

Special Feature

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Changing Our Corporate Culture through ESG Management

Over one year after the release of the NYK Group ESG Story, we are moving from a phase of laying the foundations of ESG management to one of establishing commercial operations. Across the Group, integrated thinking that combines economic viability and ESG priorities is taking root. Consequently, we are beginning to establish businesses that realize profitability while satisfying ESG yardsticks. What kind of changes have been occurring in the NYK Group? President Hitoshi Nagasawa—who is strongly committed to putting ESG at the core of business management—held a discussion with Daigo Shimizu—head of the Business Development Department of Goldman Sachs Japan Co., Ltd., and advisor to the Group’s ESG Management Committee—to review the Group’s ESG management to date and consider the road ahead.

Location: Nippon Yusen Kabushiki Kaisha Yokohama Branch Office



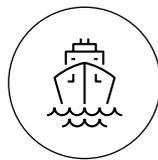
Profile

Daigo Shimizu

Head, Business Development Department, Equity Sales Group, Global Markets Division Goldman Sachs Japan Co., Ltd.

Profile

After graduating with a master's degree from Kyoto University in 2001, Daigo Shimizu joined Nikko Salomon Smith Barney Limited (currently Citigroup Global Markets Japan Inc.) and then started working at Goldman Sachs Japan in 2007, in charge of SDGs and ESG as head of the Business Development Department. His motto is, "Live as if you were to die tomorrow. Learn as if you were to live forever."



