

(Millions of indicated units)

		Company	Voting rights held (%)	Paid-in capital
Overseas	Liner	NYK TERMINALS (NORTH AMERICA) INC.	100.00	US$0.001
		YUSEN TERMINALS LLC	100.00	US$2
		NYK LINE (NORTH AMERICA) INC.	100.00	US$4
		ACX PEARL CORPORATION	100.00	¥0.1
	Logistics	YUSEN LOGISTICS (AMERICAS) INC.	100.00	US$70
		YUSEN LOGISTICS (CHINA) CO., LTD.	100.00	CHY158
		YUSEN LOGISTICS (UK) LTD.	100.00	£44
		YUSEN LOGISTICS (HONG KONG) LTD.	100.00	HK$55
		YUSEN LOGISTICS (THAILAND) CO., LTD.	84.48	B70
	Bulk Shipping	NYK BULKSHIP (ASIA) PTE. LTD.	100.00	US$7
		NYK ENERGY TRANSPORT (ATLANTIC) LTD.	100.00	US$51
		NYK BULKSHIP (ATLANTIC) N.V.	100.00	US$485
		ADAGIO MARITIMA S.A.	100.00	¥0.1

Currencies: B Thai Baht CHY Chinese yuan HK$ Hong Kong dollar US$ U.S. dollar £ Pound sterling

Environmental Performance Data

Fleet

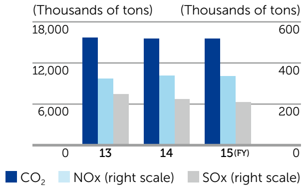
NYK

INPUT	2013	2014	2015
Heavy oil C	4,567	4,557	4,403
Heavy oil A	0.5	0	0
Diesel	62	87	216

(Thousands of tons)

OUTPUT	2013	2014	2015
CO_2	15,705	15,575	15,563
NOx	324	339	337
SOx	248	224	211

(Thousands of tons)



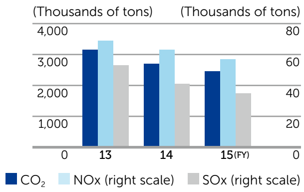
Domestic and International Group Companies

INPUT	2013	2014	2015
Heavy oil C	963	835	735
Heavy oil A	11	9	0
Diesel	18	24	51

(Thousands of tons)

OUTPUT	2013	2014	2015
CO_2	3,149	2,707	2,453
NOx	69	63	57
SOx	53	41	35

(Thousands of tons)



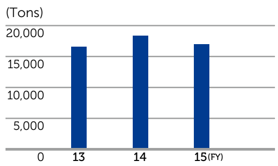
In the *NYK Report 2014* and previous reports, this data had been calculated using the amount of fuel purchased by NYK Line and Group Company ships. As of the *NYK Report 2015*, this data was recalculated using the amount of fuel used by NYK Line and Group Company ships each year, based on coefficients in IMO guidelines.

NYK-Owned Container Terminals in Japan

INPUT	2013	2014	2015	
Electric power	21,389	21,781	20,801	(1,000kWh)
Fuel	2,620	2,669	2,447	(kl)

OUTPUT	2013	2014	2015
CO_2	16,600	18,375	16,981

(Tons)



Total CO_2 emission volumes were down year on year in fiscal 2015. This decrease is a result of the exclusion of the Yokohama Terminal from the scope of collection of energy consumption data following its relocation from Daikoku Pier to Minamihonmoku Pier in October 2015. CO_2 emissions from electricity are based on coefficients provided by the power suppliers for each terminal. CO_2 emissions from fuel are based on coefficients stated in the Law Concerning the Promotion of the Measures to Cope with Global Warming.

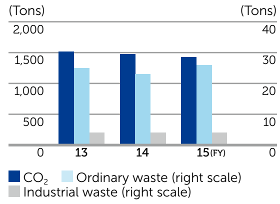
Offices Input indicates resources and energies we have used.

