NYK GROUP

Taking a Step Forward

Nippon Yusen Kabushiki Kaisha

NYK Report 2014

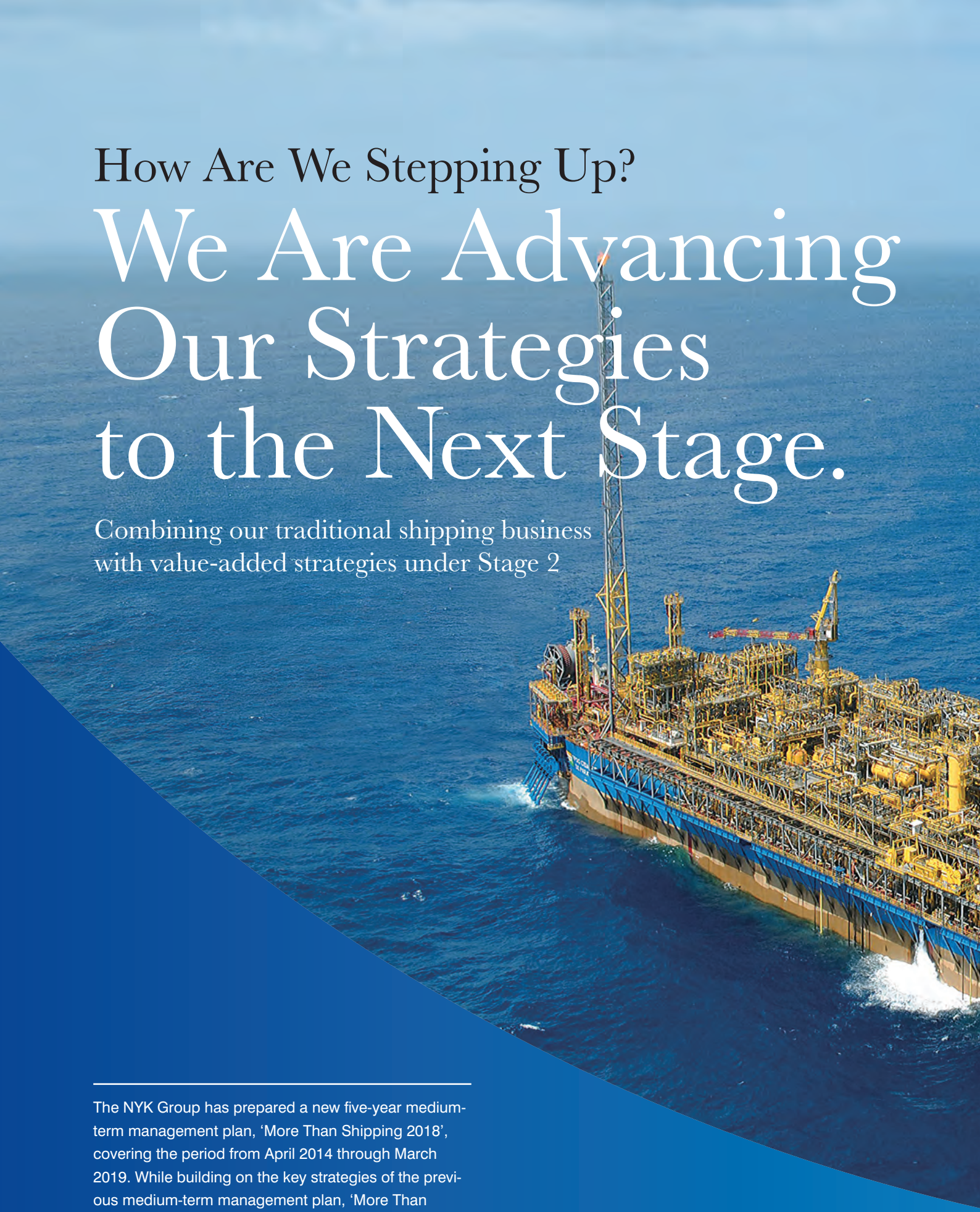
Financial, Social, and Environmental Performance

2014

How Are We Stepping Up?

We Are Advancing Our Strategies to the Next Stage.

Combining our traditional shipping business with value-added strategies under Stage 2

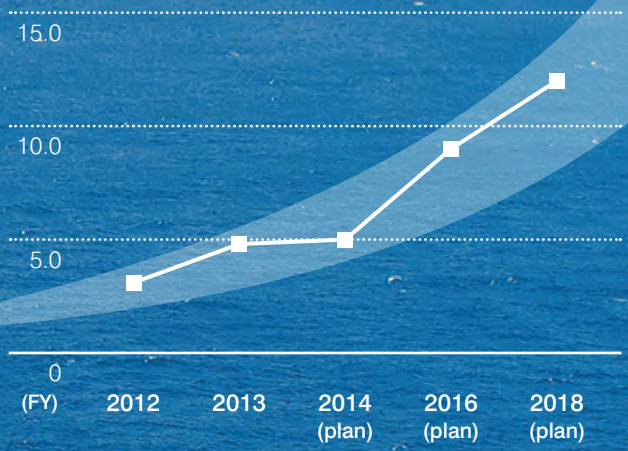


The NYK Group has prepared a new five-year medium-term management plan, 'More Than Shipping 2018', covering the period from April 2014 through March 2019. While building on the key strategies of the previous medium-term management plan, 'More Than Shipping 2013', we will redouble efforts to achieve differentiation through the technological capabilities and professional skills we have honed.

New Medium-Term Management Plan

More Than Shipping 2018

ROE 12%



More Than Shipping 2013

ROE 4.8%

An FPSO unit producing crude oil off Brazil

How Are We Stepping Up?

We Are Leveraging

Achieving differentiation by honing technological capabilities and professional skills

Japan's first car carrier with capacity for 7,000 vehicles, *Aries Leader* was completed in May 2014.

Car carriers incorporate a variety of energy-saving technology. Given recent bunker oil price hikes, improved fuel efficiency not only reduces CO_2 emissions but also contributes to earnings by enabling significant cost reductions. Accordingly, our new medium-term management plan calls for a 15% improvement in fuel efficiency versus the fiscal 2010 level.

Our Technologies.

Energy-Saving Benefits of Next-Generation Car Carriers

−30%

(per finished vehicle transported compared with existing vessels)

Energy-Saving Technologies for Car Carriers with a Capacity for 7,000 Vehicles

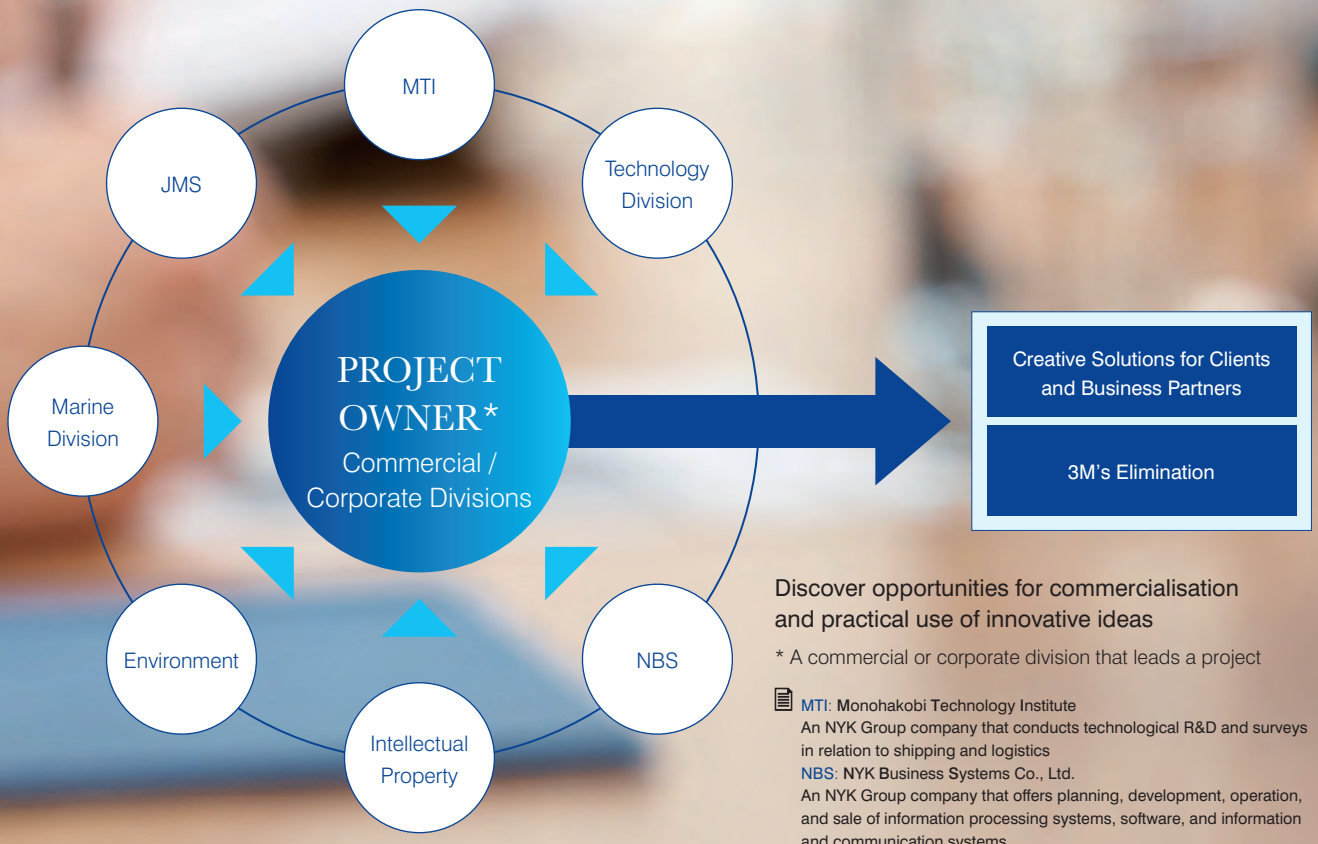
Energy-saving technologies
Enlarging, redesigning vessels
Air-lubrication system
Latest low-friction hull coating
Hybrid turbocharger
Inverter control of cooling water pump
Water-emulsion compatible boiler
Performance-monitoring system

How Are We Stepping Up?

We Are Pursuing Innovation.

Mobilising all divisions' technological capabilities and professional skills, seeking differentiation tirelessly

Underpinned by an innovative corporate culture that has been evolving and strengthening since our foundation, we have accumulated and honed a broad array of technological capabilities and professional skills. These capabilities and skills enable us to reduce costs by almost ¥20 billion a year. Although the offshore and LNG transport businesses are challenging to enter, we have established a presence in both businesses thanks to our reliable ship-handling technologies and skills. Going forward, we will mobilise the technological capabilities and professional skills of all divisions to differentiate ourselves even further.



Discover opportunities for commercialisation and practical use of innovative ideas

* A commercial or corporate division that leads a project

MTI: Monohakobi Technology Institute
An NYK Group company that conducts technological R&D and surveys in relation to shipping and logistics
NBS: NYK Business Systems Co., Ltd.
An NYK Group company that offers planning, development, operation, and sale of information processing systems, software, and information and communication systems
JMS: Japan Marine Science Inc.
An NYK Group company that provides marine consulting and other services

Contents

We would particularly like to share information presented on the following pages.

In this section, we explain the type of business management we aspire to.

The Group is taking additional steps to combine its traditional shipping business with value-added strategies. President Kudo explains the business management tasks that the management team is focusing on and maps out the way to further growth.

We review the previous medium-term management plan and explain the key points of the new medium-term management plan, which began from April 2014.

The NYK Group pursues CSR initiatives as an important facet of differentiation. Here, we feature one of our strengths—the disclosure of environment, society, and governance (ESG) data.

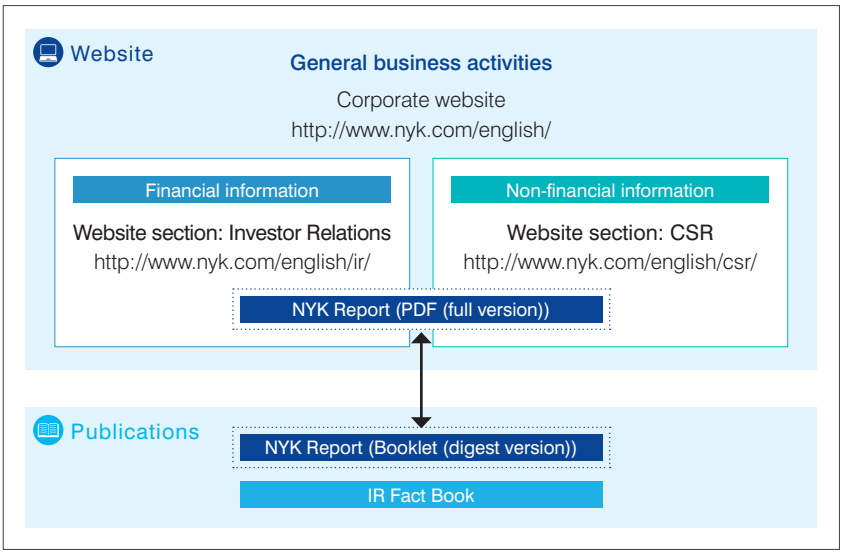
The executives responsible for respective businesses explain the growth strategies that they have prepared for their business areas based on the new medium-term management plan.

We provide an overview of our corporate governance system—the foundation supporting growth strategies—and explain risk management methods and compliance initiatives.

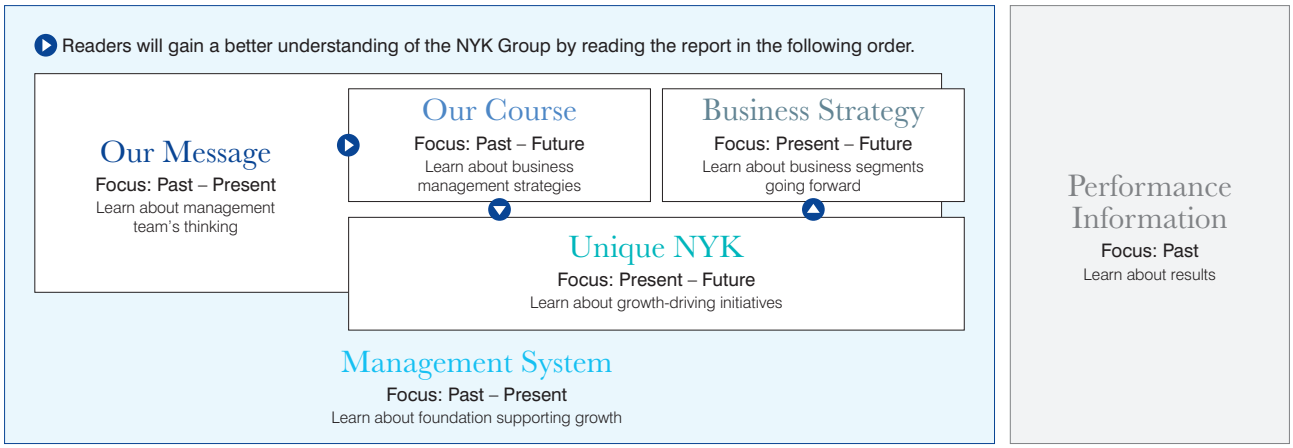
Editorial Policy for *NYK Report 2014*

The *NYK Report 2014* 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 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.



The Structure of This Report



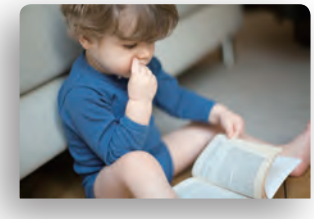
Cautionary Statement with Regard to Forward-Looking Statements

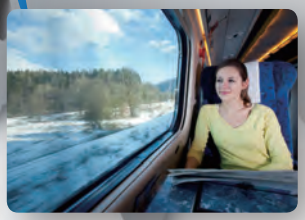
Some statements made in this report are forward-looking statements, which involve certain risks and uncertainties that could cause actual results to differ materially from those projected. Please be advised against undue reliance on such forward-looking statements, which are based on information currently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

From B to B and B to C towards Business to Society

Delivering Diverse Commodities Essential for Everyday Life

Through a network that includes ocean, land, and air transportation and spans the globe, the Group delivers all kinds of goods people cannot do without in their day-to-day lives—everything from resources and energy to food.





Diverse Transport Services

Containerships

Main Cargoes
Food / Everyday goods / Consumer electronics

Trucks

Main Cargoes
Food / Everyday goods / Consumer electronics

Terminals

Main Cargoes
Containers / Construction machinery / Railcars / Finished vehicles

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 / Naphtha / Gas oil

Car carriers

Main Cargoes
Passenger cars / Trucks / Industrial vehicles

Cruise ships

Service
World-class cruises

Overriding Management Policy

NYK Group Mission Statement

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.

Management Policy

■ Together with Our Customers

Through the use of our extensive skill and expertise and by considering each business site to be of utmost importance, we always work to create new value so that our customers will consider us a trusted and reliable partner.

■ Together with Our Shareholders and Investors

We aim to enhance our corporate value by being financially responsible and by conducting business activities in an open, honest, and transparent fashion.

■ Together with Society

As a good corporate citizen, we positively take on the tough issues that challenge our society, such as concerns involving the preservation of our natural environment, as we work for the betterment of the world that we inhabit.

■ Together with All Staff Members in the NYK Group

As a global enterprise that has the utmost respect for diversity in the workplace and the spirit of challenge, we emphasise the development of employee talents so that all staff members can take pride in their work and eventually fulfil their dreams.

Business to Society

Social Effects and Responsibilities of Business Activities

Megatrends

- Population increasing and migrating
- Global economy shifting towards Asia
- Environmental burden increasing
- Needs of consumers and society diversifying
- New areas expanding through technological innovation

Positive effects of business activities

- Contribute to global economic development
- Increase employment worldwide

Negative effects of business activities

- Increase environmental burden
- Cause accidents with various effects

Responsibilities of business activities

- Ensure employment
- Respect diversity
- Coexist with communities
- Reduce environmental burden
- Ensure transport safety

Materiality Initiatives That Sustain Growth ▸▸ P. 40

The NYK Group's CSR Management

The NYK Group positions 'economic responsibility', 'environmental responsibility', and 'social responsibility' at the core of business activities because it takes an integrated approach to business management that focuses on maximising benefits to the Group and society simultaneously. Accordingly, we believe the way to increase corporate value is to carry out the 'More Than Shipping 2018' medium-term management plan and to ensure individual employees keep in mind economic, environmental, and social considerations as they go about their ordinary duties.

‘More Than Shipping’ Strategy—Stage 2

In April 2014, the NYK Group launched a new medium-term management plan, ‘More Than Shipping 2018—Stage 2, leveraged by Creative Solutions—’. As the plan’s main title suggests, the Group will continue advancing the basic strategy set out in its previous medium-term management plan, ‘More Than Shipping 2013’. At the same time, the Group will differentiate itself even more by exploiting ‘Creative Solutions’ based on advanced technological capabilities and professional skills. Through overviews of our previous plan and new plan, I will demonstrate the approach to enhancing corporate value that we have mapped out and followed since I became president.

工藤泰三

Yasumi Kudo
President, President Corporate Officer

Review of progress since becoming president

Adapting to volatile business conditions while mapping out the way to higher corporate value

Five years ago, in April 2009, I became president. Looking back, it was a time when the need to adapt to dramatically changing business conditions kept us busy. My inaugural fiscal year was a trial by fire. As the effect of the global recession that began in autumn 2008 became increasingly apparent, we recognised a recurring loss of ¥30.4 billion in my first fiscal year as president. From the following fiscal year, however, the situation turned around. Cargo movements picked up more rapidly than expected and recurring profit surpassed ¥100 billion in fiscal 2010, the year ended March 2011. Just as we were thinking that business results were on track for continued recovery, the Great East Japan Earthquake occurred in March 2011. Flooding in Thailand had an additional negative effect and cargo movements slumped again. At the same time, Europe's financial crisis was becoming increasingly serious. Reflecting these adverse factors, we again recorded a recurring loss of more than ¥30 billion.

In the following fiscal year, ended March 2013, although a range of cost reduction measures helped us to move into the black by posting recurring profit of ¥17.7 billion, business results were still not at a satisfactory level. In fiscal 2013, the year ended March 2014, we were finally able to achieve recurring profit of ¥58.4 billion. While we cannot yet hail this as a complete recovery, I feel the worst period is now behind us and we have successfully navigated five hectic years of adapting to new conditions. Despite the testing conditions, we established a strategy of building competitive advantages through ideas that transcend the boundaries of traditional shipping and, based on this strategy, mapped out the way to achieving higher corporate value.

Previous medium-term management plan, 'More Than Shipping 2013'

Overcoming two years of recurring loss

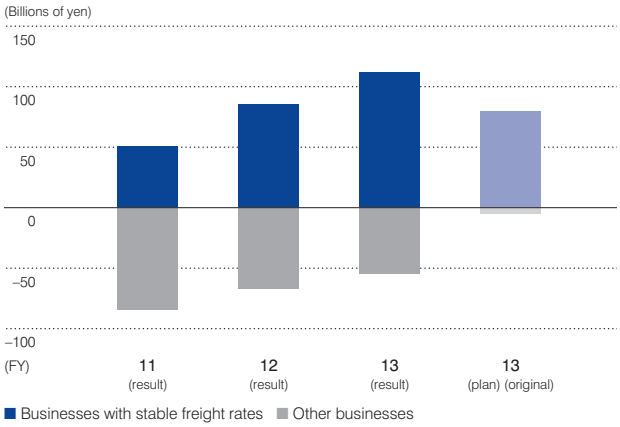
I believe companies have a duty to generate earnings. With this in mind, even though business conditions were changing dramatically, it is very regrettable that the Group reported deficits in two fiscal years. While recording the volatile business results described above, we concluded that our greatest business management task was to generate recurring profit with as much stability as possible. Our previous medium-term management plan, 'More Than Shipping 2013', reflected this view. Therefore, over the past five years the Group has made concerted efforts to promote stability. As a result, we are at last seeing the tangible benefits of these efforts.