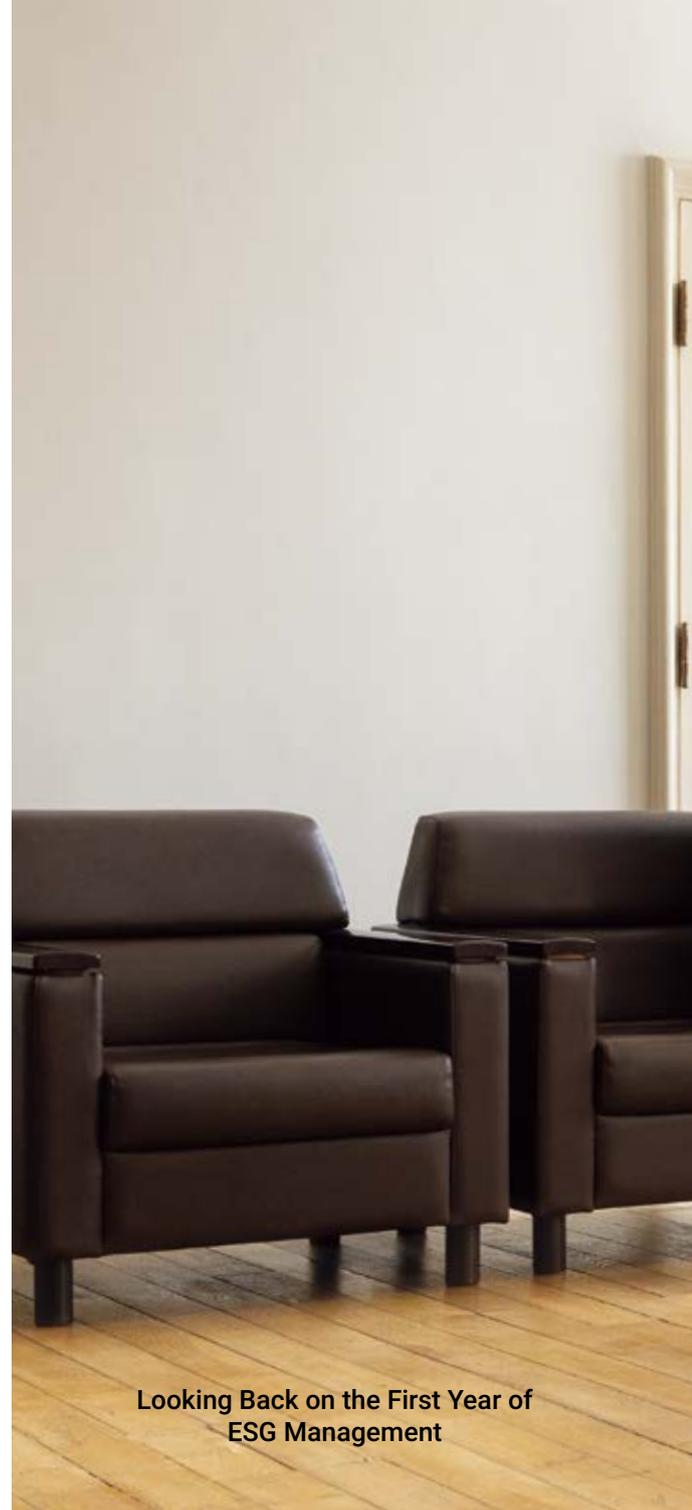
Profile

Hitoshi Nagasawa

President, Representative Director, President and Chief Executive Officer

Profile

After joining the Company in 1980, Hitoshi Nagasawa became the general manager of the LNG Group in 2004, a corporate officer in 2007, and a managing corporate officer in 2009. He has been in charge of the Energy Division since becoming a director in 2011 and has chaired a committee overseeing the strategies of bulk shipping since being appointed as an executive vice-president corporate officer in 2018. Mr. Nagasawa was involved in the Company's acquisition of upstream interests in the LNG business and development of the offshore business. His motto is, "Be a nail that sticks out, even if you get hammered."



Looking Back on the First Year of ESG Management

Nagasawa To remain the preferred choice of customers and society, in February 2021 we clearly set out a strategy that places ESG principles at the heart of business management and formulated the NYK Group ESG Story. I felt a strong sense of crisis after attending a talk in which you stressed that companies that are either unconcerned about large CO₂ emissions or prone to scandals due to weak governance will lose credibility and eventually be left behind.



From the point of view of investors, who invest in companies with the expectation of future growth, such companies are unsuitable for investment and likely to see their market capitalization shrink. As market capitalization is one of the indicators for measuring corporate value, I felt that without ESG management we would be heading exactly in the opposite direction from the path that leads toward increased corporate value.

Shimizu Investors are keen to predict the future based on various standpoints and calculate corporate value. Investors foresee an era in which businesses and services will be selected not only based on the

price of products but also on high added value in terms of environmental and social priorities. Companies who deal with consumers directly foresaw such changes at an early stage. On the other hand, given that ensuring supply stability is critical, the NYK Group and other corporate groups in industries supporting energy and social infrastructure tend to view the future of their businesses by projecting forward from the present rather than by backcasting from a target profile.

Pushing ESG management forward requires solutions from employees in frontline operations, each of whom must re-evaluate things from an ESG perspective and discuss them with their coworkers.

Through a process of trial and error, personnel should try to evolve operations with ESG at the forefront of their minds. Also, as the pursuit of ESG management is not a cost but an investment in the future, we must not hesitate to incur near-term costs. Moreover, the ability to explain future returns in the context of ESG principles is important. Corporate ESG Stories will be sophisticated as stories created based on these priorities are communicated by frontline personnel to managers and then filter up to the senior management team. A corporate culture in which stories are repeatedly refined and evolved is the ideal scenario, and I believe this is the type of corporate culture that the NYK Group

should strive to establish. In addition, the NYK Group should evaluate not only profits but also whether the process of making profits accords with the Group's basic philosophy: "Bringing value to life." Companies more capable of evaluating such intangibles are those that will continue growing.

Nagasawa I really wanted to avoid giving employees and Group companies the impression that ESG management was just another slogan or a call to action. Depending on the division, the levels of awareness and ownership in this regard vary significantly. Nonetheless, I feel that ESG management is making steady progress. When I visited North America recently, local Group employees asked many questions about the details of how ESG management is to be advanced.

Clearly, the more we help address climate change through our expertise and actions, the more our corporate value will increase. Perhaps there is a perception gap between capital markets and companies regarding corporate value, but investors and business managers are two sides of the same coin. By making better use of capital markets, we should be able to have an even greater impact on society and industry.

Including stakeholders who understand and back our vision, we truly want to remain a corporate group that is the preferred choice of society. Therefore, we must ensure investors understand that investing in NYK is an attractive proposition. In other words, the NYK Group has to present itself as a corporate group worthy of investment going forward—in the period through 2050 and beyond. While showing the progress we have hitherto made through ESG management, we will continue engaging in sincere dialogues that cover both the potential upsides and downsides of our initiatives. Moreover, if our market capitalization increases, we are unlikely to become subject to hostile takeover bids. Also, if we earn the esteem of both customers and capital markets, I am sure employees will take even greater pride in the NYK Group.