NYK Headquarters

INPUT	2013	2014	2015	
Electricity	2,345	2,254	2,266	(1,000kWh)
Gasoline	20	16	18	(kl)
City gas	17	18	19	(1,000m²)
Steam	1,307	1,352	1,276	(Tons)
Water	17	17	17	(1,000m²)
Paper	28	26	26	(Tons)

OUTPUT	2013	2014	2015
CO_2 emissions	1,516	1,478	1,423
Ordinary waste	25	23	26
Industrial waste	4	4	4
Recycling	126	119	119

(Tons)



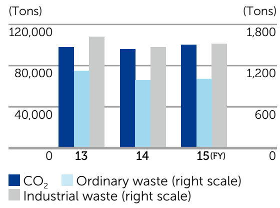
Power consumption slightly increased, however, total CO_2 emissions declined because of NYK Group's ongoing energy conservation activities.
* Actual values for Nippon Yusen's head office in fiscal 2015 have been used.
* CO_2 emissions volumes are calculated from electric power consumption. CO_2 emissions in fiscal 2015 have been calculated using the coefficient of 0.505kg-CO_2/kWh provided by Tokyo Electric Power Co. Inc. (fiscal 2014 result).
* The waste volume recycling rate was 81%.
* From August 2012, recycling was added as a category for data collection.

Japan-Based Group Companies

INPUT	2013	2014	2015	
Electricity	59,954	58,395	60,026	(1,000kWh)
Heavy oil A	17,926	17,382	19,323	
Diesel	5,138	5,172	4,598	
Kerosene	70	60	43	
Gasoline	865	720	758	(kl)
LPG	69	64	58	
City gas	792	590	704	(1,000m²)
Steam	177	130	171	(Tons)
Cold water	148	198	228	(Megajoules)
Water	299	268	231	(1,000m²)
Paper	508	532	892	(Tons)

OUTPUT	2013	2014	2015
CO_2 emissions	98,116	96,191	100,474
Ordinary waste	1,124	992	1,010
Industrial waste	1,623	1,472	1,519
Recycling	489	216	326

(Tons)



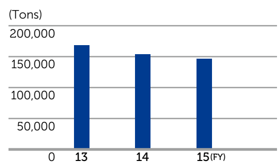
* Forecasts for Japan-based Group companies in fiscal 2015 have been used.
* CO_2 emissions volumes are calculated from electric power consumption. CO_2 emissions in fiscal 2015 have been calculated using the coefficient of 0.579kg-CO_2/kWh (fiscal 2014 result).
* Figures are for consolidated subsidiaries.
* From August 2012, recycling was added as a category for data collection.

International Group Companies

INPUT	2013	2014	2015	
Electricity	65,502	67,245	63,679	(1,000kWh)
Gasoline	23,201	15,085	18,365	
Diesel	24,489	21,035	20,090	(kl)
LPG	572	468	548	(Tons)
City gas	9,273	15,351	11,536	(1,000m²)

OUTPUT	2013	2014	2015
CO_2 emissions	168,410	153,619	146,667

(Tons)



* Forecasts for international Group companies in fiscal 2015 have been used.
* CO_2 emissions volumes are calculated from electric power consumption. CO_2 emissions have been calculated using Greenhouse Gas (GHG) Protocol coefficients.
* Figures are for consolidated subsidiaries.

Environmental Accounting

The basic concept behind our environmental accounting is to correctly capture the expenses required for the protection of the environment and repeatedly review our findings so that we can engage in appropriate environmental conservation as a part of our business activities.

Fiscal 2015 Overview

In fiscal 2015, we continued our efforts in environmental activities, including the completion of LNG-fuelled tugboats, introduction of hybrid transfer cranes, and the installation of air-lubrication systems on vessels. We also researched the optimal specifications for slow-steaming operation of containerships. As a result, overall environmental protection cost increased year on year.