The previous plan targeted recurring profit of ¥75 billion in fiscal 2013, ended March 2014. When setting this target, we envisaged recurring profit of ¥80 billion through the accumulation of long-term contracts in businesses with stable freight rates and a recurring loss of ¥5 billion from businesses with unstable freight rates. Looking at the business results for fiscal 2013, these businesses recorded recurring profit of ¥110 billion and a recurring loss of ¥55 billion, respectively. In other words, while businesses with stable freight rates surpassed their target by roughly ¥30 billion, businesses with unstable freight rates went more than ¥50 billion into the red. These results highlighted the risk inherent in businesses that have unstable freight rates and are subject to external conditions. At the same time, they reconfirmed that curbing fluctuation risk and accumulating stable earnings are extremely effective strategies.

I believe overcoming deficits in two fiscal years and acquiring the ability to accumulate earnings steadily through businesses with stable freight rates was a major achievement. The NYK Group can declare complete recovery when—no matter how much freight rates deteriorate—it is able to eliminate the ¥55 billion deficit of businesses with unstable freight rates. Towards this end, we embarked on a wide range of measures. Thus, I feel that under the previous plan we did not shirk doing what was necessary.

Businesses with stable freight rates
The Terminal Division and the logistics segment in the Global Logistics Business; long-term chartered vessels, including LNG carriers and the offshore business, and the car transportation business in the Bulk Shipping Business; and the real estate business

Recurring Profit (Loss)



Realising major benefits by curbing fluctuation risk

Our greatest achievements have been in the container transport area. We reduced costs rigorously while curbing orders for new vessels, reducing surplus vessels and building a fleet able to adapt flexibly to demand changes. Continuing to reflect a large supply-demand gap, freight rates for containerships have been declining. Freight rates on mainstay shipping routes from Asia to North America and Europe, for example, have decreased almost US$200 per container during the past year. On these shipping routes, the NYK Group handles about 1.1 million containers annually. Therefore, the freight rate decreases represent a deterioration in profitability of approximately ¥20 billion. However, we have more than compensated for this decline by reducing costs through slow-steaming operations and container cargo yield management. This has been a significant achievement.

Yield management involves managing the profitability of individual containers. Initially, we introduced this method to North American shipping routes, which, as well as ocean transport, encompass rail and truck inland transport networks. In fiscal 2014, the year ending March 2015, we will introduce yield management to Asian and European shipping routes.

Also, we are currently using our success with containerships as a best practice for introducing slow-steaming operations to dry bulk carriers and various other vessel types, and we are seeing benefits emerge steadily.

Yield management
A management method based on improving profitability by selling products at the optimal time and price in light of demand forecasts

Growing businesses with stable freight rates through technological capabilities and professional skills and a customer-oriented approach

As I mentioned, businesses with stable freight rates outperformed their target under the previous plan by about ¥30 billion. This strong performance reflected positive contributions from long-term contracts in such areas as the offshore business, LNG carriers, and dry bulk carriers as well as our expansion of the automotive logistics business. In particular, the offshore business is growing faster than expected and has already become one of the Group's mainstay earners.

In my view, technological capabilities and professional skills are driving the growth of the offshore business. Because they handle crude oil and natural gas, companies in this business area must have advanced ship-handling technologies and skills and outstanding safety. The capabilities and skills of the NYK Group enable it to more than satisfy these requirements.

Further, in energy transport a distinctive feature of the Group is its independent ship-management companies, training facilities, and cadet vessels. This gives the Group the advantage of being able to develop its own pool of seafarers with advanced technological capabilities and strong safety awareness. Consequently, we can offer customers safe, reliable transport services with confidence.

As for our success in accumulating long-term contracts in dry bulk transport, I believe this is mainly attributable to maintaining a customer-oriented approach. Since 2004, freight rates have been rising, with the spot charterage for capesize bulk carriers, mainly used to transport iron ore, surpassing US$100,000 per day. In these conditions, we have managed to procure vessels and cater to customer needs. Although putting pressure on profitability temporarily, our efforts have earned us strong trust among customers. In many cases, this trust has helped us win long-term contracts. We will shortly be redelivering the high-cost vessels we have chartered. Therefore, we expect to improve earnings significantly and restore the stability of this business.

Similarly, we attribute the solid performance of the automotive logistics business to our customer-oriented approach. When automotive manufacturers were rapidly increasing their presence in Thailand, China, and other countries, local infrastructure was inadequate. Having the foresight to anticipate and build the services automotive manufacturers would need, we established logistics networks and dedicated terminals essential for the transport of finished vehicles. And, by continuously providing services based on this infrastructure, we have been able to garner customers' trust.

Strengthening the presence of the logistics segment

Since integrating the NYK logistics division and former company Yusen Air & Sea Service Co., Ltd., in 2010, we have sought to increase significantly seaborne cargo handling volume, which was low during the previous plan. To this end, we have focused on strengthening the NVOCC (Non-Vessel-Operating Common Carrier) business.

First, we expanded our capacity and strengthened cost-competitiveness by procuring space from shipping companies in large lots. As handling volume has risen, we have gained recognition in the market as a capable forwarder. Consequently, we have been receiving more enquiries not only about forwarding services but also in relation to contract logistics.

The past several years have seen dramatic changes in logistics, and customer needs have been developing in step with these changes. In Japan, cargo exports used to predominate. Now, however, cargo imports are rising. Further, cargo exports from Asia have been increasing steeply. I am confident Yusen Logistics Co., Ltd., can take large strides forward in these conditions by exploiting a worldwide network and a well-balanced mix of three capabilities that are key for an international forwarder: ocean forwarding, air forwarding, and contract logistics.

Forwarder
A business that provides door-to-door international logistics services and undertakes processing required for transport by sea, air, and land as well as import and export customs clearance

Contract logistics
A business that concludes contracts with customers directly for the provision of comprehensive logistics services, including warehousing, logistics processing, and distribution management

New medium-term management plan, 'More Than Shipping 2018'

In shipping, which tends to be seen as susceptible to freight rate fluctuation, businesses with stable freight rates were able to generate recurring profit of ¥110 billion in fiscal 2013. This performance further validated our strategic direction. Meanwhile, our most important task going forward is to minimise the risk that accompanies businesses with unstable freight rates.

Aiming to tackle this task on a Groupwide basis and set out a clear strategy for moving forward, we prepared a new medium-term management plan, 'More Than Shipping 2018—Stage 2, leveraged by Creative Solutions—', which we announced at the end of March 2014.

Adapting to a persistent supply-demand gap

Although the NYK Group's profitability has improved, orders for new vessels show no sign of slowing. As a result, the supply of vessels is, unfortunately, expected to remain at a high level. The surplus of vessels is persistent because, as fuel costs soar, demand is growing year by year for the construction of vessels incorporating technological innovation that enables better fuel efficiency.

Furthermore, a worldwide liquidity surplus is encouraging speculative investment in vessels, leading to concern that vessel supply could increase more than it would normally. Therefore, we must always keep in mind establishing a mix of vessel-ownership formats that reflects business risk. In this respect, I think we were correct to move towards a light-asset business model in the container transport area, which does not have long-term cargo transport contracts.

On the other hand, the Tanker Division offers potential for business expansion, including LNG carriers and the offshore business. As well as rising demand for energy transport, the worldwide energy supply structure is likely to change due to the shale gas revolution and our involvement with the energy value chain is also likely to change as a result. In addition, given changes in the viability of energy production areas and the diminishing production volumes of natural gas fields, we expect the coming years will see an increasing shift towards deep-water oil production. Amid these trends, the ability of the NYK Group to capitalise on technological capabilities will provide it with increasing opportunities to participate in energy transport.

Also, as logistics volumes grow worldwide, environmental regulations for such problems as ballast water, SOx, and NOx are likely to become stricter. Rather than reacting passively to such developments, we intend to take the initiative and implement progressive measures.

Ballast water
This is seawater carried by vessels to maintain their balance. Normally, tanks at the bottom of vessels take on ballast water at unloading ports and release it at loading ports.

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

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

Extending the new plan's term to five years while adhering to our basic strategy

In preparing the new plan, we decided to follow the previous plan's basic strategy. The previous plan verified that curbing the risk of businesses with unstable freight rates and accumulating earnings through businesses with stable freight rates are extremely effective ways of increasing the Group's corporate value. Therefore, even though we foresaw certain changes in business conditions, we decided to continue this strategy.

One departure from the previous plan was to lengthen the term of the new plan from the standard three years to five years. In my view, the medium-term management plan is basically an investment plan. For vessels, ordering through to completion takes two or three years, which means we decide on investments three years in advance. Because we wanted to show our plans for a period in which investments had not yet been decided, we changed from a three-year to a five-year plan.

Developing our fleet to enhance ROE even further

The new plan outlines a strategy of giving priority to investing in LNG carriers and the offshore business. Other investments will target replacing some bulk carriers and car carriers with vessels that are more fuel-efficient.

As we develop our fleet, our main aim will be to increase return on equity (ROE) without increasing total assets. Achieving this objective will entail reweighting our portfolio by investing in businesses that promise good returns while curbing surplus assets. Because a significant investment is required for each LNG carrier or FPSO (Floating Production, Storage, and Offloading) unit, there is a danger of expanding assets and weakening our financial position. A vulnerable balance sheet hampers fundraising for investment, making sustained growth difficult. Accordingly, to maintain a sound balance sheet, replacing assets appropriately is crucial.

We have set a debt-to-equity ratio of 1.0 as a target. However, if businesses with stable freight rates accumulate earnings through long-term contracts, thereby leading to steadier cash flows, we may consider heightening debt leverage. Nevertheless, we will keep the target of 1.0 as a guideline.

FPSO (Floating Production, Storage, and Offloading) system
An FPSO unit is a ship-shaped offshore installation that produces crude oil by separating solids, water, and gases from liquid drawn from reservoirs beneath the seabed and storing it until it is offloaded into shuttle tankers or export tankers.

Stabilising the containership business

Susceptible to business conditions, the containership business has unstable earnings. Mindful of this, we have curbed exposure to freight rate fluctuation risk and reduced deficits. Looking ahead, however, as well as moving into the black, we want to restructure the business so that it can produce stable earnings. As part of these efforts, we decided to acquire eight long-term chartered vessels, which are new 14,000 TEU (twenty-foot equivalent unit) containerships boasting the best fuel efficiency in the industry. At present, the NYK Group has 14 operating vessels on the shipping route between Asia and Europe. Of these, four are large 13,000 TEU vessels. However, because they are three-year chartered vessels, we will need replacement vessels from 2016. The remaining ten vessels have capacities of less than 10,000 TEUs, so we will replace four of them with 14,000 TEU containerships. We will steadily reallocate containerships that become surplus as a result to North American and other shipping routes. Ultimately, we hope to save a total of ¥23 billion annually by redelivering or scrapping small vessels that are aged or have poor fuel efficiency. Through this strategy, we expect the containership business to move into the black from fiscal 2016.

By replacing vessels in this way, we plan to reduce our fleet of containerships that are owned under long-term ownership formats to ensure we can meet any eventuality from 74 vessels at present to 65 vessels by the end of fiscal 2018.

At the same time, our plans require us to make greater use of vessels with short-term ownership formats that incur charterage at rates linked to the shipping market and to strengthen the NVOCC business, which promises to generate stable earnings because it does not own vessels. As a result—although streamlining our containership fleet—we aim to increase our overall container handling volume to 5 million TEUs, thereby heightening the ability of the containership business to withstand freight rate volatility.

Furthermore, we will develop the terminal business actively because it has a profit structure that is based on the number of units handled and is therefore not susceptible to freight rate levels.

By combining different assets in this way, we intend to expand the containership business while building a durable business model able to withstand freight rate fluctuation. Our goal is to change over to a business that promises more stable earnings from container transport as a whole.

Chartered vessels
Vessels chartered (leased) from other companies

Honing technological capabilities and professional skills, laying the foundation for our next major leap forward

As I mentioned earlier, our advanced technological capabilities and professional skills give us a significant advantage in the offshore business and in relation to LNG carriers. We included 'Creative Solutions' in the new plan's subtitle to emphasise our existing strengths. A further aim, however, was to communicate our commitment to extending our knowledge beyond traditional shipping and to making technological capabilities and professional skills the basis of our next major leap forward.

An example of this commitment was the decision of the NYK Group to embark upon its first FSO (Floating Storage and Offloading) project. A subsidiary of Knutsen NYK Offshore Tankers AS (KNOT) concluded a contract for the construction and chartering of an FSO in December 2013. KNOT is engaged in the shuttle tanker business in the Group. Our acquisition of this contract demonstrates the high regard in which our technological capabilities and professional skills are held. These include the vessel positioning technology that we have honed. Another noteworthy point is that our personnel have been involved in the project since the plant EPC (Engineering, Procurement, and Construction) stages. We have already dispatched a captain, a chief engineer, and a shipbuilding engineer. Apart from this FSO project, we are acquiring knowledge and expertise by dispatching personnel to several FPSO projects for which we have already received orders. Knowledge gained through such activities will prepare us for taking part in new FSRU (Floating Storage and Regasification Unit) and FLNG (Floating Liquefied Natural Gas) projects by enabling us to discuss projects from the same perspective as engineering companies and to get involved in projects at a more advanced level. As we gain these capabilities, a significantly wider range of opportunities will open up for us in this business area.

FSO (Floating Storage and Offloading) system
An FSO system is a vessel designed to receive crude oil produced from nearby subsea wells and to store the oil until it can be offloaded onto a shuttle tanker and transported ashore.
Shuttle tanker
A shuttle tanker, often called a 'floating pipeline', loads crude oil from floating production, storage, and offloading (FPSO) units in deepwater fields and then transports the oil to crude oil storage units or petroleum storage stations on land.
EPC (Engineering, Procurement, and Construction)
Under an EPC contract, the contractor designs the vessel, procures the necessary materials, and builds the unit.
FSRU (Floating Storage and Regasification Unit)
An FSRU is a floating facility for the storage and regasification of LNG.
FLNG (Floating Liquefied Natural Gas)
An FLNG unit is an at-sea facility for LNG liquefaction and regasification.

Pursuing cost improvements tirelessly

Under the previous plan, we made major advances by taking advantage of technological capabilities and professional skills in a broad sense that included innovation and creativity. However, ongoing operations always give rise to the 3M (*Muda*, *Mura*, and *Muri*). Further, the large volume of information about navigation and engines that we accumulate in the course of day-to-day operations ('big data') is an important resource that we should use to optimise operations and design new types of vessel. Thus, another reason why we included 'Creative Solutions' in the new plan's subtitle was to express our intention to continue eliminating the 3M tirelessly.

3M
Muda: Non-value-adding activities
Mura: Unevenness in production or work activities
Muri: Excessive burdens

Aiming for business management that integrates ESG initiatives and growth strategies

Because transporting goods is our main activity, the sea and sky are fundamental parts of our business. As a company operating at sea, on land, and in the air, we must take care of the sea and air. In this sense, being environment-friendly and pursuing growth strategies in business activities are one and the same thing. For example, in response to high fuel prices, we are implementing slow-steaming operations as a way of reducing costs. Although reducing speed by 20% lengthens voyages slightly, it halves daily fuel consumption and reduces each voyage's CO_2 emissions by about 30%. In addition, shipping and logistics are major arteries of the global economy and part of society's infrastructure. Interruptions to the functioning of this infrastructure could affect not only the NYK Group but the global economy as a whole. Also, given that companies must be socially accountable, to ensure their continuity they need sound business management, transparency, and stakeholders' trust. In other words, a company cannot sustain growth if it fails to perform appropriately with respect to the environment, society, and governance (ESG). To advance the measures set out in the new plan, I believe developing sustainable business management based on consideration of ESG is important and the foundation of competitive strength.

The NYK Group has long sought to ensure rigorous compliance with antitrust laws throughout the Group and to reform each employee's attitude to such laws. In fiscal 2013, however, the Japan Fair Trade Commission issued the Group with a cease and desist order and a surcharge payment order with respect to certain car transportation business. We would like to sincerely apologise for the significant concern this has caused stakeholders.

The shipping industry's operating environment is complex because some countries and shipping routes are subject to antitrust laws while others are exempted from them. Furthermore, recent years have seen a trend in international society towards strengthening regulations and narrowing the scope of such exemptions. In future, we will make the utmost effort to ensure that we are fully apprised of such developments. At the same time, the entire NYK Group will rigorously strengthen compliance with antitrust laws.

Meeting shareholders' expectations through stable dividends and favourable investments

The new plan maintains a consolidated payout ratio of 25% and stable dividends as the components of the Group's basic policy on returns to shareholders. As long as there are projects that promise earnings surpassing capital costs, we will continue to invest actively to increase corporate value and meet shareholders' expectations. Further, I fully understand that shareholders focus on dividends. The consolidated payout ratio of 25% is based on the premise that there will be many investment projects. If this premise changes, we will consider such options as revising the consolidated payout ratio and purchasing treasury stock.

In conclusion

Using a diverse business portfolio to establish competitive advantages

The NYK Group was able to survive after the global recession thanks to a diverse business portfolio. Shipping companies specialising in container transport are continuing to struggle in the face of the supply-demand gap and their business results have been worse than ours. When business results slump, companies cannot invest and pursue growth strategies. On the other hand, the wide range of business areas that the Group is engaged in is enabling it to generate cash flows for investment. Further, a shakeout of companies specialising in container transport might present us with an opportunity to develop the containership business in more stable conditions.

While having an extensive business portfolio sometimes leads to a conglomerate discount, I believe it is an indispensable strength that gives companies access to a wide range of business opportunities. In the shipping and logistics industries, which cover diverse needs, concentrating operations on a single area is dangerous. I am convinced that always having a variety of transport and peripheral operations at our disposal and linking these through networks will differentiate us significantly.

Making sure we do not overlook signs of change

After becoming president, the most difficult decision that I took related to whether or not to implement a public offering of new shares. Although profitable investment projects were at hand, I faced a real dilemma over whether to dilute shareholder value. In the end, I made the decision to proceed with the public offering, based on a firm determination to meet shareholders' expectations by growing the Group.

The public offering allowed us to make timely investments in LNG carriers and the offshore business, thereby developing them into earnings mainstays. If we had not implemented the public offering when we did, we would not have been able to build our current competitive advantages.

Given that business conditions are evolving more rapidly than ever, we must become even more sensitive to signs of change. My role is to monitor these conditions continuously and to revise the new plan if needed. Also, if personnel in front-line operations become aware of even small changes, I want them to report this information to senior personnel immediately. In this way, managers and other personnel can work together to discover how best to move forward. I think such collaboration is paramount to ensure the NYK Group continues growing.

An Interview with the Chief Financial Officer

Balance is also important with respect to investments and dividends. Therefore, I believe we should keep dividends stable as we make timely investments for the future.

Kenji Mizushima
Representative Director, Senior Managing Corporate Officer
Chief Executive of Management Planning Headquarters
Chief Financial Officer

Summary of Performance under Previous Medium-Term Management Plan

Q How would you evaluate the Group's recurring profit of ¥58.4 billion in fiscal 2013?

Recurring profit surpassed our initial forecast of ¥40.0 billion and was ¥40.6 billion higher than in fiscal 2012. I think we achieved a result befitting the closing fiscal year of the previous medium-term management plan, 'More Than Shipping 2013', thanks to focusing on cost reduction and such external factors as yen depreciation. However, we have to give serious consideration to the fact that we did not reach the previous plan's initial target of ¥75.0 billion.

Breaking down recurring profit, businesses with stable freight rates accounted for earnings of approximately ¥110.0 billion, while businesses with unstable freight rates incurred a loss of about ¥55.0 billion. Although we exceeded the ¥80.0 billion we had expected from businesses with stable freight rates, the losses from businesses with unstable freight rates were larger than envisaged. Therefore, one task going forward is to minimise these losses as much as possible.

* For an in-depth discussion of business results, please see page 26.

Q What is your view of the Group's recent financial position?

During the previous three years, interest-bearing debt rose roughly ¥170.0 billion because in fiscal 2012 we brought forward long-term fundraising. Amid conditions that made it difficult to predict when freight rates would pick up, we raised funds to ensure we had enough cash reserves for contingencies. I think we did a good job of dividing among vessel investment projects the funds that the new central financing system helped raise on advantageous terms. Partly due to better profitability, the debt-to-equity ratio improved from fiscal 2011's 1.84 to 1.72 at the end of fiscal 2013. We intend to lower this to 1.0 by the end of fiscal 2018, the final year of the new medium-term management plan.

Q Why did the Group's investing activities provide net cash in fiscal 2013?

At the beginning of the fiscal year under review, we projected net cash used by investing activities of more than ¥100 billion. In the first half of the fiscal year, however, we recorded net cash provided by investing activities. This result was not because we narrowed investing activities, but because off-balance-sheet allocations increased. In other words, we were able to switch to chartered vessels or operating lease vessels that we had initially planned to procure through on-balance-sheet allocations.

Investment and Financial Strategies of New Medium-Term Management Plan

Q What are the main features of the new plan's investment strategy?

The new plan calls for total investment of ¥790.0 billion over five years. We have earmarked about 70% of this for LNG carriers and the offshore business, both of which are likely to bring stable returns based on long-term contracts. In response to the highly volatile conditions under which containerships and dry bulk carriers are operating, we will adopt a light-asset business model that will allow us to adapt flexibly even if there is a marked downturn in freight rates. As for car carriers, we expect to see solid automobile transport volume continue, and we will strengthen competitiveness mainly through renewal investment.