Setting Out Challenges and Ways Forward in the NYK Group ESG Story 2022

Nagasawa In March 2022, we announced the NYK Group ESG Story 2022, an updated version of the NYK Group ESG Story. Points of interest in the updated story include a road map, prepared by backcasting from the NYK Group's 2050 vision, and the next medium-term management plan, which represents a step in the right direction. With respect to our next stage of growth, I believe that investors and shareholders are watching closely to see how the Company utilizes its financial base, which has improved dramatically over the past two years. We have just announced plans to invest ¥4.8 trillion between 2022 and 2050. The Company's current in-house discussions on the next medium-term management plan, scheduled to be announced around spring 2023, will determine the allocation of these funds in more detail. Also, we intend to invest aggressively in safety—the NYK Group's first priority—and in human resources, which will be a growth driver.

Shimizu The NYK Group ESG Story 2022 introduces ESG Navigators as leaders of efforts to strengthen foundations for the advancement of ESG management. In 2021, the first year of ESG management, about 70 ESG Navigators moved around freely throughout the Group, contributing greatly to the widespread adoption and entrenchment of ESG

yardsticks. Group companies are also actively working on their ESG stories. Without the direct involvement of the parent company, Group companies are thinking deeply about and preparing their stories, thereby providing a very good, collective example of how an effectively managed corporate group should operate. In 2022, the second year of ESG management, we are beginning to see the institution of best practices of ESG management at divisions and



Group companies. Through the continued introduction of effective evaluation systems, I believe ESG management will spread more rapidly and widely than previously.

Nagasawa The Company's examination of evaluation systems is underway. Already,

we have revised the executive compensation system by introducing performance-linked stock compensation that reflects ESG principles, thereby incorporating them into long-term incentives. We hope that the revised compensation system will change the attitudes and behavior of executives in a way that positively influences their subordinates. Further, the Company has decided to introduce a special examination for promoting personnel to management positions. In line

effectively with subordinates, work closely with them, and, when necessary, reprimand them, fairly and without any loss of mutual respect. In addition to these efforts, we will strengthen our human rights initiatives.

Shimizu This is exactly what Saigo Takamori, one of the leaders of the Meiji Restoration, meant when he said, “Give stipends to the meritorious and positions to the virtuous.” The quality of corporate management varies greatly depending on the kinds of evaluations used and the types of personnel selected for management positions. Furthermore, using employee engagement scores together with the aforementioned examination will provide insight into the day-to-day interpersonal skills of management candidates, which cannot be measured solely through interviews.

One issue I want to bring up is the incompleteness of the story in relation to the empowerment of women. The NYK Group has taken a positive step in this regard by setting numerical targets; however, it needs to complete the story that gives convincing reasons why the achievement of these numerical targets will raise corporate value. To this end, we must first identify how best to empower women in the

workplace. Is it by increasing the ratio of women to men among new-graduate hires? Or, should we increase female representation among middle-ranking employees and managers? Perhaps the answer lies externally not internally. I hope we can avoid merely pursuing numbers for numbers’ sake. Also, I feel that ESG management

has permeated more deeply into the NYK Group’s frontline operations than those of other companies advocating ESG management. Contrastingly, external communication by the Group of its ESG management initiatives still seems insufficient. Given that some companies may appear impressive from the outside only, I strongly urge the Group to proactively inform the outside world about its ESG management initiatives.

My goal is for the NYK Group to become an organization that can pursue ESG management independently without my presence. In other words, ultimately I would like to eliminate the need for an advisor such as myself. In 2022, I want to contribute to the development of a truly positive and powerful corporate culture that is capable of delivering to the senior management team a range of even more inspiring ESG stories that act as catalysts among divisions and employees and which encourage lively discussions with those in frontline operations.

Nagasawa I hope many things will become apparent through the analysis and utilization of the results of a worldwide engagement survey of all Group employees, scheduled to be conducted during 2022. Regarding furthering the empowerment of women in the workplace, I would also like to explore the means of doing so again and rework the NYK Group ESG Story accordingly.

I want to ask you to continue making uncompromising checks from the perspective of capital markets to ensure that we are not heading in the wrong direction. If there are any areas where we are lacking, I would be grateful to hear your frank opinions in this regard so that we can consider ways of making improvements together. Thank you very much for your time today.

with ESG principles, there is a tendency to focus on environmental issues. By also giving attention to social priorities, however, we want to enhance and further evolve our corporate culture. More specifically, our goal is to determine whether management candidates have the attributes and interpersonal skills required to communicate