Comparison of All Costs and Resultant Savings Related to Environmental Activities

(Millions of yen)

	2014		2015	
	Environmental protection cost	Year-on-year savings	Environmental protection cost	Year-on-year savings
Reduction of accidents through safety promotion activities*	197	−241	283	−680
Prevention of global warming and air pollution, conservation of marine environments, conservation of resources, and deployment of environmental technologies	3,480	10,114	4,622	3,362
Total	3,677	9,873	4,905	2,682

* Reduction in accident rate from safety promotion activities calculated as year-on-year value. Effect compared with fiscal 1996 (the Company's base year) was ¥3,739 million.

NYK's In-house Classifications

(Millions of yen)

Environmental policies	Objectives	Items	Environmental protection cost
1. Continual improvement	Maintenance of environment management systems	Construction, operation, ISO certification (including personnel costs)	93
2. Complying with laws and regulations	Restorative work in response to environmental degradation	Restorative work in response to marine pollution, etc.	0
3. Ensuring safe operations	Reducing accidents and trouble	NAV9000 and other safety promotion activities (including personnel costs)	190
4. Prevention of global warming and air pollution, protecting ocean environments, saving natural resources	Preventing global warming and air pollution	Use of fuel additives to improve combustion; activities to reduce ship fuel onsumption; propeller polishing, etc.	702
	Preventing marine pollution	Use of corrosion-resistant steel in VLCC cargo tanks, etc.	0
	Conservation of natural resources	Environmentally conscious purchases*	0
5. Use of environment-friendly technologies	Preventing global warming and air pollution	Installation of electronically controlled engines and air-lubrication systems on vessels; purchase of hybrid transfer cranes, etc.	2,660
	Preventing destruction of the ozone layer	Ship air-conditioners, refrigerators/freezers, etc.	0
	Preventing marine pollution	NYK bilge treatment system, etc.	638
	R&D expenses	Smart fleet operations; verification of CO_2 and NOx reduction technology based on EGR equipment for large diesel engines for vessels	613
6. Environment education	Raising environmental awareness and promoting our Green Policy	Environmental e-learning, environmental protection campaigns, etc.	1
7. Community activities to promote environmental awareness	Environmental information disclosures, social contributions, etc.	Expenses for NYK Report, sponsorship of environmental organisations, etc.	8
Total			**4,905**

* The Company uses FSC®-certified paper, but the price difference is not substantial and is thus recorded as zero.

Classification According to the Ministry of the Environment's Environmental Accounting Guidelines

(Millions of yen)

Environmental protection cost		
Classification	Investment	Expenses
(1) Cost within NYK business activities:		
a. Pollution prevention cost	658	0
b. Global environmental protection cost	2,672	670
c. Recycling cost	0	0
(2) Upstream and downstream cost	0	0
(3) Management activity cost:		
a. Operation and maintenance of environmental management systems	0	283
b. Environmental information disclosure, environmental advertising	0	5
c. Environmental education and training	0	1
d. Expenses for environmental improvement	0	0
(4) R&D cost:		
Environmental-burden reduction	0	613
(5) Social contribution activities cost:		
Social contribution activities	0	2
(6) Environmental damage response cost	0	0
Total	3,330	1,575

Calculation methodology:

1. The period is from April 1, 2015, to March 31, 2016. (The calculation period for activities to reduce ship fuel consumption is from January 1, 2015, to December 31, 2015.)
2. The scope is primarily business activities associated with NYK's headquarters and branch offices, NYK-operated terminals, fleet, and ancillary activities in Japan. (Expenses to maintain ISO 14001 certification are included for certified Group companies in North America, Europe, South Asia, and East Asia.)
3. The Ministry of the Environment's FY2005 Environmental Accounting Guidelines were used.
4. Investment amount refers to cost for depreciable environment-related facilities acquired during the term.
5. Expenses include maintenance and management of facilities for the purpose of environmental protection and associated personnel costs, but do not include depreciation.
6. Cost calculations do not include costs to comply with legal requirements and the like and cover only voluntary environmental protection activities.
7. Results are noted only to the extent that impact can be quantified.