Fleet in Operation: Five-Year Projection

(Vessels)

	①When preparing MTS*1 2018	March 31, 2015 (plan)	March 31, 2017 (plan)	②March 31, 2019 (plan)	Change ① vs. ②
Containerships	99	95	85	85	−14
Of which are owned and long-term chartered vessels	74	70	65	65	−9
Car carriers	119	120	125	125	6
Dry bulk carriers:					
Capesize*2	126	120	110	100	−26
Post-Panamax, Panamax*3	97	95	90	85	−12
Handysize*4 (including box shape)	164	165	165	165	1
Wood-chip carriers	48	45	45	45	−3
Liquid:					
Tankers	77	75	70	70	−7
LNG carriers (including co-owned vessels)	67	70	70	100+	33+
Other (conventional ships, reefers, etc.)	79	70	65	60	−19
Total	876	855	825	835+	−41+
Vessels operated by KNOT					
Shuttle tankers	27	28	30	34	7
Containership capacity					
Space provision (Millions of TEUs)	3.68	3.85	4.00	4.25	0.57

Light-asset business model Priority investment

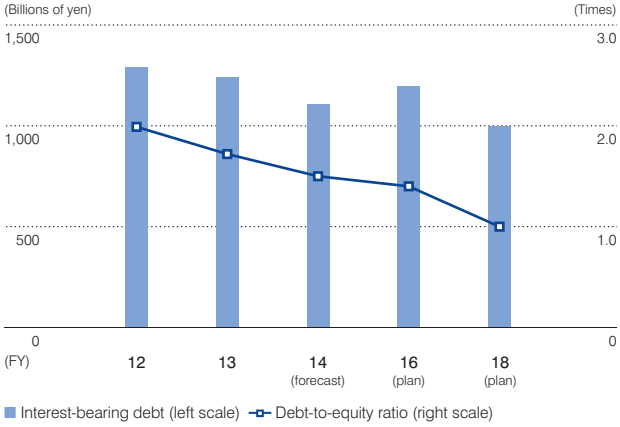
*1. More Than Shipping *2. DWT (deadweight tonnage) of 120,000 tons or more *3. DWT of 60,000 tons or more but less than 120,000 tons *4. DWT of less than 60,000 tons

Q What is the NYK Group's financial strategy going forward?

Demand for capital is set to remain very strong because there are still many profitable investment projects. To meet this demand, we will use cash reserves first. At the same time, we will maintain and strengthen financial soundness so that if additional funds are needed we can raise them on advantageous terms.

There is no change to our strategy of growing operating cash flows from strategic investments and using the accumulated earnings to increase shareholders' equity and reduce interest-bearing debt. Accordingly, we intend to sell unused assets while maintaining positive free cash flows. On the other hand, to grow earnings, shipping requires a certain amount of investment.

Financial Position



Therefore, when needed, we may invest even if debt leverage rises temporarily as a result. However, because conditions are different in each business area, we will have to think more carefully than ever about when to accelerate and when to decelerate our investment activities.

We hope to improve interest-bearing debt from the fiscal year under review's ¥1,241.9 billion to ¥1,110.0 billion at the end of fiscal 2014. Meanwhile, as profitability improves shareholders' equity is expected to grow steadily from ¥720.2 billion to ¥740.0 billion. Consequently, the debt-to-equity ratio should improve from 1.72 to 1.50.

Current Fiscal Year Outlook

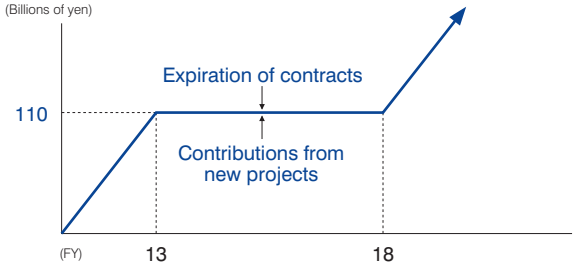
Q What is the business results outlook for fiscal 2014?

For fiscal 2014, we project year-on-year increases of ¥78.7 billion in revenues, to ¥2,316.0 billion; ¥11.5 billion in recurring profit, to ¥70.0 billion; and ¥1.9 billion in net income, to ¥35.0 billion. These forecasts, which assume an average exchange rate of ¥100 to the U.S. dollar and an average bunker oil price of US$640 per metric ton, may seem conservative. However, conditions do not inspire unreserved optimism. Although the freight rates for dry bulk carriers and tankers are up year on year, they are not dramatically higher. Furthermore, freight rates for containerships are in fact expected to soften slightly.

In addition, businesses with stable freight rates, on which we concentrated efforts under the previous plan, are unlikely to see

earnings growth for some time to come. Because the expiration of existing contracts for older projects will offset earnings contributions from newer investments, businesses with stable freight rates are unlikely to start growing earnings significantly above the current ¥110.0 billion level until fiscal 2018. Under these circumstances, a priority task is minimising the deficit from businesses with unstable freight rates and then moving them into the black.

Recurring Profit of Businesses with Stable Freight Rates



Q What is the Group's strategy and outlook for cost reductions?

In fiscal 2013, we achieved cost reductions of ¥25.7 billion. Initially, we targeted cost reductions of ¥30.0 billion, but because we had to accelerate the navigation speed of certain vessels, fuel costs rose, and we were unable to reach the target. Going forward, lowering fuel costs will remain central to cost reduction efforts.

Having reduced fuel costs 10% versus those of fiscal 2010 during the previous plan, we aim to reduce them 15% versus the same benchmark under the new plan. Annual fuel costs are approximately ¥300.0 billion and a 10% improvement represents a reduction of ¥30.0 billion. To reduce fuel costs by a further ¥15.0 billion per year, we plan to realise an improvement of 15%, or ¥45.0 billion, versus fiscal 2010's fuel costs.

In fiscal 2014, we plan cost reductions of ¥15.0 billion for the liner trade segment and ¥4.0 billion for the Bulk Shipping Business, giving a total of ¥19.0 billion. For the liner trade segment, as well as fuel cost reductions, we will reduce costs by advancing a light-asset business model for the fleet and promoting container cargo yield management. As for the Bulk Shipping Business, all cost reductions will come from lowering fuel costs.

Cost Reduction (Fiscal 2013)

(Billions of yen)

	YoY change	
Yen depreciation	24.4	FY2013: ¥99.75/US$, ¥17.42 depreciation
Cheaper bunker oil	8.4	FY2013: US$624.11/MT, US$49.16 cheaper
Shipping freight rate fluctuation	–23.8	
Cost reduction	25.7	Liner trade segment 21.2
Other	5.9	
Total	40.6	

FY2014 (plan) ¥19.0 billion
- Liner trade segment ¥15.0 billion
- Bulk Shipping Business ¥4.0 billion

Q What strategy will the Group follow for borrowings?

At present, fixed-rate debt accounts for 60% and variable-rate debt accounts for 40% of total borrowings. We plan to maintain a well-balanced debt mixture while monitoring interest rate trends closely. Regarding currency procurement, if terms are favourable, rather than yen-denominated transactions, we will increase the share of foreign currency denominated transactions. Our currency mixture is unbalanced, leaving us exposed to an inherent exchange rate risk. On a consolidated basis, 80% of the Group's revenues are denominated in foreign currency, while the corresponding proportion for expenses is only 70%. As for fundraising, which is a component of these expenses, 70% is yen-denominated and 30% is denominated in foreign currency. While carefully monitoring exchange rate trends, but without overstretching, we want to correct the resulting currency mismatch between revenues and fundraising.

Q When deciding on investments, what will be your primary considerations?

An important task is to make ourselves more familiar with the customers that the sales team deals with. Bearing this in mind, I have instructed our financial team to give as much importance to communicating with the sales team as they would to risk analysis or financial analysis. Nobody can predict how geopolitical risk or country risk will emerge. Nevertheless, we have adopted a general approach to investment decisions whereby our financial team and sales team gather as much information as possible, share it with each other, and discuss and decide together what level of risk is acceptable.

Apart from such day-to-day discussions, senior managers and personnel from sales, financial, and corporate planning teams discuss investments at meetings that analyse profitability and at committees tasked with deciding on investments and loans. We decide whether or not to proceed with investments based on consideration of the overall balance of investment plans and the outlooks for the current year, the coming year, and the next five years. I consider such processes make the governance of investment decisions rigorous.

Balance is also important with respect to investments and dividends. Therefore, I believe we should keep dividends stable as we make timely investments for the future.

Our Course

Business Management Strategy

With a focus on the new medium-term management plan ‘More Than Shipping 2018’, this section outlines the NYK Group’s past, present, and future growth strategy.

Since its foundation 129 years ago, the NYK Group has had a strong appetite for challenges and innovation. This mindset has become the NYK Group Values—*integrity*, *innovation*, and *intensity* (3I's)—which we have passed on to successive generations.

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

Passing on the values that make up the essential character of NYK, formed over the course of our 120-plus year history, as well as instilling the 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.

1885~

Pioneering shipping routes in formative period

Foundation

1885 Yubin Kisen Mitsubishi Kaisha and Kyodo Unyu Kaisha merge to establish Nippon Yusen Kaisha (NYK).

After Japan opened to the world, non-Japanese shipping companies monopolised domestic and international shipping routes. As the country hurried to develop a modern shipping industry, the NYK Group steadily established liner services to such destinations as Shanghai, Manila, and Vladivostok, embarking upon its development into an overseas shipping company.

Expansion of Long-Distance Liner Services

1893 Launches liner service on the Bombay (Mumbai) route.

1896 Establishes liner services to Europe, North America, and Australia.

Aiming to support the spinning industry, Japan's main industry at the time, we launched a series of international liner services. After beginning our first long-distance international service between Japan and Bombay (Mumbai), we went on to establish services to Europe, North America, and Australia and grew into a shipping company comparable with those of the West. By 1937, we had services on all major shipping routes.

Tosa Maru

1950~

Starting from zero, supporting Japan's economic growth

New Beginning

1952 Resumption of shipping services

When World War II began, we had 133 vessels. By the time it ended, we had only one vessel capable of long-distance voyages, *Hikawa Maru*. Recognising that shipping was essential to restore Japan's economy, we resumed services to a range of destinations, including to India, Europe, and Australia as well as services circumnavigating the world from east to west.

Becoming Larger and Diversifying

1959 Launches Group's first crude carrier, *Tanba Maru II*.

1960 Takes delivery of NYK Group's first specialised ore carrier, *Tobata Maru II*.

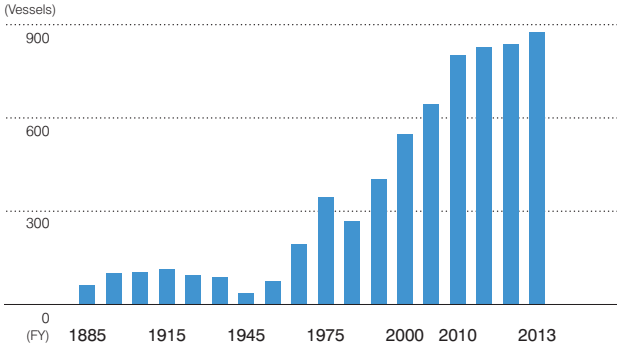
1964 Launches world's first wood-chip carrier, *Kure Maru*.

1968 Takes delivery of Japan's first fully containerised ship, *Hakone Maru II*.

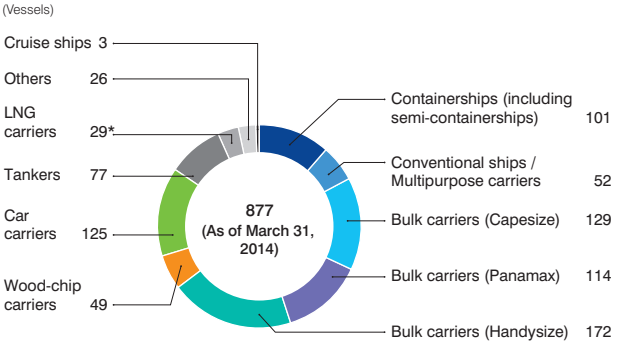
The 1950s saw Japan's economy grow rapidly. As a result, the country needed to cheaply import large volumes of fuel, industrial raw materials, and food. In response, we ordered the construction of numerous specialised vessels, such as tankers, ore carriers, and wood-chip carriers, and entered them into service.

Tobata Maru II

Operating Vessel Numbers



Number of Operating Vessels



* Including vessels owned through joint ventures, the Group owned 67 LNG carriers as of March 31, 2014.

1985~

Overcoming various trials

■ Beginning of the Comprehensive Global Logistics Business (ocean, land, air) in Earnest

1985 Celebrates centennial.

In our centennial year, 1985, rapid yen appreciation following the Plaza Accord eroded our cost-competitiveness dramatically. To restore international competitiveness, we restructured radically. Initiatives such as beginning to employ non-Japanese seafarers initiated our journey towards globalisation. In 1986, we announced our intention to become a comprehensive global logistics business based on shipping but also with a focus on the logistics area.

■ Leveraging of Diversity for Growth

2002 Initiates Global NYK Week (currently, The Global NYK/YLK Week).

2004 Establishes Monohakobi Technology Institute (MTI).

2007 Establishes NYK-TDG Maritime Academy (NTMA) in the Philippines.

As it developed the comprehensive global logistics business, the Group's global operations expanded and diversified rapidly. Employees diversified in a similar manner. In response, we cultivated a sense of group cohesion by sharing our philosophy and strategies with all employees. Furthermore, in 2007 we established a maritime academy in the Philippines to enable students to acquire practical skills.

The Global NYK/YLK Week

2010~

Transcending the boundaries of traditional shipping, realising further growth

■ From Price to Value-Added Competition

2011 Enters FPSO business in Brazil.

2012 Participates jointly in Wheatstone LNG project in Australia.
Acquires LNG interests.

Increasing commoditisation intensified price competition in the shipping industry. While reconfiguring our business portfolio, we began combining our traditional shipping business with value-added strategies.

Drillship

Shuttle tanker

FPSO

For explanations of highlighted words, please see page 35.

10-Year Summary against Backdrop of Management Plans

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries

Past ▶ Present ▶ Future

	New Horizon 2007				New Horizon 2010		
Fiscal years ended March 31	2005	2006	2007	2008	2009	2010	2011
Results of Operation:							
Revenues	¥1,606,098	¥1,929,302	¥2,164,279	¥2,584,626	¥2,429,972	¥1,697,342	¥1,929,169
Costs and expenses	1,283,769	1,594,598	1,840,784	2,128,849	2,054,595	1,520,932	1,622,045
Selling, general and administrative expenses	160,953	194,222	218,553	253,698	230,463	194,504	184,777
Operating income (loss)	161,375	140,481	104,941	202,079	144,914	(18,094)	122,346
Recurring profit (loss)	154,803	140,451	107,534	198,480	140,814	(30,445)	114,165
Net income (loss)	71,326	92,058	65,037	114,139	56,151	(17,447)	78,535
Capital expenditures	193,569	193,568	271,948	501,330	417,555	237,969	278,570
Depreciation and amortization	66,814	73,814	80,487	92,400	100,124	98,019	100,198
Financial Position at Year-end:							
Total assets	1,476,226	1,877,440	2,135,441	2,286,013	2,071,270	2,207,163	2,126,812
Interest-bearing debt	630,054	766,024	890,754	1,022,197	1,077,956	1,081,870	981,972
Shareholders' equity	427,770	575,366	657,088	637,962	544,121	661,232	684,627
Cash Flows:							
Operating activities	175,507	138,732	86,229	199,525	150,474	62,105	174,585
Investing activities	(135,066)	(170,511)	(178,043)	(292,510)	(170,253)	(43,706)	(162,781)
Financing activities	(41,374)	40,339	97,363	146,829	29,571	137,396	(100,161)
Per Share Data:							
Basic net income (loss)	¥ 58.12	¥ 75.04	¥ 52.99	¥ 92.93	¥ 45.73	¥ (12.71)	¥ 46.27
Equity	350.10	471.05	534.90	519.51	443.16	389.46	403.46
Cash dividends applicable to the year	18.00	18.00	18.00	24.00	15.00	4.00	11.00
Dividend payout ratio	30.8%	23.9%	34.0%	25.8%	32.8%	—	23.8%
Managing Indicators:							
Return on equity (ROE)	18.2%	18.4%	10.6%	17.6%	9.5%	(2.9)%	11.7%
Return on assets (ROA)	5.0%	5.5%	3.2%	5.2%	2.6%	(0.8)%	3.6%
Return on invested capital (ROIC)	10.4%	7.5%	4.7%	7.8%	5.9%	(0.4)%	4.6%
Debt-to-equity ratio (DER) (Times)	1.47	1.33	1.36	1.60	1.98	1.64	1.43
Shareholders' equity ratio	29.0%	30.6%	30.8%	27.9%	26.3%	30.0%	32.2%
Environment, Society, and Governance (ESG) Data:							
Number of employees (NYK and consolidated subsidiaries)	23,232	25,732	29,872	31,369	29,834	31,660	28,361
NYK fleet CO_2 emissions (Thousands of tons)	13,433	14,642	15,922	16,969	16,739	13,991	14,525
NYK fleet fuel consumption (Thousands of tons)	4,319	4,708	5,069	5,444	5,373	4,491	4,662

*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 U.S. dollar amounts represent the arithmetical results of translating yen to U.S. dollars using the exchange rate prevailing at March 31, 2014, which was ¥102.92 to US$1.00. 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, realised, or settled in dollars at that or any other rate of exchange.

Review of More Than Shipping 2013

Plan at a Glance

Key Strategies	• Combine traditional shipping business with value-added strategies
Global Logistics	• Leverage logistics capabilities: Effectively capture Asia's growing transportation business
Automobiles	• Utilise auto logistics capabilities: Actively respond to all automobile transport supply-chain needs in Asia
Natural Resources and Energy	• Employ technological capabilities: Secure highly advanced energy-transportation business • Leverage NYK's global network: Proactively expand overseas energy-resources-transportation business

Summary

- Captured business opportunities through energy transport
- Increased logistical presence in Asia
- Did not reach earnings targets due to slumping freight rates for containerships and bulk carriers, which faced significant supply-demand gap, and air cargo freight rates
- Saw increasing freight rate volatility due to advancing commoditisation in traditional shipping industry

Results of More Than Shipping 2013

Global Logistics

- Warehouse investment in Vietnam / Local offices set up in Cambodia and Myanmar / Larger NVOCC volume (about 600,000 TEUs per year achieved)

Automobiles

- Invested in auto logistics company in Russia / Acquired automobile terminal in Thailand / Established auto logistics local office in Indonesia / Acquired all shares of local auto logistics company in Kazakhstan

Natural Resources and Energy

- Drillship and FPSOs contributed to profits / KNOT recorded profit whilst gaining access to equity capital through its subsidiary's IPO on New York Stock Exchange / Participated in upstream LNG business in Australia and the U.S. / Welcomed first Filipinos to take on roles of captain and chief engineer on an LNG carrier
- Cultivated demand for Atlantic Ocean natural resource and energy transport and expanded business activities in this region / Began dry bulk business in Singapore / Built up long-term, stable profits

For explanations of highlighted terms, please see page 35.

More Than Shipping 2013

	2012	2013*1	2014 (Millions of yen)	2014 (Thousands of U.S. dollars*2)
	¥1,807,819	¥1,897,101	¥2,237,239	$21,737,656
	1,661,112	1,704,591	1,991,043	19,345,548
	170,831	175,075	201,200	1,954,918
	(24,124)	17,434	44,995	437,189
	(33,238)	17,736	58,424	567,664
	(72,820)	18,896	33,049	321,115
	309,288	303,806	248,230	2,411,876
	100,857	97,522	105,956	1,029,506
	2,122,234	2,430,138	2,551,236	24,788,543
	1,067,125	1,292,191	1,241,963	12,067,271
	579,342	650,490	720,270	6,998,355
	29,837	93,951	136,522	1,326,487
	(139,402)	(135,566)	6,409	62,275
	72,159	177,966	(95,485)	(927,760)
			Yen	U.S. dollars
	¥ (42.92)	¥ 11.14	¥ 19.48	$0.19
	341.54	383.50	424.67	4.13
	4.00	4.00	5.00	0.05
	—	35.9%	25.7%	
	(11.5)%	3.1%	4.8%	
	(3.4)%	0.8%	1.3%	
	(0.6)%	1.1%	2.3%	
	1.84	1.99	1.72	
	27.3%	26.8%	28.2%	
	28,498	28,865	32,342	
	14,749	14,695	15,022	
	4,734	4,716	4,821	

More Than Shipping 2018 (five-year plan)

Earnings and Financial Targets

- Focus on LNG and offshore business
- Reconfigure business portfolio, review asset-intensive business model, and strengthen fundraising capabilities
- Control financial leverage

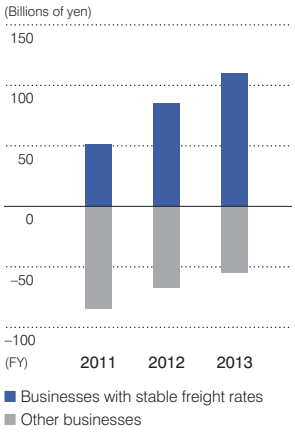
	FY2014 (forecast)	FY2018 (plan)
Revenues	¥2.316 trillion	¥2.500 trillion
Operating income	¥70.0 billion	¥120.0 billion
Recurring profit	¥70.0 billion	¥160.0 billion
Net income	¥35.0 billion	¥120.0 billion
Interest-bearing debt	¥1.11 trillion	¥1.00 trillion
DER (Shareholders' equity)	1.5 times (¥740.0 billion)	1.0 times (¥1.0 trillion)
ROE	5%	12%
Cash flow: Operating activities	¥120.0 billion	¥220.0 billion
Cash flow: Investing activities	–¥120.0 billion	–¥130.0 billion
Assumptions:		
Average exchange rate	¥100/US$	¥100/US$
Average bunker oil price	US$640/MT	US$640/MT

Results of Operation

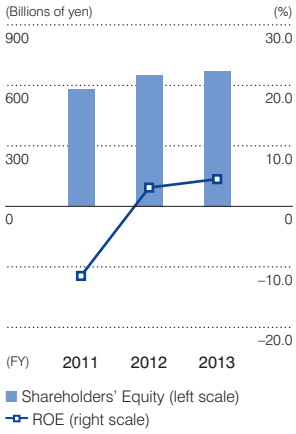
(Billions of yen)

	FY2011 (results)	FY2013 (results)	FY2013 (plan)	(vs.target)
Revenues	1,807.8	2,237.2	2,130.0	107.2
Operating income (loss)	(24.1)	44.9	85.0	–40.1
Recurring profit (loss)	(33.2)	58.4	75.0	–16.6
Net income (loss)	(72.8)	33.0	65.0	–32.0
ROE	(11.5)%	4.8%	10.0%	
Average exchange rate	¥79/US$	¥100/US$	¥80/US$	–¥20/US$
Bunker oil price	US$666/MT	US$624/MT	US$780/MT	–US$156/MT

Breakdown of Recurring Profit (Loss)



Management Indicators



External Evaluations

NYK is advancing sustainability through environmental conservation and compliance initiatives. Reflecting favourable evaluations of these initiatives, major indices have included NYK. Moreover, these indices have included us continuously for long periods. The Dow Jones Sustainability Indices has included the NYK Group for 11 consecutive years, while we have ranked in the FTSE4Good Index for 12 straight years. Also, in 2014 we became the first shipping company to be designated a Nadeshiko Brand. As for technological innovations, our in-house-developed energy-saving technology for vessels—an air-lubrication system—has won four awards, including a commendation at the Eco Products Awards 2013.