Human Resources Data (Nippon Yusen Kaisha)

(As of March 31, 2016)

Employee Demographics

Long-term employees

	Male	Female	Total
Office workers (Excludes* navigation officers and engineers)	751	267	1,018
Seafarers currently working at the office (Navigation officers and engineers)	255	5	260
Seafarers	296	9	305
Total	1,302	281	1,583

* Holders of seafarers licenses (including those enrolled in maritime colleges for the purpose of acquiring licenses)

Newly hired employees

* Includes recent graduates and mid-career hires

	Male	Female	Total
Office workers	33	8	41
Seafarers	24	1	25
Total	57	9	66

Definite-term employees

	Male	Female	Total
Office workers	48	37	85
Seafarers	6	0	6
Total	54	37	91

Employees under age 30 that left the Company

	Male	Female
Office workers	1	2
Seafarers	3	0

Average years of employment at the Company

* Seafarers include those who currently work in the office.

	Male	Female
Office workers	15.1	19.6
Seafarers	13.4	8.9

Members of management and employees in management positions

* Excludes seafarers and employees currently seconded to other companies
* Includes two outside directors (a male and a female) in the data from FY2008

	2013		2014		2015	
	Male	Female	Male	Female	Male	Female
Directors, corporate officers	29	2	31	2	31	2
General managers	35	2	34	3	33	3
Managers or higher	126	21	131	25	123	25
Total employees in the head office	494	192	512	195	505	197

Occupational Accidents

Number of occupational accidents

* Excludes accidents that occurred while commuting to work

	2013	2014	2015
Office workers	0	0	4
Seafarers	0	0	3

Lost time caused by occupational accidents

* Lost time of one day or longer

	2013	2014	2015
Office workers	0	0	182
Seafarers	0	0	60

Number of work-related deaths

	2013	2014	2015
Office workers	0	0	0
Seafarers	0	0	0

Employee Support System

Average days of paid leave taken

* Excludes seafarers and employees currently seconded to other companies
* Includes paid summer holidays

2013	2014	2015
12.4	14.3	14.1

Number of employees that have utilized the maternity leave programme

* Total users, excluding those who have left the Company

2013	2014	2015
11	10	9

Number of employees that have utilized the parental leave programme

* Total users, excluding those who have left the Company

2013		2014		2015	
Male	Female	Male	Female	Male	Female
3	28	0	23	6	18

Percentage of eligible female employees that have utilised the parental leave programme

2013	2014	2015
100%	100%	100%

Employees making use of shorter working hours for parents

* Total users, excluding those who have left the Company

2013		2014		2015	
Male	Female	Male	Female	Male	Female
0	23	0	21	0	22

Number of working mothers

* Mothers with children in compulsory education or younger
* Excludes mothers on maternity or parental leave

2013	2014	2015
39	46	51

Number of employees that have utilised the family-care leave programme

* Total users, excluding those who have left the Company

2013		2014		2015	
Male	Female	Male	Female	Male	Female
0	1	0	0	1	0

Percentage of employees with disabilities

2013	2014	2015
2.11%	2.60%	2.50%

Education

Average number of days participating in training programmes

[Days]	2012	2013	2014
Office workers	4.82	5.02	6.82
Seafarers*	40.5	29.8	34.4

* As of fiscal 2014, this figure is calculated excluding the applicable period for seafarers' correspondence courses.

Average expenditure on education and training programmes

[Yen]	2013	2014	2015
Office workers	142,888	148,943	181,410
Seafarers	492,387	533,133	614,410

● Long-term study; training abroad (examples)

- MBA programme abroad (two years; one person selected every two years)
- Chinese language study-abroad programme (one year; one person selected every year)
- Short-term study-abroad programme (four weeks; one person joined in FY2015)

Human Resources Data (Employees Hired through Group companies (Including Nippon Yusen Kaisha))

Statistics based on a human resources survey of consolidated subsidiaries in Japan and overseas with respect to personnel composition and training and other personnel-related items (As of the closing date for FY 2015)

Breakdown of Group Company Employees (Including Nippon Yusen Kaisha)

Number of employees of consolidated companies (long-term employees, employees on contracts for over 6 months)

	Male	Female	Total
Office workers*1	21,532	11,536	33,068
Seafarers*2	1,141	67	1,208
Total	22,673	11,603	34,276

*1. The number of office workers includes seafarers currently engaged in onshore duties and personnel transferred from Group companies.
*2. The number of seafarers does not include non-Japanese seafarers.

Breakdown of number of employees of consolidated companies (by region, including seafarers)

Region	Japan	Europe	South Asia	North America	East Asia	Oceania	Latin America	Total
Number of companies	65	25	37	10	20	4	7	168
Number of employees	8,024	5,423	12,213	2,760	3,876	385	1,415	34,276

Number of non-Japanese employees on NYK-operated vessels

232 vessels under NYK management	9,071
550 chartered vessels	12,100

Number of employees (office workers / contracts less than 6 months)

Number of employees	478

Number of employees of Group companies	55,447

Number of newly hired employees

	Male	Female	Total
Office workers, seafarers	4,234	1,951	6,185

Number of female employees, number of employees, and percentage of female employees in the workplace

	Female employees	Total employees	Percentage
Directors	83	980	8%
Manager or above	844	3,917	22%
Employees	11,603	34,277	34%

Corporate Data

(As of March 31, 2016)

Established
September 29, 1885

Paid-in Capital
¥144,319,833,730

Employees
Consolidated: 34,276 (NYK and consolidated subsidiaries)

Non-consolidated*: 1,583 (Land: 1,018; Seafarers currently working at offices: 260 / at Sea: 305)

* The non-consolidated number of employees includes employees currently assigned to domestic and overseas Group companies.

Headquarters
3-2, Marunouchi 2-chome, Chiyoda-ku,
Tokyo 100-0005, Japan
Telephone: +81-3-3284-5151
Website: http://www.nyk.com/english/

Common Stock
Number of authorised shares:
2,983,550,000 shares

Number of issued and outstanding shares:
1,695,911,449 shares (excluding treasury stock: 4,639,539)

Stock Exchange Listings
First Section of the Tokyo Stock Exchange and the Nagoya Stock Exchange

Share Registrar and Special Management of Accounts
Mitsubishi UFJ Trust and Banking Corporation
Head Office: 4-5, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8212, Japan
Contact Information: Transfer Agency Department,
10-11, Higashisuna 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Telephone: +81-3-6701-5000

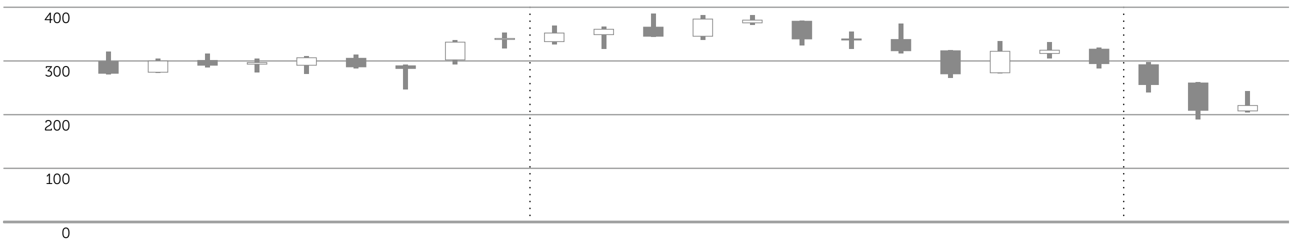
Method of Public Notice
The Company's public notices are available through electronic distribution.
Website: http://www.nyk.com/koukoku/
However, in the event that electronic distribution is impossible, due to an accident or other unavoidable circumstances, the Company's public notices will appear in the *Nihon Keizai Shimbun*, published in Tokyo, Japan.