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

ROBECOSAM Sustainability Award Bronze Class 2014

MS-SRI

NADESHIKO BRAND 2014

eco products awards 2013

10th Eco-Products Awards;
eco-services category; Minister of Land, Infrastructure and Transportation Award

CDP CLIMATE DISCLOSURE LEADER 2013

Lloyd's List Awards Global 2013 FINALIST

Seatrade AWARDS 2013 Finalist of the Clean Shipping Award

Market Position

Global Logistics

Containerships 97

The NYK Group will cater to burgeoning transport demand by capitalising on one of the world's largest shipping-route networks and rigorously customised services with global reach.

Container Terminals 23

Our terminals in regions across the world provide cargo-handling services for containerships, car carriers, and cruise ships.

Air freighters 12 (aircraft in operation as of March 31, 2014)

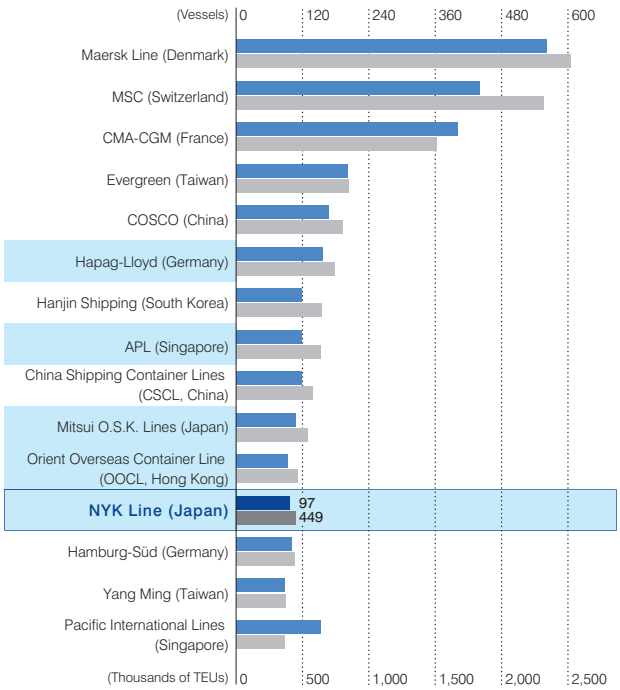
By leveraging flexibility and cost-competitiveness as an air cargo specialist, Group company Nippon Cargo Airlines will strengthen its business foundations in Asia's market for air cargo imports and exports.

Warehouses 256 worldwide

Logistics bases 477 worldwide

Networks linking our logistics bases around the world enable us to offer a diverse menu of logistics services, encompassing ocean, land, and air transportation.

Top 15 Full Containership Operators by Fleet Size



■ Vessels ■ TEU ■ G6 Alliance*

Source: Compiled by the NYK Research Group, based on the January 2014 edition of *MDS Transmodel*

* Hyundai Merchant Maritime Co., Ltd., of South Korea, is also a member of the G6 Alliance.

Dry Bulk Transport

Dry Bulk Carriers **245**

To cater to specific cargoes, we are incorporating new transport technology and developing our fleet. Also, we are developing operations overseas aggressively—concluding long-term transport contracts with steelmakers and power utilities in Japan, China, other countries in Asia, and Europe.

Energy Transport

Tankers **56**, including **28** very large crude-oil carriers (VLCCs)

(As of January 1, 2014)

LNG carriers **67**

World's **No. 2** in LNG shipping capacity

The LNG transport business provides services to major international petroleum, petrochemical, and energy companies based on long-term transport contracts. In addition, we continue to ensure rigorously safe and environment-friendly vessel operations.

Car Transport

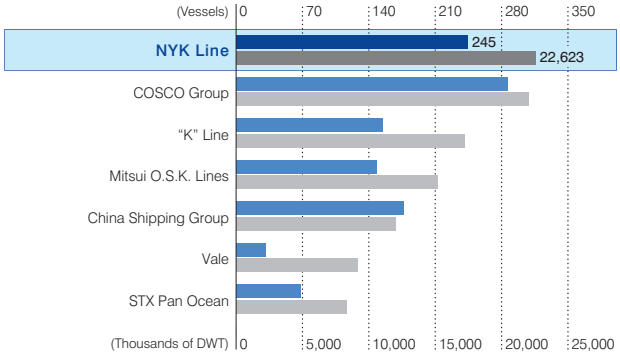
Car carriers **113**

World's **No. 1** in car carrier shipping capacity

We not only transport automobiles from Japan overseas but also cater to demand for transport between countries outside Japan resulting from automotive manufacturers' overseas production. We aim to develop an even stronger overall logistics system for finished vehicles that incorporates value-added services. To this end, we are establishing coastal transport networks, constructing and operating dedicated terminals for finished vehicles, developing inland transport networks, and offering pre-delivery inspection and other services at dedicated terminals.

Dry Bulk Carrier Fleet Ranking

(As of January 1, 2014)



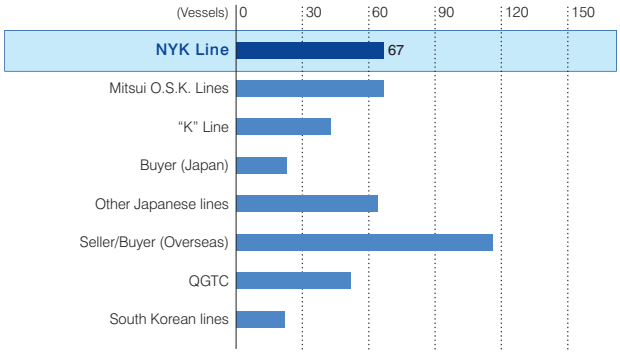
■ Vessels ■ Kt (DWT)

Source: Compiled by NYK Line, based on Clarkson database

Note: Due to differences in the definitions of ownership and management, the figures from this research institution may not match the numbers of operating vessels released by the operators.

Comparison of LNG Fleets

(Volume delivered by March 31, 2014)

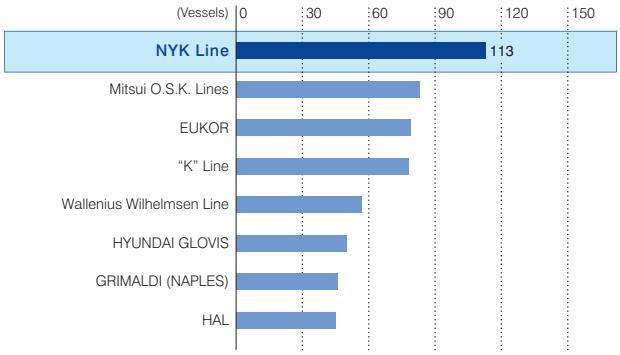


Source: Research by NYK Line

Note: LNG tankers are frequently jointly owned by multiple companies. A jointly owned tanker is counted as a single tanker no matter how small the share percentage.

Global Car Transport Fleet Ranking

(As of January 1, 2014)



Source: Hesnes Shipping AS, *The Car Carrier Market 2013*

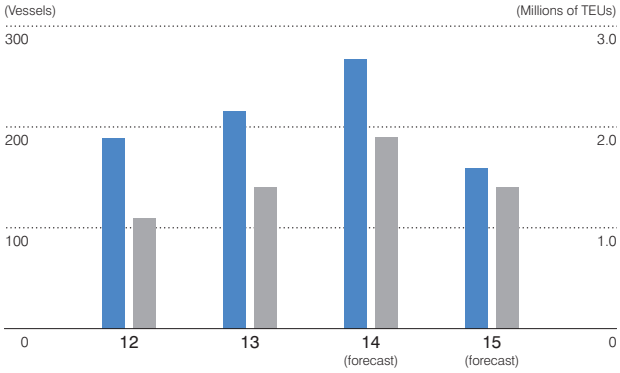
Note: Only car carriers with a capacity of 2,000 cars or more have been included.

Number of Vessels on Order Worldwide

Containerships

- The number of vessels on order reached 504 vessels, or 3.85 million TEUs, as of August 31, 2013, and is predicted to peak in 2014.
- Newbuilt tonnage for ultra-large containerships of 10,000 TEUs or more was originally expected to peak in 2013. However, due to postponed deliveries and a large volume of new orders in 2013, the peak is likely to be in 2014 and 2015.

Worldwide Outlook for Containership Newbuilt Tonnage

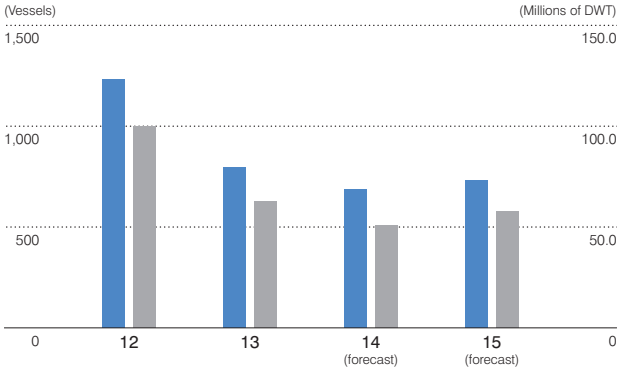


Source: Calculated through the NYK Research Group of MDS, IHS-Fairplay, and other. Figures are as of respective year-ends.

Bulk carriers

- As of April 30, 2014, 162 million DWTs were on order, of which capesize bulk carriers account for 35%.
- Although newbuilt tonnage delivery has peaked, orders are rising due to a decrease in the price of vessels in 2013.

Worldwide Outlook for Bulk Carrier Newbuilt Tonnage



Source: Prepared by the NYK Group based on Clarkson *World Shipyard Monitor*

LNG Demand

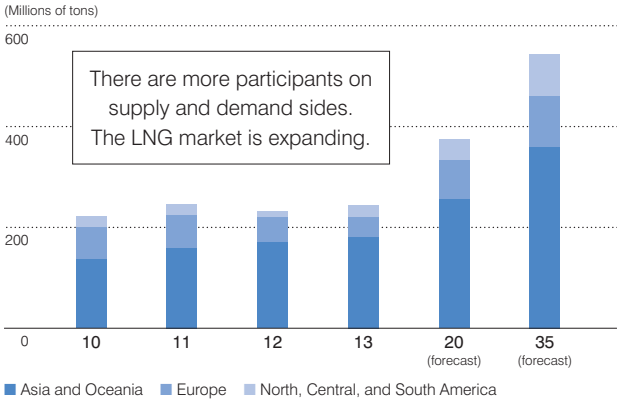
Demand

- LNG transport is rising in step with growing demand for gas in Asia.
- Indonesia and Malaysia have changed from LNG exporters to importers.

Supply

- Existing exporting countries: Australia is on the way to surpassing Qatar as the world's largest LNG exporter. Russia is also advancing LNG development.
- New exporting countries: The United States and Mozambique are rapidly emerging LNG exporters.

Worldwide LNG Demand Outlook

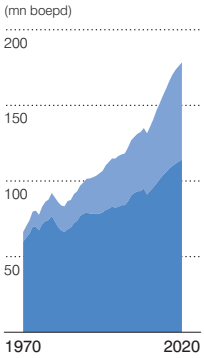


Source: IHS-CERA report

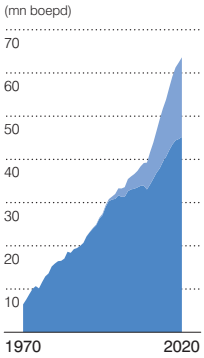
Offshore Business Worldwide

- Development is accelerating because crude oil price hikes have increased the profitability of deep-water oil and gas production, which had had prohibitively high production costs.
- Development is progressing off Brazil, in the North Sea, off West Africa, and in other regions.

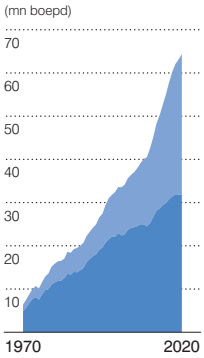
Worldwide Crude Oil and Gas Production Volume



Offshore Production Volume by Depth



Offshore Production Volume by Type

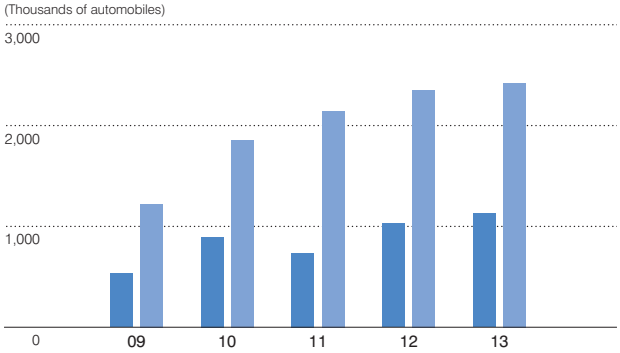


Source: 'Global Offshore Prospects', March 2013, www.douglas-westwood.com

Local Production for Local Consumption (example: automobiles)

- Due to increasing local production for local consumption and near-sourcing, logistics volumes are rising within regions and economic zones.
- In Thailand, although domestic demand is lacklustre due to political instability, exports as a percentage of production are picking up.
- Thailand mainly exports to ASEAN countries, the Middle East, and Australia.
- Mexico exports mostly to the United States, which accounts for 68.0% of Mexico's exports.
- Exports within the Americas, including Latin America, account for 88.7% of Mexico's exports.

Exports



Sources: (Thailand) The Thai Automotive Institute, FOURIN, (Mexico) AMIA

Environmental Regulations

- Environmental regulations for the shipping industry are likely to become stricter.

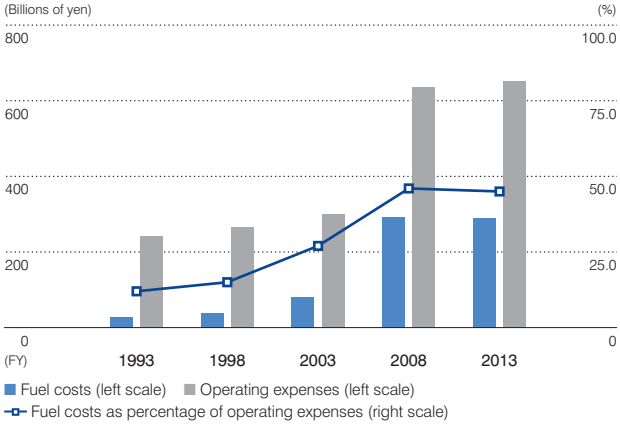
	Period	Details
International Convention for the Control and Management of Ships' Ballast Water and Sediments	2015 (expected)	The fitting of ballast water management system will become mandatory.
Hong Kong Convention (Ship Recycling Convention)	The ratification period is undecided.	This is a convention on safe, environmentally appropriate vessel scrapping, which the IMO* 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	2015	Sulphur content of vessel fuel used in emission control areas must not exceed 0.1%.

* International Maritime Organization

Fuel Costs

- Increasing from US$200 per ton in 2009 to US$734 per ton in 2012, bunker oil prices continued to rise and reached pre-global-recession levels.
- Since then, bunker oil prices have fluctuated between US$600 and US$700 per ton.
- Shipping companies are implementing slow-steaming operations, building energy-saving containerships, and fitting vessels with special equipment.

Fuel Costs as Percentage of Operating Expenses (NYK only)



Fiscal 2014 – Fiscal 2018 New Medium-Term Management Plan

Leveraging 'Creative Solutions' for Stage 2 of initiatives to combine our traditional shipping business with value-added strategies

More Than Shipping 2013 > More Than Shipping 2018

Basic Strategies

More Than Shipping 2013

- Secure Businesses with Stable Freight Rates
- Move towards Asset-Light Business Model
- Differentiate through Technological Capabilities
- Expand beyond Traditional Shipping

More Than Shipping 2018

(Key strategies following on from More Than Shipping 2013)

■ Ongoing strategy
■ New strategy

- Move towards Asset-Light Business Model
- Enforce Financial Discipline and Reconfigure Business Portfolio
- Focus on LNG and Offshore Business
- Secure Businesses with Stable Freight Rates
- Expand beyond Traditional Shipping

Support through 'Creative Solutions' Focus 1

- Differentiate through Technological Capabilities
- Strengthen 'Big Data' Analytics

Focus 1 Promote NYK Group's 'Creative Solutions'

In a broad sense, 'Creative Solutions' cover not only marine technologies, engineering, logistics technology, and information technology but also the elimination of the Group's 3M and the development of *kaizen* (improvement) and other aspects underpinned by originality and ingenuity in all business pursuits, from front-line operations to head office management.

More Than Shipping 2013

- Enter shuttle tanker business
- Apply DPS and bow-loading system

More Than Shipping 2018

- Enter drillship business and operating FPSO
- Expand shuttle tanker business
- Train and promote Filipino seafarers to roles of captain and chief engineer for an LNG carrier
- Acquire LNG-fuelled vessels
- Enhance navigation information technology
- Send key members to EPC front line
- Improve fuel efficiency by 10% (over FY2010 level)

More Than Shipping 2018

- Participate in EPC project management
- Further expand FPSO projects
- Enter FSRU and FLNG businesses
- Explore offshore business opportunities in Japan's EEZ
- Make practical use of 'Big Data'
- Improve fuel efficiency by 15% (over FY2010 level)

For explanations of underlined or highlighted terms, please see page 35.

Management Strategies over Next Five Years

1 Asset Strategy Focus 2

Reconfigure business portfolio
- Focus on LNG and offshore business
- Reinforce asset-light strategy for containerships and dry bulk carriers

Maximise asset efficiency

2 Differentiation Strategy Focus 3

Achieve differentiation through technological capabilities in such segments as LNG and offshore business

Further eliminate 3M (*muda*, *mura*, and *muri*) at front-line operations (*genba*)
- Page 53 for fuel-saving efforts, yield management, and other initiatives

3 Debt and Equity Strategy Focus 4

Review asset-intensive business model

Control financial leverage
- DER target of 1.0 times
- BBB or higher rating

4 Dividend Policy

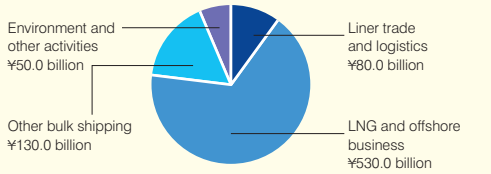
Balance growth opportunities and stable dividends
- Payout ratio of more than 25%

5 Thorough Compliance

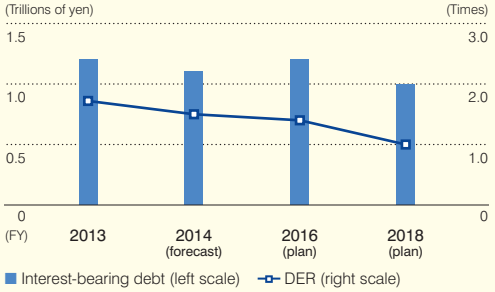
Ensure legal compliance (antitrust law, etc.)

Establish global compliance structure

Focus 2 FY2014–FY2018 Total Investment: ¥790.0 billion



Focus 4 Financial Position



Focus 3 Differentiation through 'Creative Solutions'

We will leverage technological capabilities and professional skills that we have cultivated and accumulated through front-line operations and which enable efficient transport and vessel operations.

Collect engine and navigation data under real weather and ocean conditions, which cannot be determined under test conditions (Use vital basic data to design best shape and optimise running of ships)

'Big Data'
- Engine and navigation data in actual conditions
- Communications technology used in ship-to-onshore operations

- Ensures economical operation → Fuel savings
- Reduces and prevents engine breakdowns → Reduces lost time, lowers repair costs
- Provides ideas for competitive ship designs utilising harbour, cargo, and navigation data
- Optimises fleet assignment by predicting ship performance in actual sea conditions

New business opportunities

Please open to find out more about business strategies.

Tanker Division

LNG Transport

▸▸P.72

Business Environment

- Growing demand for LNG, particularly in Japan and emerging nations
- Removal of the export ban on shale gas in North America
- Shortage of highly skilled seafarers for LNG carriers

Fleet Size

When 'More Than Shipping 2018' prepared: 67 vessels

Fiscal 2018: At least 100 vessels

Concrete Measures

- Expand fleet size to 100 vessels
- Train and develop highly skilled seafarers at in-house maritime academy in the Philippines and other institutes
- Provide higher-quality navigation, ship-management, and construction supervision capabilities
- Develop new business related to LNG fuel
- Pursue LNG exploration and production opportunities in midstream / upstream LNG business supported by credibility and proven track record in safe transportation
- Strive to be more involved in all stages of the LNG value chain and seek synergies with LNG transport business

Offshore Business

▸▸P.62

Business Environment

- Offshore business development accelerating, due to persistently high price of oil and LNG
- Greater need for FSRU and FLNG; growing demand for energy in emerging countries and progressive development of small and medium-sized gas fields

Fleet Size (Shuttle tanker)

When 'More Than Shipping 2018' prepared: 27 vessels

Fiscal 2018: 34 vessels

Concrete Measures

- Expand shuttle tanker business by establishing access to equity market through listing of a subsidiary of KNOT (MLP)
- Strive to be 'solutions provider' by capitalising on dynamic-positioning technology (in DPS-equipped FSO and other offshore operations)
- Expand long-term stable revenues through FPSO, FSRU, and FLNG
- Send key members to EPC front line, accumulate technologies, experience and know-how, and pave the way for further growth
- Prepare for offshore business opportunities in Japan's EEZ

Car Carrier Division

▸▸P.74

Business Environment

- Gradual reduction in export of automobiles from Japan; shift of production to other areas
- Trade patterns becoming more complex (such as more exports from Thailand and Mexico)
- Increasing demand for intra-regional and domestic automobile transport within consumer markets: China, India, Indonesia, Russia, Brazil, and Central Asia

Fleet Size

When 'More Than Shipping 2018' prepared: 119 vessels

Fiscal 2018: 125 vessels

Concrete Measures

- Car Carriers:
  - Maintain position as No.1 carrier
  - Deploy vessels with greater fuel efficiency and deck arrangement, accepting more high and heavy cargoes
  - Reinforce marketing reach to construction machinery cargoes
- Auto Logistics:
  - Establish more business bases, especially in newly emerging countries, and enhance service network
  - Consider strategic M&A opportunities
  - Provide clients with solutions built on such technologies as RFID
- Goal:
  - Become a distinguished car-carrier player with global auto-logistics capability

Dry Bulk Carrier Division

▸▸P.70

Business Environment

- Anticipate gradual increase in cargo movements
- Speculative orders remain high
- Reconfirm high market volatility

Fleet Size (Capesize)

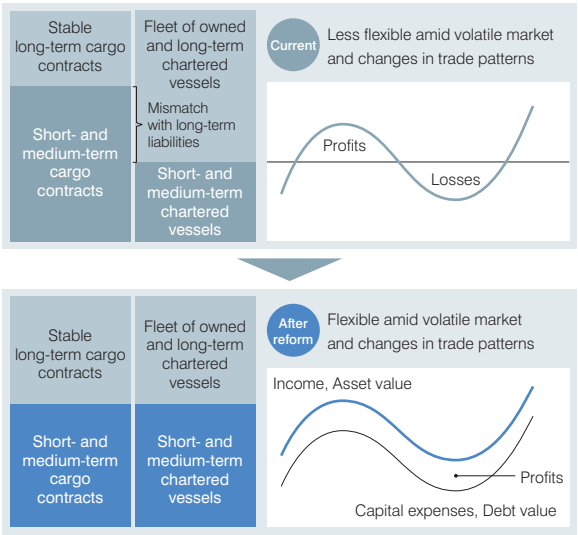
When 'More Than Shipping 2018' prepared: 126 vessels

Fiscal 2018: 100 vessels

Concrete Measures

- Rebalance cargo and charter contracts in cash flow and duration
- Strengthen tolerance to fluctuating market conditions

Towards a Business Model Less Susceptible to Market Fluctuation



Global Logistics Business

Liner Trade

▸▸P.64

Fleet Size and Handling Volume

When 'More Than Shipping 2018' prepared:

99 vessels | 3.68 million TEUs

Fiscal 2018: 85 vessels | 4.25 million TEUs

Business Environment

- Supply-and-demand situation remains challenging; massive order book for ultra-large containerships
- Alliances subject to realignment and possible structural change

Concrete Measures

- Pursue '3C5M' as optimal business portfolio for container transport
- Seek opportunities in low-volatility container terminal business

Logistics

▸▸P.68

Business Environment

- Client needs becoming more complex; sophisticated supply-chain management required
- Demand for outsourcing and one-stop services expanding
- More business opportunities in Asia and emerging nations

Concrete Measures

- Target ocean freight forwarding volume: 1 million TEU
- Target air freight forwarding volume: 400,000 tons
- Focus on growth industries and emerging markets
- Promote global business process management
- Seek strategic investment opportunities
- Emphasise investment in human resources
- Expand business opportunities by leveraging Group's network

Air Cargo Transportation

▸▸P.69

Business Environment

- Air cargo market now on a recovery path should maintain gradual growth
- Supply and demand situation remains tough; inflow of passenger aircraft to the market
- Excess capacity in NCA's current fleet

Concrete Measures

- Optimise fleet capacity with fuel-efficient equipment
- Stabilise earnings:
  - Diversify business model that currently focuses on regular service; expand charter business, such as airline charters
  - Enhance service menu through such efforts as alliances
  - Pursue further cost-cutting

Glossary

Terms appearing in the Our Course section (pages 24 to 38)

Yield management	A management method based on improving profitability by selling products at the optimal time and price in light of demand forecasts
Businesses with stable freight rates	The Terminal Division and the logistics segment in the Global Logistics Business; long-term chartered vessels, including LNG carriers and the offshore business, and the car transportation business in the Bulk Shipping Business; and the real estate business
Shuttle tanker	A shuttle tanker, often called a 'floating pipeline', loads crude oil from floating production, storage, and offloading (FPSO) units in deepwater fields and then transports the oil to crude oil storage units or petroleum storage stations on land.
Bow-loading system	A system for loading at the bow of a shuttle tanker—rather than the typical approach alongside the ship—to facilitate safer loading in harsh sea conditions. Another noteworthy feature of this system is that cargo hoses can be connected or disconnected from offloading units more easily than with typical tanker-loading systems, thereby allowing quick release from the shuttle tanker in the event of an emergency.
3M	*Muda*: Non-value-adding activities *Mura*: Unevenness in production or work activities *Muri*: Excessive burdens
DPS	**D**ynamic **P**ositioning **S**ystem
EPC	**E**ngineering, **P**rocurement, and **C**onstruction Under an EPC contract, the contractor designs the vessel, procures the necessary materials, and builds the unit.
FLNG	**F**loating **L**iquefied **N**atural **G**as An FLNG unit is an at-sea facility for LNG liquefaction and regasification.
FPSO	**F**loating **P**roduction, **S**torage, and **O**ffloading unit An FPSO unit is a ship-shaped offshore installation that produces crude oil by separating solids, water, and gases from liquid drawn from reservoirs beneath the seabed and storing it until it is offloaded into shuttle tankers or export tankers.
FSO	**F**loating **S**torage and **O**ffloading system An FSO system is a vessel designed to receive crude oil produced from nearby subsea wells and to store the oil until it can be offloaded onto a shuttle tanker and transported ashore.
FSRU	**F**loating **S**torage and **R**egasification **U**nit An FSRU is a floating facility for the storage and regasification of LNG.
KNOT	**K**nutsen **N**YK **O**ffshore **T**ankers AS An NYK Group company: the world's second-largest owner and operator of crude-oil shuttle tankers
MLP	**M**aster **L**imited **P**artnership An entity in 'Partnership' form that has chosen to be taxed as a partnership and that trades on a public exchange (NYSE, etc.) or over the counter market
RFID	**R**adio **F**requency **Id**entification Technology that uses electromagnetic waves to read and write to RFID tags without contacting them

Terms appearing in other sections

Contract logistics	A business that concludes contracts with customers directly for the provision of comprehensive logistics services, including warehousing, logistics processing and distribution management
Main engine scavenging air bypass (Air-lubrication system)	This air-lubrication system enables even vessels with deep drafts to reduce CO_2 emissions. The system reduces CO_2 emissions by taking some of the main engine scavenging air, also called combustion air, from the main engine's turbocharger and sending the air to the vessel's bottom to reduce friction between the hull and seawater.
Tank tops	Floor surfaces of cargo holds
Hub-and-spoke operations	This is a system in which cargo is concentrated in a central port, or hub, for transport to final destinations, or spokes. This system is more efficient than direct transport between producing countries and final destinations.
Ballast voyages	When vessels sail without cargo
Ballast water	This is seawater carried by vessels to maintain their balance. Normally, tanks at the bottom of vessels take on ballast water at unloading ports and release it at loading ports.
Forwarder	A business that provides door-to-door international logistics services and undertakes processing required for transport by sea, air, and land as well as import and export customs clearance
Module carriers	These are specially designed vessels that transport prefabricated structures, known as modularized cargo, for installation at plants on natural resource development sites.
Chartered vessels	Vessels chartered (leased) from other companies
ISO 9001	International standards for quality management systems, which organisations can use to ensure that their quality assurance for products and services caters to the needs of customers and markets.
NOx (Nitrogen oxide)	Toxic substance that has been identified as a key element of photochemical smog, which pollutes the air and causes acid rain
RORO	**R**oll-**o**n, **R**oll-**o**ff vessel This is a vessel similar to a ferry that has a ramp way and a vehicle deck that enables vehicles to move on and off under their own power, allowing direct loading without the use of cranes.
SOx (Sulphur oxide)	Toxic substance that has been identified as one of the causes of air pollution and acid rain

Outside Directors Identify the NYK Group's Achievements and Tasks

'I think implementing the More Than Shipping strategy—in other words, diversifying operations around mainstay businesses—enabled the Group to flexibly respond to fluctuations in the market and, as such, was absolutely the right decision'.

Yukio Okamoto

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

We asked outside directors for their frank opinions of the NYK Group's achievements under the previous medium-term management plan and tasks in relation to business activities and governance.

(Interviewer: Hitoshi Oshika, Director, Corporate Officer)

Q What is your assessment of the NYK Group's efforts to emphasise traditional shipping with value-added business initiatives based on the More Than Shipping strategy?

Okamoto: Looking back, the previous medium-term management plan covered a period when economies worldwide had yet to completely recover from the global recession. Against this backdrop, ocean transport freight rates were sluggish on the whole, and the NYK Group recorded business results that were less than favourable. Nevertheless, the Group deserves praise for efforts to differentiate itself by pursuing the More Than Shipping strategy. If the Group had not pursued this strategy, business results would probably have slumped further. I think implementing the More Than Shipping strategy—in other words, diversifying operations around mainstay businesses—enabled the Group to flexibly respond to fluctuations in the market and, as such, was absolutely the right decision.

Over the past 20 years, emerging countries' gross domestic product (GDP) has jumped from 20% to 38% of the world's GDP. Recently, however, the world's population has been rising by 1 billion roughly every 10 years. Consequently, we are in an era when huge amounts of resources and food are needed. Such circumstances have caused wealth flows to gravitate towards upstream areas that are near to resources. Given such changes in the world's demand structure, I think the decision by the Group to strengthen its presence near upstream areas has been the correct one.

Okina: The NYK Group has assessed demand on a global basis and deployed its management resources in diverse areas. In the logistics and energy areas, the Group has achieved major successes. On the other hand, in some cases the Group has not been able to post strong business results due to unstable freight rates or slumping cargo movements. Therefore, the highly volatile nature of business results remains a problem.

Although I do not think most people associate shipping with innovation or technology, the NYK Group has established high-quality operations, implemented numerous innovations, and acquired outstanding technological capabilities and professional skills. The newly prepared medium-term management plan highlights the Group's technological capabilities and professional skills, and I think this emphasis will reinforce the Group's appeal and value. An emphasis on technological capabilities and professional skills will not only have a positive effect outside the Group but also promises to further inculcate a mindset among personnel that focuses on opening up new areas through innovation.

The new plan's inclusion of ROE targets alongside earnings targets is also commendable. Generally speaking, the ROE of Japanese companies is low, and NYK and Group companies are no exception to this tendency. Using capital effectively while building earning power is very important. For this reason, the Group aims to capture business opportunities worldwide and to concentrate more on profit margins. If the Group reduces costs further, heightens its awareness of profit, and implements the measures set out in the new plan, I think it will produce favourable results.

Q What advice would you give concerning risks the Group should envisage and the countermeasures it should take in response?

Okina: In the energy area, the Group needs to analyse partner risk, country risk, and operational risk that stems from extraction or production delays. Further, because each vessel entails a significant investment, an assessment of the risk associated with investment targets that encompasses a wide range of scenarios is necessary. The ordering of a vessel through to its completion

‘The new plan’s inclusion of ROE targets alongside earnings targets is also commendable. Generally speaking, the ROE of Japanese companies is low, and NYK and Group companies are no exception to this tendency. Using capital effectively while building earning power is very important’.

Yuri Okina

Outside director of NYK (part-time, independent director)
Vice Chairman of the Japan Research Institute Ltd.
Outside director of Seven Bank, Ltd.
Outside director of Bridgestone Corporation

and its scrapping covers a long period. Therefore, it is essential to thoroughly analyse long-term trends in energy prices. Also, from the viewpoint of risk distribution, I think the Group should continue its strategy of diversifying its business portfolio.

Okamoto: I think it is extremely difficult to deal with risks comprehensively because they constantly evolve and emerge. What is important is to create foundations that enable the Group to respond proactively to change. To this end, the Group must analyse when it makes mistakes by looking back at erroneous management decisions, including past examples of mistaken risk management or investment decisions as well as past examples of mistaken fleet adjustments based on misjudgements of demand. Then, the Group needs to keep in mind the lessons it has learned as a kind of intellectual manual. As changes arise, the Group should remain unperturbed and mobilise all of this accumulated experience and knowledge. Particularly with respect to young personnel, I want to expose as many of them as possible to a variety of facets, facts, and approaches and help broaden their way of thinking.

Q The NYK Group’s growth strategy has moved into its second stage. As outside directors, what role do you see yourselves playing at this point?

Okamoto: My role as an outside director is to identify trends in international affairs and inform the Group about movements in each region. By way of examples, let me mention Africa and China.

Africa used to have a negative image as an unstable region constantly beset by internal strife. Now, however, it is being talked of as a region of economic development. When I attended a meeting in Europe two years ago, Africa was as much a topic of interest for attendees as the currency crisis was. Europeans see their relationship with the African continent as holding the key to Europe’s future.

Regarding China, in addition to economic considerations, we should monitor national security developments. From the point of view of security, China is focusing on developing and securing shipping routes in the Arctic Ocean. As part of these efforts, it has established bases in Greenland and Iceland.

As these examples show, there are developments in places all over the world that might strike a shipping company as ‘extraordinary’. Going forward, I would like to communicate such developments as much as possible.

Okina: As an economist, what I can say is that, as was evident from the global recession and Europe’s financial instability, we have arrived at a situation where financial conditions affect the real economy. The United States has begun reducing quantitative monetary easing, and the effects of this decision are beginning to appear in emerging countries. My role is not only to tell the Group about trends in the financial sector but also to inform it about the effects they will have on the real economy.

Many emerging countries are continuing to report economic growth. However, changes in the financial conditions and policies of developed countries are affecting the economies of emerging countries. For example, in some cases monetary policies implemented in the United States have forced emerging countries to make changes to their monetary policies, thereby disrupting the growth of their economies.

If such disruptions affect imports or exports, they will affect shipping and logistics. Furthermore, freight rates are particularly susceptible to the effect of such economic and financial policies. In addition, financial institutions, which play an important role in fundraising for investments in vessels, are seeing regulations become more stringent in various areas. As a group engaged in a volatile business, the NYK Group must monitor such trends carefully.

Q In Japan and overseas, the trend towards stronger governance, including disclosure, is gathering momentum. What are your views on this?

Okamoto: In corporate governance, the awareness of individual employees is important. What everyone, including myself, must take heed of is that, because the world is in the midst of dramatic change, the requirements for good governance will themselves evolve.

To take the theme of diversity as an example, around the world there is a growing emphasis on treating people with respect regardless of their gender, age, or physical characteristics.

Another point for consideration, which I have mentioned before, is that we live in times when, even if something does not give rise to legal problems, it can cause problems in the context of social justice and ethics. Particularly in the West, pension funds, religious organisations, and education-related investment funds demand companies realise governance that satisfies social and moral imperatives. For example, rather than asking whether a company is adhering to the minimum wage for employees in accordance with developed countries' laws, such funds ask whether employees can live on their wages with sufficient human dignity. Thus, it is not enough for companies to simply comply with laws and regulations. They need to understand that there are expectations of them to contribute to society's development.

Okina: The NYK Group is a company with auditors. I do not think that by definition a company with committees always has better governance. However—to the same extent that it would if it had a compensation committee, a nominating committee, and an audit committee—the Group needs to step up efforts to provide transparent explanations to shareholders and other investors about its systems and policies for compliance and compensation. For example, rather than just disclosing the amounts of directors' compensation, the Group should consider disclosing how compensation is determined or which benchmarks it reflects.

On the other hand, the Group deserves credit for establishing a clear commitment to explaining through integrated reports how its business activities will translate into long-term corporate value. As the preparation of integrated reports gradually becomes a worldwide trend, the Group's early decision to issue such a report was excellent. Further, the report maintained throughout a consistent focus on enhancing long-term corporate value and had a very rich array of content.

Q What are the main requirements for the Group's growth going forward?

Okamoto: As the world goes through upheavals, to transcend its own barriers, the Group must take the plunge without fear of risk. The Group needs personnel who can set aside existing concepts and think outside the box, who do not mind taking risks, and who produce results. The Group's president, Yasumi Kudo, is precisely this type of individual. I believe that the extent to which a company has proactive employees who are unfazed by change decides its fate.

Okina: Employees' motivation affects a company's growth. I am not greatly concerned about the NYK Group in this regard because its employees are very loyal and highly motivated. My visit to the deep sea scientific drilling vessel *Chikyu* gave me a sense not only of the Group's technological capabilities and the professional skills of the captain and crew but also of their high aspirations and strong pride.

The designation of NYK as a Nadeshiko Brand company that encourages women's empowerment testifies to the considerable progress the Group has made in advancing diversity. In the Group, many women serve as managers or work overseas. I look forward to seeing female employees contributing in an even wider range of areas. To achieve this, I would like to see the Group further its understanding of the need to balance professional and family commitments and develop employee-friendly workplaces accordingly. Such efforts are sure to motivate employees to work even more effectively.

Unique NYK

Tireless Commitment and Evolution

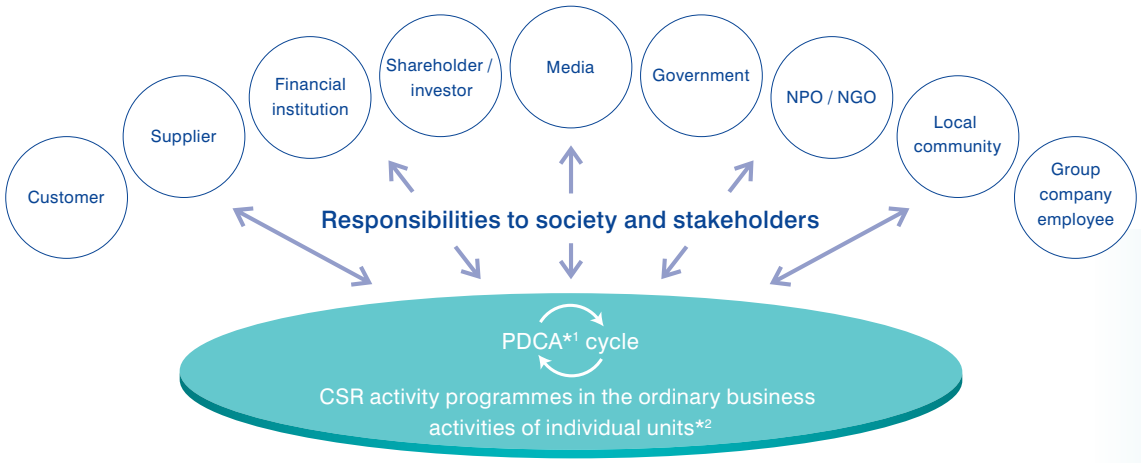
In this section, we provide insights into the unique initiatives that support our business management strategy and drive long-term growth.

Materiality* Initiatives That Sustain Growth

* Materiality refers to the need for organisations to focus on CSR topics that are material to their business and their key stakeholders.

In efforts to meet its social responsibilities through day-to-day operations, the NYK Group has identified risks and opportunities from the perspectives of business management and stakeholders, and the Group has consolidated those risks and opportunities into three priority topics that significantly affect corporate value.

The NYK Group's Stakeholders



To continue growing soundly while fulfilling its social responsibilities, the Group has established a balance between 'defensive' and 'offensive' CSR activities. 'Defensive' CSR refers to basic requirements, such as compliance and risk management, while 'offensive' CSR means realising the Group's strengths fully through mainstay operations that service the logistics needs of customers in value chains.