American Depositary Receipts
Symbol: NPNYY
CUSIP: 654633304
Exchange: OTC
Ratio (ADR: shares of common stock): 1:2
Depositary: The Bank of New York Mellon
101 Barclay Street, New York, NY 10286,
United States
Toll-free: Within the United States: +1-888-BNY-ADRS
(+1-888-269-2377)
From overseas: +1-201-680-6825
Website: http://www.adrbnymellon.com/

Stock Price Range and Trading Volume

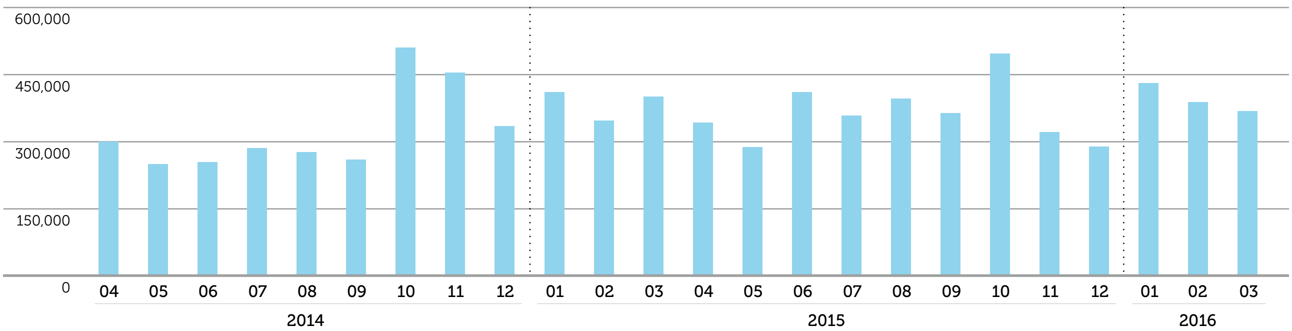
Stock Price

(Yen)

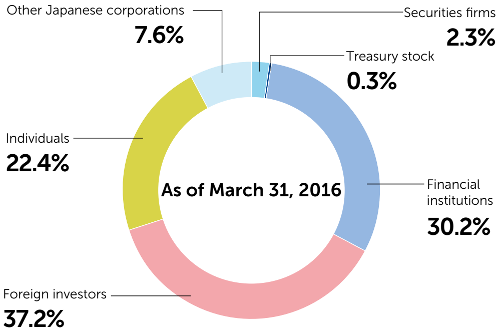


Trading Volume

(Thousands of shares)