*1. **P**lan, **D**o, **C**heck, **A**ct
*2. Each business unit establishes programmes of concrete CSR initiatives suited to its everyday operations and proactively advances initiatives through a one-year PDCA cycle.

The history of the NYK Group's 'offensive' CSR activities stretches back more than 20 years.

1990
Establishes Global Environment Committee

1992
Establishes Marine Safety Headquarters

2001~
Safety and Environmental Management Committee

Aiming to step up safety and environmental conservation initiatives, we established the Safety and Environmental Management Committee, which combines the functions of the Global Environment Committee and the Marine Safety Headquarters. The committee is responsible for establishing safety and environmental conservation policy, monitoring progress in implementing it, and advancing initiatives.

Other major safety and environmental conservation initiatives

1998~ **Launches NAV9000**
Introduces own safety management system for vessel operations

2005 **Save Bunker Project**
Begins Groupwide initiatives to counteract rapidly rising fuel costs and reduce CO_2 emissions

2008 **NYK Cool Earth Project**
Launches project, under president's direct control, to reflect high priority of environmental problems in business management

Safety Promotion System

(As of April 1, 2014)

Risks

The environment

If response to regulations is delayed

- Business activities are suspended
- Cost of responding rises

Safety

If accidents occur

- Trust is lost
- Logistical paralysis hinders economic activities

Human capital development

If human capital is insufficient

- Competitiveness declines due to inability to secure seafarers amid worldwide shortage of seafarers
- Business opportunities are lost

Opportunities

The environment

▸▸ P. 48

- Counteracting cost increases by reducing fuel consumption
- Establishing a progressive image and building customer loyalty
- Entrenching an innovative corporate culture

Safety

▸▸ P. 53

- Using in business discussions as added value
- Acquiring a favourable reputation and creating new business opportunities (LNG transport business and offshore business in energy value chain)

Human capital development

▸▸ P. 56

- Increasing business for transport of cargos difficult to handle, such as crude oil and LNG
- Developing seafarers with professional skills to realise safe transport
- Achieving differentiation from competitors through human capital capabilities
- Combining diverse capabilities, creating new value

Materiality Initiatives and Expectations

Takatsugu Kitajima
Attorney-at-Law
TMI Associates

Materiality Initiatives to Date

Since 2008, I have been involved with the NYK Group's advancement of CSR initiatives through interviews with division leaders and other activities.

What particularly impresses me about the Group is that even before the word 'materiality' came to be used, the Group established 'the environment' and 'safety' as the pillars of its CSR initiatives and that they were accepted by every unit with ease. Since then, the Group has continued its activities ahead of its peers, such as by each division setting out its basic CSR advancement programmes, which are measured against the business plans, and clearly specifying the CSR advancement alongside the sales targets in the medium-term management plan.

Expectations for the NYK Group

Recently, the Group has added 'human resources development' to its materiality initiatives. In today's global society where mobilisation of human resources has become commonplace, it will become necessary to build a company that appeals to and attracts talented human resources. The CSR activities will tend to become part of the routine work. As the energy situation and other global trends continuously evolve, I hope that the NYK Group will constantly reexamine what should be done for the future and continue to pose new questions to the world.

Evolution of NYK Group Environmental Initiatives

Turning environmental issues into growth opportunities

Risks and Opportunities

If response to regulations is delayed

- Business activities are suspended
- Cost of responding rises

The NYK Group's progressive initiatives are…

- Counteracting cost increases by reducing fuel consumption
- Establishing a progressive image and building customer loyalty
- Entrenching an innovative corporate culture

SOx emissions

−100%

By changing our fuel from bunker oil to LNG, we expect to reduce CO_2 emissions about 30%, NOx emissions about 80%, and SOx emissions 100%.

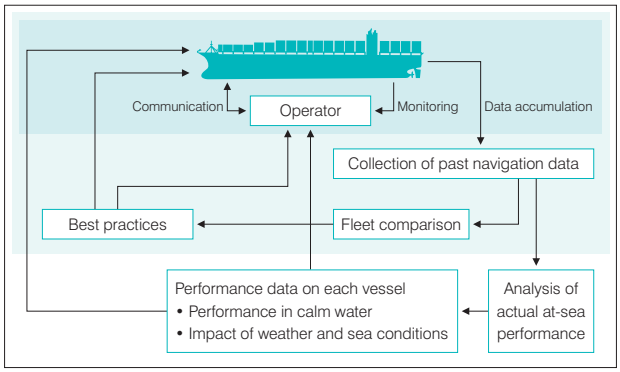
Topics

Continuing to Evolve CO_2 Emissions Reduction Initiatives

IBIS Project Moves into the Second Phase

In fiscal 2012, we began the Innovative Bunker and Idle-time Saving (IBIS) Project for our containerships, and this initiative has achieved significant results. Under the IBIS Project, we reduce CO_2 emissions during voyages by pursuing optimally economic navigation. By introducing offshore broadband and ship information management systems (SIMSs), we have strengthened onshore monitoring of the status of vessel operations. Now, operators onshore and on board are equipped to share information in real time on weather and sea conditions and vessels' navigation plans and operational status. Thus, as weather and port conditions change from moment to moment, operators onshore and on board are able to confer and make joint decisions rapidly.

Furthermore, in fiscal 2013 we began applying expertise gained through the IBIS Project to other vessel types by launching the IBIS TWO Project. This new project seeks to further entrench slow-steaming operations by introducing initiatives suited to the characteristics and conditions of each vessel type and business. By operating vessels to lower engine loads and by regulating engine loads to standardise speeds, we are saving fuel and reducing CO_2 emissions.



IBIS System

Environmental Management Indicator for Certain Types of Vessels

Types of vessels	Environmental management indicator (g CO_2 / ton-km)		
	FY2006	FY2010	FY2013
VLCCs	3.40	3.11	3.03
Car carriers	56.98	47.55	44.15
Containerships	14.66	11.17	10.32

Types of vessels	Reduction rate	
	Versus FY2006	Versus FY2010
VLCCs	10.9%	2.6%
Car carriers	22.5%	7.2%
Containerships	29.6%	7.6%

A decline in the numbers means an improvement in CO_2 emissions per ton-kilometre.

CO_2 emissions (versus fiscal 2006)

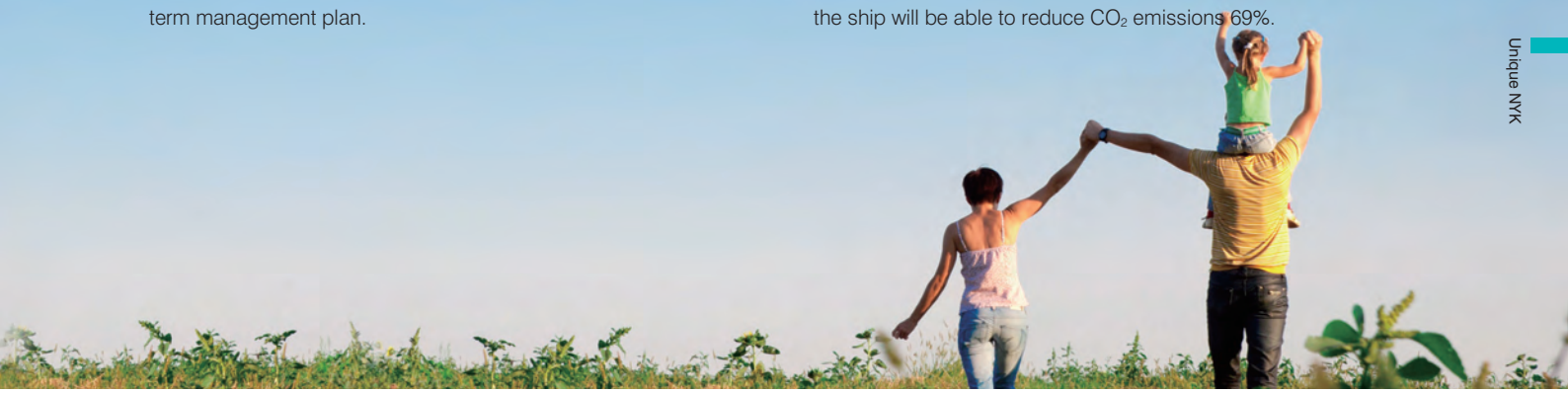
−18.1%

In fiscal 2013, we reduced CO_2 emissions 18.1% compared with the fiscal 2006 level, surpassing the reduction target of at least 10% versus the fiscal 2006 level set out in the previous medium-term management plan.

CO_2 emissions of *NYK Super Eco Ship 2030*

−69%

NYK Super Eco Ship 2030 is a concept ship that NYK created by anticipating environmental technology that will be realisable by 2030. By making full use of tomorrow's environmental technology, the ship will be able to reduce CO_2 emissions 69%.



Meriting High Acclaim—The NYK Group's Technological Capabilities

Saving Energy through 'Bubbles'—Our Air-Lubrication System Wins Numerous Awards at Home and Abroad

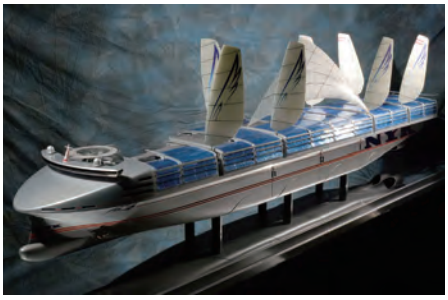
Our air-lubrication system is an energy-saving technology that reduces friction between the hull and seawater by supplying air bubbles to the bottom of the vessel. As an initiative aimed at addressing climate change, the system has received a series of accolades, such as the highest award at the 2013 Nikkei Global Environmental Technology Awards. In 2010, the NYK Group launched two module carriers that became the world's first operational ocean vessels equipped with an air-lubrication system based on an air-blower. In yet another world-first, in July 2012 the Group introduced an operating vessel equipped with an air-lubrication system featuring a main engine scavenging air bypass. The Group has confirmed that the air-blower based system reduces CO_2 emissions by approximately 6% on average, while the system using a main engine scavenging air bypass is expected to reduce CO_2 emissions between approximately 4% and 8%. In addition, we fitted an air-lubrication system into a car carrier completed in May 2014. By incorporating this system into other vessel types, we will work to curb climate change.

Module carriers
These are specially designed vessels that transport prefabricated structures, known as modularized cargo, for installation at plants on natural resource development sites.

Main engine scavenging air bypass
This system reduces CO_2 emissions by taking some of the main engine scavenging air, also called combustion air, from the main engine's turbocharger and sending the air to the vessel's bottom to reduce friction between the hull and seawater.

NYK Super Eco Ship 2030—A Concept for Ships of the Future

By 2050, we aim to develop zero-emission vessels. As a mid-point on the road to achieving this goal, we have created a concept ship, *NYK Super Eco Ship 2030*. This futuristic containership will reduce CO_2 emissions 69% by combining fuel cells and renewable energy, such as solar and wind power, with a lighter hull. Already, we have successfully realised practical applications for several technologies envisioned for *NYK Super Eco Ship 2030* by incorporating them into operating vessels.



Evolution of NYK Group Safety

Accumulated day-to-day efforts create business opportunities

Risks and Opportunities

If accidents occur

- Trust is lost
- Logistical paralysis hinders economic activities

Rigorous management of safety based on original standards is enabling the NYK Group to…

- Use safety in business discussions as added value
- Acquire a favourable reputation and create new business opportunities (LNG transport business and offshore business in energy value chain)

Participation of owned vessels in blackout recovery tests

100%

If a vessel loses power, sometimes known as a blackout, it cannot be controlled. Consequently, blackouts can cause such serious accidents as collisions or groundings. Aiming to check the soundness of owned vessels' generator-related equipment, discover malfunctions, and train seafarers, we have held blackout recovery tests every year since 2010.

Number of NAV9000 improvements

3,807

The NYK Group introduced its original safety management system, NAV9000, in 1998. We disclose our unified safety standards for safe vessel operations not only to owned vessels but to chartered vessels—including disclosure to their seafarers, shipowners, and ship-management companies—and seek compliance with these requirements.

Topics

Supporting International Initiatives to Ensure the Safety and Security of International Shipping Routes

Supporting Efforts of U.N. Agency to Rebuild Somali Society

In response to a call from Shell International Trading and Shipping Company Limited, since 2013 we have been participating in an initiative led by the United Nations Development Programme to reconstruct Somali society as a fundamental measure to reduce piracy off the Somali coast, in the Gulf of Aden, and in the Indian Ocean. Other participants include BP, Maersk Line, Stena Line, Mitsui O.S.K. Lines, and "K" Line. We believe that contributing to this programme is extremely meaningful internationally and socially. At a grassroots level, the programme aims to address poverty, which is the social and economic cause of piracy. Consequently, the programme promises not only to help ensure the safety of important marine trade routes linking Japan, Europe, Africa, and the Middle East, as well as resource and energy transport routes essential to international society's development, but also to make an international contribution to Somalia and other countries suffering as a result of piracy. Last year, we supported a scheme aimed at providing Somalis with alternatives to piracy by expanding local economic development and thus establishing and offering the bases for livelihoods in commercial activities, agriculture, and fisheries.

VOICE Opinion from an External Stakeholder

Areas off the coast of Somalia and in the wider Indian Ocean have seen a significant reduction in the number of piracy events over the past 18 months. This is in part due to the application of best management practices by shipowners and a strong culture of self-protection, reporting, and piracy awareness. However, continued application of self-protection measures is vital due to the existing threat from Somali pirate action groups as the international community and civilian missions work in Somalia to address the root causes. The European Union Naval Force (EUNAVFOR) established a merchant navy liaison programme in 2009. NYK has been the single largest contributor to this programme with seven master mariners having worked at the Maritime Security Centre–Horn of Africa. We believe this cooperation between NYK and EUNAVFOR is unique and mutually beneficial through the exchange of information, practices, and counter piracy knowledge.

Simon Church
Liaison Officer
European Union Naval Force

Number of safety promotion campaign participants

More than 10,000

Every year, in July and August we remind all employees about the importance of safe vessel operations. As part of these efforts, our senior management team and related personnel visit vessels to check the safety of their operations.

Percentage of 'Satisfied' Kobe Terminal customers in survey

83%

Since fiscal 2008, the Group has been conducting customer satisfaction surveys targeting almost all customers using Kobe Terminal. We report the findings of these surveys, and the initiatives resulting from them, to Group companies. Taking customers' opinions and suggestions seriously, the Group uses them to make improvements aimed at reinforcing safety.

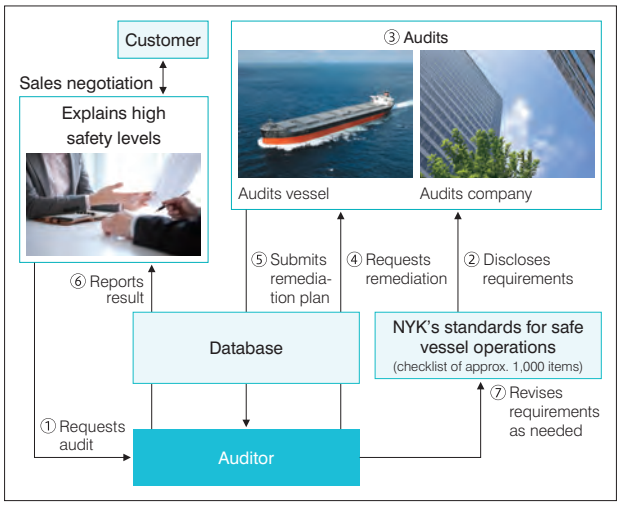
Rigorously Managing the Safety of All Group Operating Vessels

Original Safety Management System NAV9000

We take a zero-tolerance approach to marine accidents, which can affect the environment and economic development. As a company entrusted with responsibility for customers' valuable cargo, we have a basic policy of ensuring uncompromising safety management for all Group vessels. Reflecting this policy, we have been operating our original safety management system, NAV9000, since 1998. Furthermore, we disclose our unified safety standards for safe vessel operations to all vessels that transport our customers' cargo—regardless of whether they are owned vessels or chartered vessels—including disclosure to their seafarers, shipowners, and ship-management companies. We seek their compliance with these standards and undertake integrated management of their safety standards and our own.

Based on regulations set out in international agreements, the unified safety standards of NAV9000 comprehensively cover measures to prevent the recurrence of accidents as well as customers' requirements. Full-time auditors visit vessels and the offices of shipowners and ship-management companies to check that they are following the safety standards on-site. If there are any shortcomings, the auditor asks for the submission of a corrective plan, checks the progress in implementing it, and provides advice as needed. In fiscal 2013, we checked more than 3,000 improvements through audits of approximately 300 vessels and 30 companies. A striking feature of our auditing is that it is not a one-way process. It acts as a quality management system that encourages continuous improvements for safe vessel operations through close mutual communication between auditors and the companies they audit. As a result, our NAV9000 standards have received ISO 9001 certification.

Another advantage of these activities is that they are an effective way of confirming our vessels' safety in a variety of business contexts and giving related parties peace of mind.



NAV9000

Evolution of NYK Group Human Capital Development

Developing individuals and diversity to heighten competitiveness

Risks and Opportunities

If human capital is insufficient

- Competitiveness declines due to inability to secure seafarers amid worldwide shortage of seafarers
- Business opportunities are lost

Securing, training, and utilising human capital is enabling the NYK Group to…

- Increase business for transport of cargos difficult to handle, such as crude oil and LNG
- Develop seafarers with professional skills to realise safe transport
- Achieve differentiation from competitors through human capital capabilities
- Combine diverse capabilities, create new value

Topics

Realising Benefits through Active Development

Appointing the Group's First Filipino Captain and Chief Engineer to an LNG Carrier

It is the first time for us to appoint a Filipino captain and chief engineer to an LNG carrier that we are operating. So far, Eastern European, Indian, Japanese, and other nationalities have served as captains and chief engineers on our LNG carriers and other high-risk vessels. However, we opened the gate for Filipino personnel to access senior positions through the training based on our original NYK Maritime College (NMC) programme, which establishes unified knowledge and expertise requirements for seafarers regardless of nationality.

The advent of a Filipino captain and chief engineer on an LNG carrier is a tangible result of the NMC programme. We plan to continue steadily promoting talented Filipino personnel who can meet the unified requirements to senior positions on board high-risk vessels.

A Message from the Captain

Wilfredo A. Sales
Captain

I am proud to say that being part of this milestone—becoming the Group's first Filipino captain of an LNG carrier—has been one of the treasures of my life. The courses at the NYK Maritime College were very helpful and efficient. The instructors and training facilities were excellent and gave me an appreciation of the emphasis that the NYK Group places on training. I believe my performance on LNG carriers will prove that Filipino seafarers are capable of handling such tasks. I am extremely grateful to the NYK Group for opening the way for Filipino seafarers to serve on the bridges of high-risk vessels.

Winning New Contracts Thanks to Recognition of High-Quality Training of Seafarers

Our third very large crude-oil carrier (VLCC), *Taizan*, for a project of Thai Oil Public Company Limited has begun transporting crude oil. The company, which trains seafarers for VLCCs in Thailand, chose us as a long-term partner based on recognition of our superior ship-management capabilities and ability to train high-quality seafarers through our seafarer training centre in Singapore and maritime academy in the Philippines.

Taizan

Maritime academy in the Philippines (total number of graduates from first three batches of trainees)

344 graduates

In the Philippines, where many of our seafarers come from, we opened a maritime academy in June 2007. The training methods of the academy reflect the experience and innovations we have accumulated by training seafarers in Japan. The impressive results students have achieved in the nationwide Maritime School Assessment Programme examination in the Philippines testify to the effectiveness of the academy's curriculum.

Number of participants in The Global NYK/YLK Week (since fiscal 2012)

371 managers

Since 2002, we have conducted annual group training at our Tokyo head office for managers based worldwide throughout the NYK Group.

Expanding and Improving Training Systems

Undertaking Management Training Programmes

From fiscal 2012, we extended the scope of management skills training—which we have conducted in North America and Europe since fiscal 2002—to include Asia. Once a year, NYK selects managers from its bases in Asia and holds training sessions in Singapore. To extend this programme, we began jointly conducting equivalent training in Chinese Mandarin in Shanghai and English in Singapore from fiscal 2013 with Yusen Logistics Co., Ltd. These programmes strengthen the management skills and develop the careers of numerous managers working in Asia.

Providing Conditions That Enable Women to Continue Working

NYK Becomes First Company in the Shipping Industry Designated a 'Nadeshiko Brand'

In fiscal 2013, we became the first shipping company in Japan to be designated a 'Nadeshiko Brand.' The Tokyo Stock Exchange and Japan's Ministry of Economy, Trade and Industry jointly select qualifying companies. This certification reflected favourable evaluation of a range of initiatives we have implemented. For example, in 2001 we abolished the categorisation of positions as either career-track or general-duty and unified our personnel system. Since then, we have been creating systems and conditions that enable employees to pursue careers irrespective of gender. Further, aiming to help employees balance family and work commitments, we have established an in-house childcare service, Yusen Childcare.

NADESHIKO BRAND 2014

For details about our initiatives related to the environment, society, and governance, please go to the following URL.

Web http://www.nyk.com/english/csr/

Promotion of Group Environmental Management

The NYK Group's Environmental Management Vision and Three Strategies

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

The NYK Group's Environmental Green Policy

(Formulated March 2005)

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 waterfront, 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 minimising emissions of greenhouse gases, ozone-depleting substances, and toxic matter.
⑤ We endeavour to minimise 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 endeavour to use education programmes to raise environmental awareness among our employees and to ensure that they recognise 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 six 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.

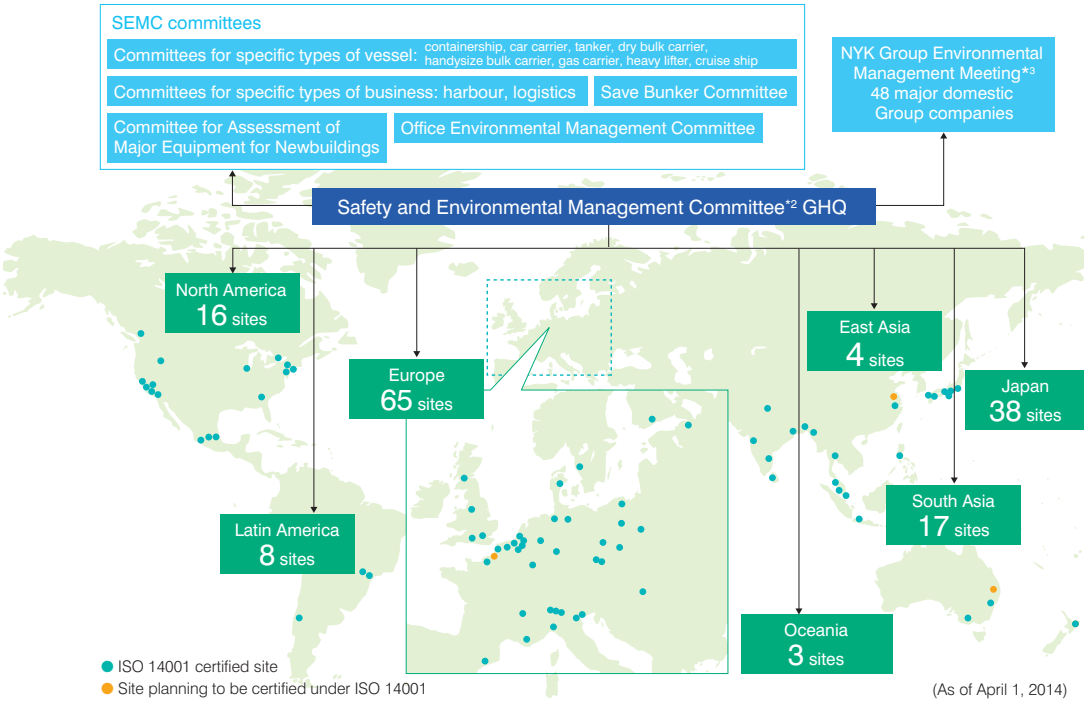
Chartered vessels
Ships leased from shipowners along with their fixtures and crew in a state capable of safe operation

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

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 February 10, 2014)

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



(As of April 1, 2014)

***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.

Reduction of CO_2 Emissions

Environmental Management Indicators

In 2006, the NYK Group calculated environmental management indicators to monitor the operational efficiency of its vessels. In fiscal 2013, we reduced CO_2 emissions 18.1% compared with the fiscal 2006 level, surpassing the reduction target of at least 10% versus fiscal 2006 set out in the previous medium-term management plan, 'More Than Shipping 2013'. Going forward, we will increase the efficiency of vessel operations even further, aiming to improve fuel efficiency 15% versus the fiscal 2010 level by fiscal 2018 in accordance with our new medium-term management plan, 'More Than Shipping 2018'.

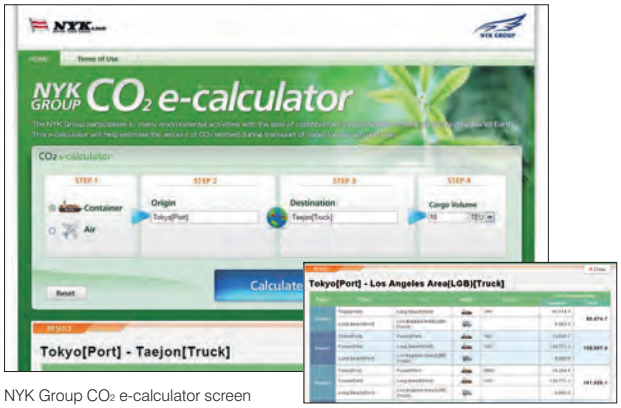
$$\text{Environmental management indicator (Based on IMO Guidelines)} = \frac{\text{Environmental load } (CO_2 \text{ emissions from vessel transportation})}{\text{Value added by the business } (\text{Mass of cargo in tons} \times \text{Transport distance in kilometres})}$$

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

NYK Group CO_2 e-calculator

In response to increasing enquiries from customers about CO_2 emissions volumes resulting from cargo transport, NYK and Group company Yusen Logistics Co., Ltd., developed a system that enables the calculation of CO_2 emissions produced when containerships or international air freighters transport cargo.

Many of our customers in Japan and overseas have been using this tool since we made it available at Group company websites. We regularly update searchable routes and calculation coefficients for emissions volumes. Customers have commented that the easy-to-use e-calculator helps by enabling them to readily calculate CO_2 emissions for all routes—including sea, land, and air routes—and by giving calculated values that are close to those arising from actual transport.



NYK Group CO_2 e-calculator screen

World's First Operating Vessel Equipped with Hybrid Turbocharger

In addition to the basic functions of a traditional turbocharger, the world's first onboard electric-supply system incorporating a hybrid turbocharger can use the extra rotational power generated by the turbine for electric power generation. Fitted in the bulk carrier *Shin Koho*, which was completed in May 2011, this system helps reduce CO_2 emissions even further because the bulk carrier can meet all onboard electric power requirements for normal operations by using the hybrid turbocharger instead of diesel generators. This system received an award in the invention excellence category of the 2012 awards presentation of the Japan Society of Naval Architects and Ocean Engineers (JASNAOE). The award recognises outstanding academic achievements and new technology development in the field of naval architecture and ocean engineering. Subsequently, in fiscal 2013, we installed the system in two capesize bulk carriers, and we have already decided to fit the system in a car carrier. As these initiatives show, we are fully committed to continuing the development and application of environmental technology going forward.

Appropriate Disclosure of Environmental Performance Data

The NYK Group obtains highly reliable environmental performance data and discloses it actively. One example of these efforts is the Group's use of the Clean Shipping Index (CSI) to disclose the environmental effects of vessel emissions. In 2013, the Group received third-party certification from Lloyd's Register Quality Assurance Limited (LRQA) for appropriately disclosing accurate data on environmental performance. The NYK Group is the first Japanese shipping company to receive certification for environmental performance data based on CSI. In addition, in a 2013 survey conducted by the international and NPO (not-for-profit organisation) Carbon Disclosure Project (CDP) in which the disclosures of climate change data from 500 Japanese companies were evaluated, the NYK Group scored 98 out of a possible 100 points. As a result, for the second consecutive year we were included in the CDP's Climate Disclosure Leadership Index (CDLI) as a progressive discloser of climate change data.

CSI: Clean Shipping Index
Comprising 20 categories related to the environment, this index was developed by the Swedish NPO Clean Shipping Project, which was established in 2007.
CDP: Carbon Disclosure Project
On behalf of institutional investors, this project operates a programme that requests companies to disclose information about their initiatives in response to climate change.

Energy Conservation Initiatives

Next-Generation, Energy-Saving Fluorescent E•COOL Lighting System

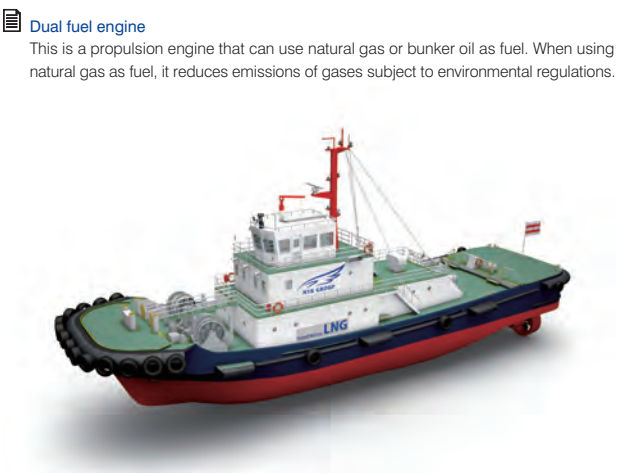
The NYK Group began using the E•COOL next-generation, energy-saving fluorescent lighting system produced by Optrom, Inc., on board operating car carriers in fiscal 2012. We installed 13,000 E•COOL lights on six vessels in fiscal 2012 and installed 52,000 E•COOL lights on 22 vessels in fiscal 2013. Based on the cold cathode fluorescent lamps used in LCD monitors, the E•COOL lighting system realises high brightness and, thanks to its low power consumption and long service life, outstanding energy savings and economy. E•COOL is expected to enable power savings of about 40% compared with conventional fluorescent lighting systems. The replacement of all lighting systems with E•COOL will reduce CO_2 emissions during voyages by up to 1%. Accordingly, the Group plans to introduce E•COOL proactively not only into existing vessels but into new vessels.

Preventing Air Pollution

First Step towards Changing Fuel to LNG

At present, vessels consume heavy oil. However, changing over to LNG (liquefied natural gas) is expected to enable emissions reductions versus bunker oil of about 30% for CO_2, about 80% for NOx, and 100% for SOx. In October 2011, the Group established the Fuel Project Team as a specialist team to research fuel changeover and develop related technology. In December 2013, we decided to begin building an LNG tugboat incorporating a dual fuel engine that can use bunker oil and LNG as fuel. Excluding LNG carriers, this will be the first building of an LNG-fuelled vessel in Japan. By building and operating the tugboat, we intend to accumulate knowledge that we will expand on to build larger vessels.

Dual fuel engine
This is a propulsion engine that can use natural gas or bunker oil as fuel. When using natural gas as fuel, it reduces emissions of gases subject to environmental regulations.



LNG tugboat

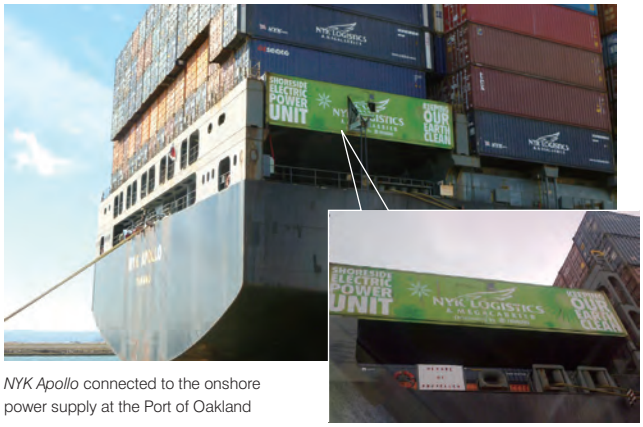
Using Onshore Power while in Port

At the Port of Los Angeles in California in November 2007, operating containership *NYK Atlas*, permanently equipped with an alternative maritime power (AMP) unit, became the first containership to connect successfully to an onshore power supply. Since then, we have been modifying other large containerships to make them compatible with AMP units.

AMP technology allows a vessel to connect to onshore power supplies, enabling it to receive power while loading, unloading, or at dockside. Consequently, the vessel can curb the use of its relatively inefficient diesel generators, which reduces its emissions of such pollutants as CO_2, NOx, SOx, and particulate matter (PM) significantly.

In November 2013, we placed AMP container units at our terminals in California: in the Port of Los Angeles and in the Port of Oakland. When operating containerships that have been modified to make them compatible with AMP units call at these ports, we put AMP container units on board temporarily, and the containerships use onshore power supplies while in port. We plan to modify and allocate vessels so that all our vessels calling at the ports use AMP technology.

AMP: **A**lternative **M**aritime **P**ower
This 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.
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
PM
Particulate matter (PM) is a harmful substance said to affect health adversely and cause such conditions as respiratory diseases.



NYK Apollo connected to the onshore power supply at the Port of Oakland

AMP container unit

Electronically Controlled Engines (NOx countermeasures)

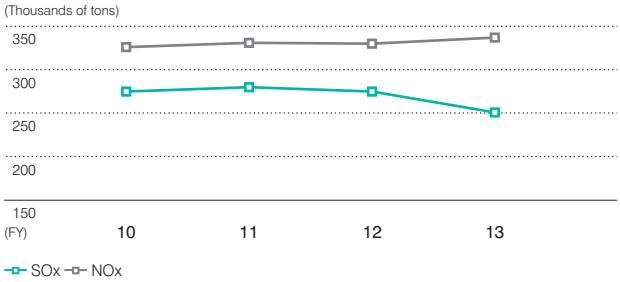
Bunker oil, when burned, generates nitrogen oxide (NOx) compounds, which are greenhouse gases. International Maritime Organization (IMO) regulations aimed at reducing vessels' NOx emissions have been in effect for several years, with a second set of regulations becoming effective from 2011. As part of 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 2013, we equipped nine new vessels with electronically controlled engines. As of the end of March 2014, we have equipped 56 vessels with electronically controlled engines. In response to the expected introduction of a third set of regulations in IMO-stipulated emission control areas, we are researching such new technologies as an EGR (Exhaust Gas Recirculation) 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

Low-Sulphur Bunker Oil (SOx countermeasures)

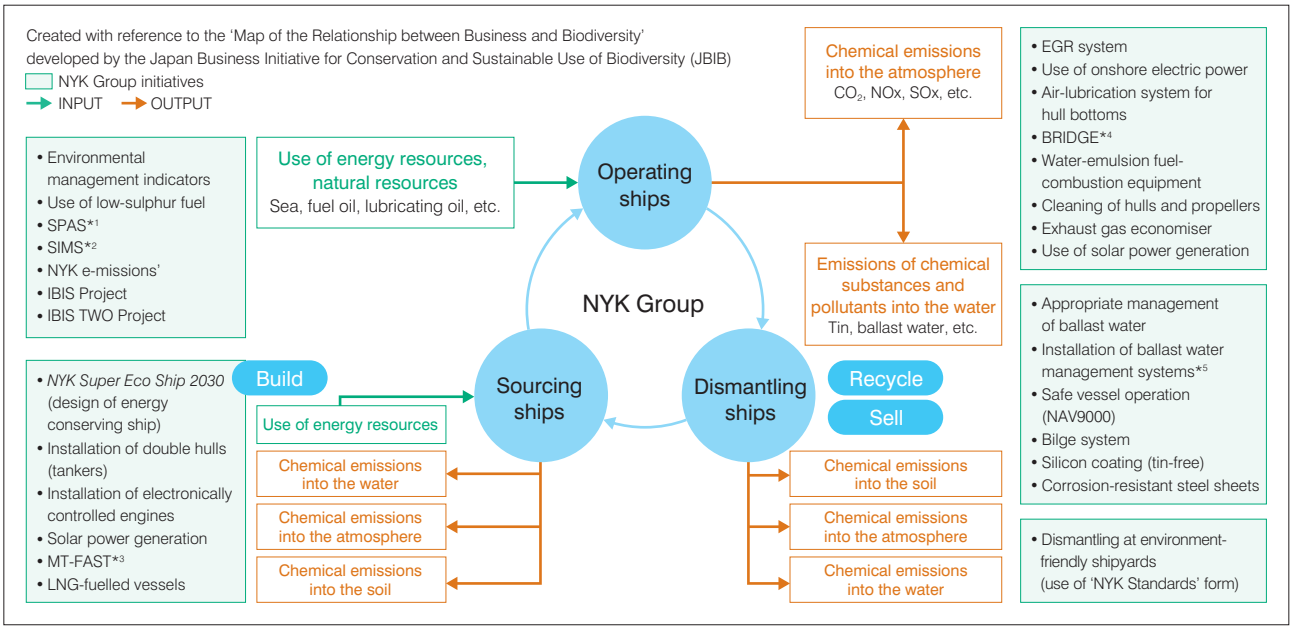
The burning of fuel that contains sulphur results in the emission of sulphur oxide compounds (SOx). To reduce the SOx produced by vessels, in 2012 the IMO introduced regulations on bunker oil sulphur content, reducing the maximum allowable concentration in general ocean waters from 4.5% to 3.5%. Furthermore, in emission control areas, which are subject to even stricter regulations, a 0.1% upper limit on sulphur concentration will become mandatory from 2015. With a view to realising safe vessel operations and environmental preservation simultaneously, the NYK Group has established a task force to ensure compliance with these regulations as well as examine other measures required to improve vessels' onboard equipment and change building specifications for vessels. Also, aiming to realise further SOx reductions, we will analyse the amounts of SOx our operating vessels emit.

SOx / NOx Emissions



Preservation of Biodiversity

Mapping the Relationship between the NYK Group and Biodiversity



*1. SPAS: Ship Performance Analyzing System
*2. SIMS: Ship Information Management System
*3. 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.

*4. BRIDGE
Systems to provide ships with up-to-date weather and hydrographic forecasts
*5. 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.

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.

Ballast Water Management System

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 for the first time equipped one of its operating vessels, the car carrier *Emerald Leader*, with a ballast water management system—which received formal approval from the Ministry of Land, Infrastructure, Transport and Tourism in September 2010. As of the end of March 2014, 46 of the Group's vessels have ballast water management systems installed. While monitoring progress towards the convention's ratification, we will continue equipping car carriers, bulk carriers, and other owned vessels and directly managed vessels with this 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 lists of the volumes and locations of hazardous materials on board and posts the lists inside vessels. In addition, we have established a scrapping policy that takes IMO Guidelines into consideration and is based on securing scrapping locations that are reliable and environment-friendly. Following this policy, we select yards 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.

Fiscal 2013 Marine Pollution Incidents

Leakage due to marine casualties	1
Leakage due to machinery troubles	7
Leakage due to failure to comply with operating procedures	3

The 11 incidents noted above were appropriately reported and treated.

Cooperating with Tohoku University's Research Survey

For over 30 years, the NYK Group has provided two containerships, operating between Japan and Australia and Japan and North America, to help with the collection of air samples at sea as part of Tohoku University's research on the global distribution of and fluctuations in greenhouse gases. These measurements have revealed differences in greenhouse gas concentrations in the northern and southern hemispheres as well as fluctuations in concentration gradients according to the season or year. The Group intends to continue cooperating with Tohoku University in conducting its research survey.

TOPICS Opinion from an External Stakeholder

Fruitful Research Based on the NYK Group's Measurement Data

Because they regularly sail back and forth on overseas shipping routes, containerships are an excellent platform for measurements on a global scale. Thanks to the cooperation of the NYK Group, containerships operating between Japan and Australia and Japan and North America have been helping us collect air samples at sea since 1982. These measurements have enabled us to identify precisely the distribution of and fluctuations in the greenhouse gases across an area stretching from high latitudes of the northern hemisphere through mid-latitudes of the southern hemisphere. Based on measurement results, we have researched greenhouse gas emission sources and sinks, gaining a range of valuable insights. For example, it is known that the El Niño phenomenon and volcanic eruptions change the rate at which atmospheric CO_2 concentrations increase over time. Our research has shown that the terrestrial biosphere is the main cause of changes in the rate of increase in atmospheric CO_2 concentrations.

Dr. Shuji Aoki
Center for Atmospheric and Oceanic Studies
Graduate School of Science
Tohoku University

Web CSR > Safety ☐Safety on the Sea ☐Safety on land and in the air

Safety Initiatives for Ocean, Land, and Air Transportation

Ocean Transport—Safety Initiatives for Vessel Operations

Aware that ensuring the safety of vessel operations underpins its business activities, the NYK Group has established the Safety and Environmental Management Committee chaired by the president. Under this committee's guidance, personnel offshore and onshore make a concerted effort to maintain and improve a range of safety initiatives. The main focus of such efforts is vessels, which often operate in remote locations. To keep safety efforts consistent despite this remoteness, we believe that ensuring everyone involved shares goals rigorously and sustains efforts day in and day out through PDCA (Plan, Do, Check, Act) cycles is paramount. Because this process calls for systemisation, we input information on accidents and problems into a database. We then decide strategies and countermeasures for improvement activities by using vessels' downtime as a measurement of the degree to which we have achieved safe vessel operations and by analysing the risks latent in problems that have arisen. We communicate these strategies and countermeasures to vessels' seafarers through written notices and our regular safety promotion campaigns. Furthermore, we thoroughly check on-site operations through NAV9000 audits.

Land Transport—Safety Initiatives in Logistics

After analysing fiscal 2012 accident reports, Yusen Logistics Co., Ltd., made strengthening safety for warehouse personnel and visitors its highest priority task in fiscal 2013. Specific measures included optimising vehicle and pedestrian flows by building mandatory walkways conforming to Yusen Logistics criteria. A second measure entailed preparing hazard maps as reminders of danger zones. The company planned to implement these measures during fiscal 2013 at bases worldwide, and as of the end of February 2014 more than half the target bases had already completed the measures.

Our primary aim in taking these measures is to ensure safety. However, we believe they are also helping us realise even higher-quality operations, thereby giving important support to the business as a service provider for clients.

We built walkways conforming to Yusen Logistics specifications for line widths, colours, and pedestrian-temporary-stop marks and issued guidelines on creating walkways.

Land Transport—Safety Initiatives at Ports and Terminals

Accident prevention is the foundation of safety. Accordingly, Group companies and NYK-operated terminals in Japan (Tokyo, Yokohama, and Kobe) continue to strengthen emergency communications systems, analyse the causes of accidents, and share information. Terminal safety officers hold regular joint safety promotion meetings to discuss reports and information from terminals and to share and standardise accident prevention measures. Based on the realisation that ensuring safety and avoiding accidents is the best service we can provide, all personnel, including those at Group companies, constantly review day-to-day activities to advance safety initiatives even further.