Shareholder Composition

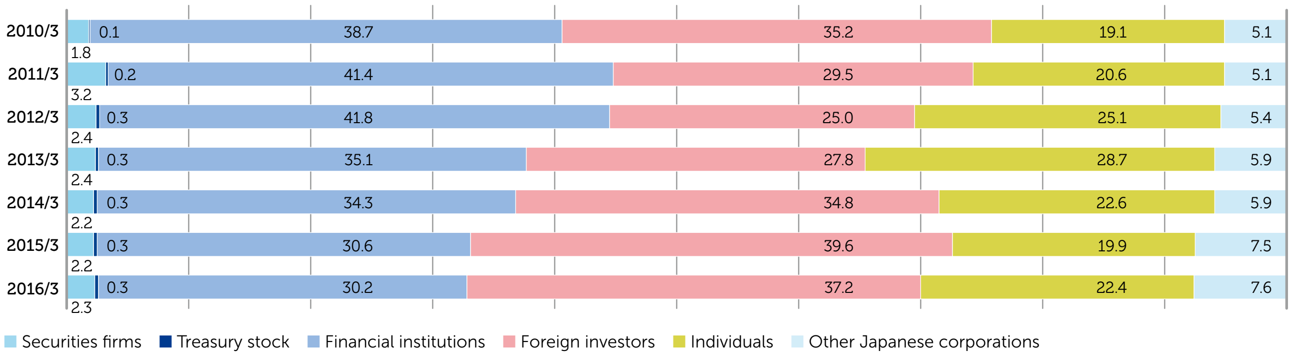


Principal Shareholders

Name	Number of shares held (Thousands)
Japan Trustee Services Bank, Ltd. (Trust Account)	102,463
The Master Trust Bank of Japan, Ltd. (Trust Account)	98,235
Mitsubishi Heavy Industries, Ltd.	41,038
Meiji Yasuda Life Insurance Co.	34,473
Tokio Marine & Nichido Fire Insurance Co., Ltd.	28,945
State Street Bank West Client – Treaty 505234	23,293
Japan Trustee Services Bank, Ltd. (Trust Account 7)	22,987
The Bank of New York Mellon SA/NV 10	22,188
Japan Trustee Services Bank, Ltd. (Trust Account 6)	18,400
Japan Trustee Services Bank, Ltd. (Trust Account 5)	18,397

Shareholder Composition

(%)

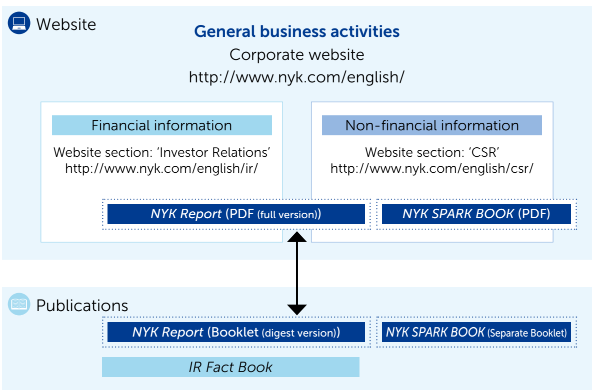


About This Report

Editorial Policy for NYK Report 2016

The *NYK Report 2016* is an integrated report that combines financial information, such as business results, reviews of operations, and future strategies, with general non-financial information about corporate social responsibility (CSR) activities and other initiatives. This report aims to further understanding among as many stakeholders as possible that the NYK Group not only pursues earnings but also tackles a wide range of issues relating to the environment, society, and governance (ESG) to contribute to the realisation of a sustainable society. Further, please use this report in conjunction with the NYK Group's website, which includes information that is more comprehensive and detailed.

This report has been edited with reference to version 1.0 of the International Integrated Reporting Framework, which the International Integrated Reporting Council issued in December 2013.



Scope of Report

Reporting period

April 2015 to March 2016
(In some cases, information from April 2016 and beyond is included.)

Coverage

The activities of NYK as well as Japan-based and international Group companies. Scope is indicated when there are differences in the major companies involved in specific activity areas.

Date of issue

August 2016
[Previous publication: August 2015; Next publication: August 2017 (tentative)]

Audience

This report has been prepared for all parties who have an interest in the activities of the NYK Group, including customers, shareholders, investors, business partners, employees, local communities, NPOs/NGOs, students, certification bodies, researchers, and those responsible for CSR at other companies.

Guidelines for Disclosure about the Environment, Society, and Governance

- Environmental Reporting Guidelines (fiscal 2012 edition), Ministry of the Environment, Japan
- G4 Sustainable Reporting Guidelines, Global Reporting Initiatives (GRI)
- ISO 26000
  (See the website for a table comparing the GRI Guidelines, United Nations Global Compact (UNGC), and ISO 26000)

Web **CSR > CSR Report Guideline Comparison** Guideline Comparison

NYK LINE
NIPPON YUSEN KAISHA

3-2, Marunouchi 2-chome,
Chiyoda-ku, Tokyo 100-0005, Japan
Telephone: +81-3-3284-5151
Website: http://www.nyk.com/english/

Printed in Japan