Air Transport—Safety Initiatives in Air Transport Sector

In the air transport sector, measures to prevent accidents are extremely important. For this reason, Nippon Cargo Airlines Co., Ltd. (NCA), focuses considerable effort on collecting examples of dangerous events and any *hiyarihatto* (near-miss) incidents that have led to them. In accordance with risk management methods, we use the collected information to identify fundamental causes and analyse risk. A risk analysis entails establishing the size of a risk by determining its frequency and the effect of its actualisation. We then use the results as a reference when preparing countermeasures and checking their effectiveness after implementation. In fiscal 2013, we collected approximately 200 examples of near-miss incidents through suggestion boxes and the intranet, analysed the risk, and used the results to prevent accidents from recurring or escalating into more serious accidents.

One-day workplace training aimed at furthering mutual understanding of operations among divisions

PDCA Cycle for Safe Operations at Sea

PLAN

Safety Promotion System

Each year, the Safety and Environmental Management Committee chaired by the president reviews activities for the previous year and sets the next year's targets and guidelines. In addition, subcommittees for specific types of vessels formulate specific activity guidelines based on the committee's decisions and move safety activities into implementation.

Safety Promotion System

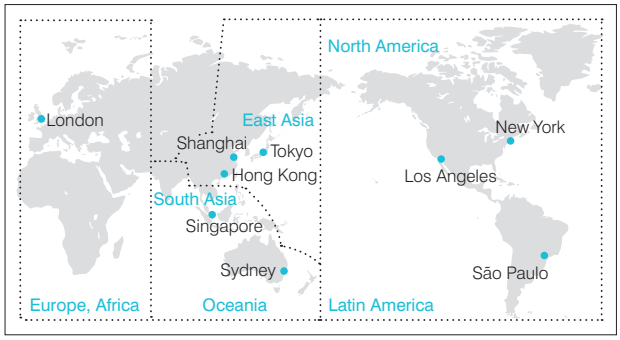
(As of April 1, 2014)

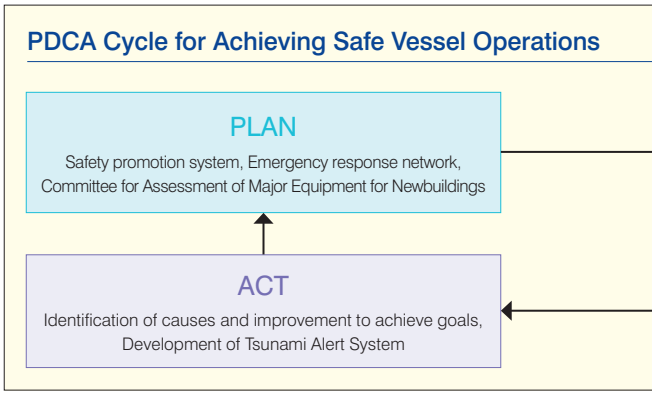
Committee for Assessment of Major Equipment for Newbuildings

The NYK Group evaluates vessel equipment through the Committee for Assessment of Major Equipment for Newbuildings, led by the chief executive of the Technical Headquarters. In fiscal 2013, the committee compared the reliability of main engines, the repair costs for diesel generators, and the structures of boilers.

Emergency Response Network

The Group has created an emergency response network based on four overseas regional blocs to be ready for maritime accidents and problems around the world.





ACT

Feedback Committee

We collect information reports about equipment performance and malfunction from operating vessels, and on a day-to-day basis we analyse ways of making them safer and more efficient. Then, we pass on important information to other vessels. Moreover, if equipment improvements are needed, we work with manufacturers to arrive at improvement proposals and fit vessels with equipment that has upgraded specifications. Currently, our office in Singapore leads these operations. By working in close collaboration with the Group's in-house ship-management company, which is also based in Singapore, this office ensures each project is in touch with on-site requirements.

Preparation of Own ECDIS Operational Standards

Until recently, paper charts were used worldwide. However, since the International Convention for the Safety of Life at Sea (SOLAS) came into force on July 1, 2012, mandatory incorporation and the use of the Electronic Chart Display and Information System (ECDIS) has been introduced in stages. Viewing these systems as contributing to safety, the NYK Group introduced the ECDIS to almost all of its vessels ahead of schedule. However, even though there were operational manuals for ECDIS equipment, related specific operational standards were lacking. Therefore, we prepared standard values for various settings of the ECDIS as well as standards for navigating using it. Based on these criteria, we

DO

Emergency Response Exercise

The Group provides regular training to increase employees' ability to respond to accidents. For greater realism, each training exercise involves scenarios with different vessel types and problems. Vessel crews, ship-management companies, government agencies, customers, and other interested parties participate in the training exercises. In December 2013, we conducted a joint emergency response exercise with the Fourth Regional Japan Coast Guard Headquarters based on a scenario in which a product tanker is involved in a collision and spills its oil cargo. Also, we emphasise reviews after training exercises are completed, using the opinions and insights obtained to further enhance our accident response systems.

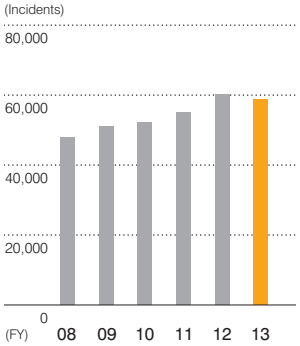
Near Miss 3000 Activities

Based on Heinrich's Law, Near Miss 3000 activities heighten safety awareness among seafarers on board vessels and encourage them to take action to prevent accidents and maintain safe conditions without fail. In 2006, we extended these activities to include not only seafarers but such partners as shipowners and ship-management companies. As part of these activities, the NYK Group has created DEVIL Hunting! Activities, which seek to nip accidents in the bud by identifying and dealing with often overlooked precursors to accidents. Currently, we receive more than 60,000 reports annually through these activities.

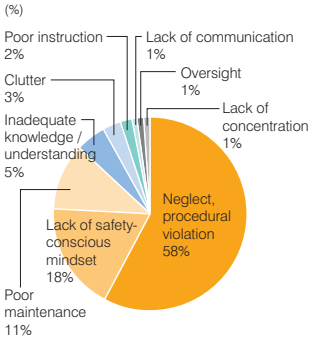
DEVIL Hunting!

'DEVIL' is derived from '**D**angerous **Ev**ents and **I**rregular **L**ooks'. The purpose of these activities is to eliminate at the very early stages the precursors and factors to accidents before a major event occurs.

Number of Near Misses Reported



Fiscal 2013 Near Miss Causes



That Enable Customers' Supply Chains

DO

Safety promotion campaigns (P. 45), Emergency response exercise, Near Miss 3000 activities, Anti-piracy measures (P. 44)

CHECK

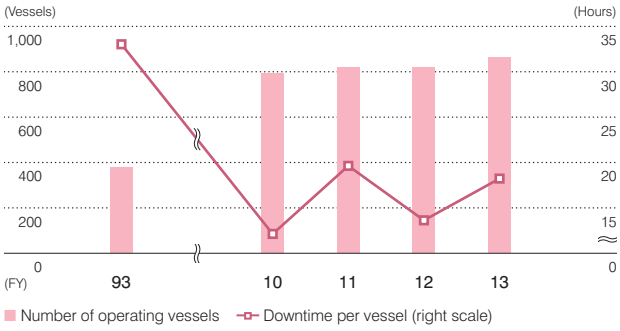
NAV9000 (P. 45), Use of downtime to measure safety

CHECK

Use of Downtime to Measure Safety

We use the time that ships are stopped due to accidents or problems as a means of measuring the degree to which we have achieved safe ship operation. Our sea and land operations work together to bring us closer to the target of 'zero' downtime.

Downtime Data



sought to make navigation using the ECDIS safer by establishing the NYK Standards for Navigation Using ECDIS. From March 2013, we began distributing these in-house standards to all operating vessels, where they are proving to be a useful tool.

Web CSR Activities > Together with Stakeholders > Together with all staff members in the NYK Group

HR Philosophy

Continually develop diverse talent at all group companies across global fields

The NYK Group operates in a wide range of fields, and its employees come from an extensive and diverse range of countries. Our human resources (HR) philosophy was formulated in 2005 to encourage all employees to maximise their potential. Our training of the next generation emphasises the following:

1. Flexibility and liberality (tolerance) to understand different cultures and heterogeneous ways of thinking;
2. Leadership to lay out clear visions and goals, and to encourage others to achieve the established goals; and
3. A management mindset and skills that encompass people management, specialist knowledge, and the ability to look at things from a broader perspective.

Human Capital Development

NYK Business College

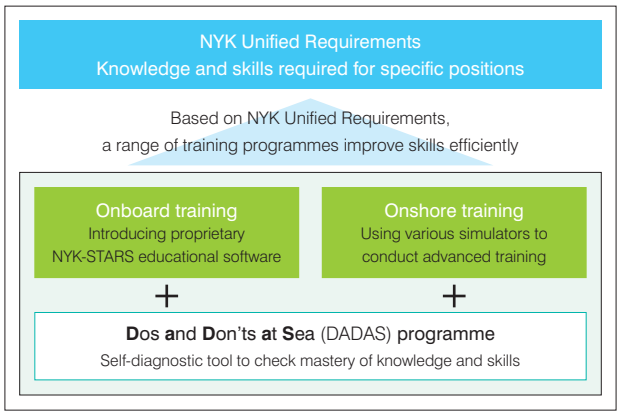
The NYK Business College is a set of training programmes aimed at improving the overall capabilities of Group employees. The NYK Group enhances these training programmes regularly. In fiscal 2013, more than 2,000 NYK Group employees participated in over 60 types of training programmes. In addition, more than 7,800 Group employees in Japan and overseas participated in e-learning themed on the Group's CSR and environmental initiatives.

Further, aiming to strengthen the development of employees who will lead the next generation, the NYK Group has established training for specific employee ranks, from junior through mid-career employees. This programme focuses on expanding horizons while fostering leadership and management skills. The Group intends to continue upgrading and expanding its training programmes to foster employees that can contribute to stakeholders through the transport of goods.

Training Programmes for Seafarers

The key to achieving even higher levels of safety and economic vessel operations is not hardware or systems but the people who operate them. The NYK Group's NYK Maritime College training programme for seafarers enables them to acquire a wide range of skills and advanced expertise while onshore or on board vessels. This programme gives seafarers the knowledge and skills they need for our operating vessels. We call these the NYK Unified Requirements. For new personnel, the Group uses five cadet vessels to provide on-the-job training. In addition, we have introduced to each of our operating vessels an in-house developed e-learning system, NYK-STARS, which allows seafarers to enhance their skills while on board vessels. Meanwhile, onshore we use unified teaching materials and curricula at training centres and manning offices in regions worldwide.

Conceptual Diagram of the Unique NYK Maritime College Education System



Cadet vessels
These are vessels equipped with facilities for onboard training of cadets—officer candidates—who have completed courses at institutions for training seafarers worldwide.

NYK-STARS: **NYK**-**S**hipboard **T**raining and **A**ssessment **R**ecord **S**ystem
The system includes a range of programmes designed for specific purposes and types of vessel, such as Cadet STARS for cadets and PCC STARS for car carriers.

Manning offices
These are ship-management company branch offices and crew referral agencies.

TOPICS Opinion from an External Stakeholder

Looking Forward to Stronger Foundations through Personnel Initiatives

When responsible for evaluating the NYK Group in relation to a Sumitomo Mitsui Banking Corporation (SMBC) Sustainability Assessment Loan, I was most struck by the Group's strong emphasis on securing and training highly skilled seafarers as a means of realising safe vessel operations. As well as providing original training programmes for seafarers, the Group enables seafarers to secure long-term employment by creating onshore workplaces for them through the establishment of a branch in the Philippines of its in-house ship-management company. In my evaluation, this type of understanding of seafarers' needs helps the Group retain outstanding seafarers and contributes to its competitive superiority. Although the benefits of personnel initiatives take time to emerge, I look forward to the Group strengthening its competitive foundations—in other words its personnel—by continuing to show understanding of their needs.

Naoko Hase
ESG Analyst
ESG Research Center /
Center for the Strategy of Emergence
The Japan Research Institute, Limited

The Global NYK/YLK Week

Since 2002, we have conducted annual Group training at our Tokyo head office for managers based worldwide throughout the NYK Group. Furthermore, since fiscal 2012 we have held these training sessions jointly with Yusen Logistics Co., Ltd. One goal of the training is to motivate the employees and give them opportunities for direct discussions with the presidents of NYK and Yusen Logistics. Another goal is to provide training about the Group's corporate DNA, including the NYK Group Mission Statement and the NYK Group Values. As a global corporate group, the NYK Group will respect employees' diversity and ambitions and concentrate efforts on personnel training so that employees can work with high aspirations and pride.

The Global NYK/YLK Week

YLK: Yusen Logistics Co., Ltd.

Employee-Friendly Workplaces

Respect for Human Rights

Based on the NYK Business Credo, the NYK Group provides equal opportunities to all employees and creates workplaces without discrimination or harassment. Also, the Group is raising employees' awareness of human rights by implementing the NYK Group's HR Standards at all Group companies, conducting training for new employees and new team leaders and employees transferred overseas, and administering CSR training that covers the topic of human rights. Further, to give employees access to consultations whenever needed, we have established such systems as a harassment helpdesk within the Human Resources Group and the Yusen Chat Room, through which the opinions of outside experts can be obtained.

Advancement of Women's Careers

In 2001, we abolished the categorisation of positions as either career-track or general-duty and unified our personnel system. Since then, we have been creating systems and conditions that enable employees to pursue careers irrespective of gender.

In 2002, the NYK Group established downtown Tokyo's first in-house childcare service, Yusen Childcare. This service allows parents to return to work in accordance with their career plans without worrying about finding a nursery for their children. We also have a range of other initiatives to support employees, including a child rearing and nursing care leave system that surpasses legal requirements, a flexitime system, and a short-time work system. Further, in 2008 we introduced a system that allows employees to take leave for up to three years if their spouse is transferred within Japan or overseas.

In fiscal 2007, female managers accounted for more than 10% of managers for the first time, and this percentage has been rising steadily ever since. Currently, we have two female executives. In fiscal 2013, we established the Staff Development and Employment Initiating Chamber, tasked with exploring and implementing a range of measures for advancing women's careers.

Promotion of Work-Life Balance

The NYK Group is creating systems that enable individual employees to realise their potential fully while achieving a balance between their work and private lives. The Work-Life Balance Promotion Committee leads initiatives that include monitoring overtime hours and paid holidays on a Companywide and department basis, interviewing employees and supervisors of departments that have a lot of overtime, broadcasting announcements encouraging employees to return home on time, and streamlining meetings.

Work-Life Balance Promotion Committee
This special committee was organised in 1968 by labour and management to find ways to reduce overtime hours. In 2001, the committee changed its name to the Office-Hours Management Committee and strengthened its initiatives to promote better work-life balance. Further, in April 2008, it was reorganised as the Work-Life Balance Promotion Committee, comprising general employees; managers; and general managers, who act as third-party committee members.

Work-Life Balance Programmes (excerpt)

Parental leave
Available until the child reaches 26 months of age.

Family care leave
Up to a total of one year. Can be divided in two if within two years of the leave commencement date.

Parental and family care flexitime and shortened work hours
1. Flexitime system — Offered to employees who are pregnant, caring for children up to the sixth grade, or providing nursing care to family members;
2. Shortened working hours (up to two hours per day) — Available to employees caring for children up to the first grade or providing nursing care to family members.

Spouse transfer leave
Up to three years. Available if a spouse is reassigned overseas. (For domestic transfers, limited to three years from 2013)

Yusen Childcare (in-house childcare service)
Began in April 2002. Staffing above statutory requirements.

Management of Employee Safety

The NYK Group has established a safety confirmation system that checks the safety of employees and continues, or rapidly restores, operations during earthquakes and other disasters. If an earthquake having a magnitude in the lower-six range (that is, 5.5–5.9) on the JMA scale affects the areas of pre-registered residential addresses or work sites in Japan, the system automatically sends safety confirmation emails. In replying to this email, employees report on their condition and that of their families. The system then automatically compiles and sends a report to each department on their employees' status. In preparation for disasters, the Group will continue periodic drills based on this safety confirmation system.

Web CSR Activities > Social Contribution Activities

Towards Resolution of Social Problems

Based on the NYK Group Mission Statement, the Group leverages management resources to address social problems. In this section, we look at some of the transport cooperation that the Group provides to disaster areas and developing countries and the social contribution activities of its personnel.

Principles and Action Guidelines of Social Contribution Activities

NYK is committed to proactively addressing the challenges that confront the world, and through a diverse array of activities, the Company is making every effort to enhance corporate values and thus benefit society as a benevolent, sustainable, and socially responsible corporate citizen.

Action guidelines

1. Promotion of employee involvement in volunteer activities
2. 'Investment' in our future global society
3. Promotion of mutual prosperity and harmony with local communities

Ongoing Transport

©JOICFP

©JOICFP

1 Transport of school backpacks (for 10 years)

Transport route: Japan → Afghanistan

- Transported cumulative total of 124,997 school backpacks for free

1 2 Transport of bicycles (for 14 years)

Transport route: Japan → Afghanistan, Ghana, Zambia, Cambodia

- Transported cumulative total of 33,574 bicycles for free

©Shanti Volunteer Association

3 Transport of picture books (for 10 years)

Transport route: Japan → Cambodia, Laos, Thailand

- Transported cumulative total of 172,947 picture books for free

©National Federation of UNESCO Associations in Japan

3 Transport of drinking water

Transport route: Japan → Cambodia

- Transported cumulative total of 195,000 litres of drinking water (18 TEUs) for free

TOPICS Volunteer Activities of Group Personnel

Volunteer Activities for Great East Japan Earthquake

Since 2011, we have sent a total of 405 current and former Group personnel and executives to regions affected by the Great East Japan Earthquake.

In fiscal 2013, we shifted the focus of activities from debris removal to initiatives aimed at enabling regions to support themselves, such as town development rooted in local communities, the rebuilding of communities, and the revitalisation of industry. Working with and talking to local people has deepened our understanding of the progress of restoration efforts and suggested ideas for support going forward. Our support took many forms, including lectures, film screenings, events to sell local produce, and fundraising to support regional welfare services.

In the current fiscal year, which is the third year of our voluntary efforts, while we will transition from volunteer activities focused on restoration to those focused on revitalisation, we are committed to continuing to help regions overcome the effects of the Great East Japan Earthquake.

Volunteers in action

Support for Disaster Areas

5 Volunteer activities for Great East Japan Earthquake

Transport route United States → Japan

- Transported training boat washed ashore on U.S. coast by tsunami for free

5

* Transport routes shown on the map have been simplified and differ from actual transport routes.

©CIVIC FORCE

4 Typhoon in Philippines (Haiyan)

Transport route Japan → Philippines

- Transported 960 tents (10 TEUs) for free
- Transported 155,000 litres of drinking water (18 TEUs) for free
- Transported 165 tons of clothing (19 TEUs) for free

Volunteer Activities of Overseas Group Personnel

Weeding volunteers

Country Belgium

- Voluntary weeding in nature conservation area

Container donation

Country Australia

- Donation of 20-foot containers to primary schools, which NPO converts into playground equipment

Orphanage visits

Country Mexico

- Visits to orphanages on Children's Day

Terminal study tours

Country Singapore

- Terminal study tours for 230 children in year five of Japanese primary school

Clean-up activities

Country China (Qingdao)

- Cleaning of parkland

Earth Week initiatives

Countries United States, Canada

- Organisation of fundraising, events, and contests for environmental charities

Support for children

Country India

- Study support for children living in slums

Transport Cooperation in Fiscal 2013

NGO JOICFP (Japanese Organization for International Cooperation in Family Planning)

Donating used bicycles overseas

Delivered to	Number delivered
Four countries, including Zambia and Ghana	2,250*1

*1. 33,574 bicycles since 2000

Giving school backpacks

Delivered to	Number delivered
Afghanistan	19,068*2

*2. 124,997 school backpacks since fiscal 2004

Shanti Volunteer Association

Delivering picture books

Delivered to	Number delivered
Cambodia, Laos, Thailand (camps for refugees from Myanmar)	14,706*3

*3. 172,947 picture books since fiscal 2004

Support for Disaster Areas in Fiscal 2013

Disaster area name, support details		Amount*
May 2013	Sichuan earthquake, monetary aid	¥488,748
November 2013	Typhoon in Philippines (Haiyan), monetary aid	¥12,843,598
February 2014	Akaihane (red feather) fundraising to support Iwate coastal region affected by Great East Japan Earthquake	¥533,857

* Includes donations from Group companies and Group employees

TOPICS Opinion from an External Stakeholder

Social Contribution Activities That Reflect the NYK Group Mission Statement

We can think of the transport business as an activity that, by carrying goods, connects people. Furthermore, it is a business that involves diverse stakeholders. I think the NYK Group's efforts to make the kind of social contributions described in this report reflect a philosophy that puts stakeholders first. The Group fulfils its role as a transport business by continuing to improve transport efficiency. At the same time, it takes advantage of its particular capabilities as a transport provider to take the lead in delivering international support and aid. I believe such efforts have made the Group indispensable to society. I look forward to future reports about community-building efforts and initiatives that transcend the boundaries of nations and races.

Tomohiro Tokura
SRA Lead Auditor
Systems & Services Certification
SGS Japan Inc.

Organisations to Promote CSR Activities

We have established the Corporate Communication and CSR Group at NYK's headquarters, appointed CSR Task Force members in each group at the headquarters, and appointed CSR officers at Group companies in Japan and overseas. The Corporate Communication and CSR Group coordinates, promotes, and supports all CSR activities in the NYK Group. The Corporate Communication and CSR Group is also responsible for leading internal reforms and communicating information both inside and outside the organisation so that the NYK Group better responds to the requirements of its stakeholders, meets the expectations of society, and builds on the confidence that society has entrusted to the Company.

The group's activities include preparing integrated annual and CSR reports, conducting CSR training programmes, and administering the SRI Survey.

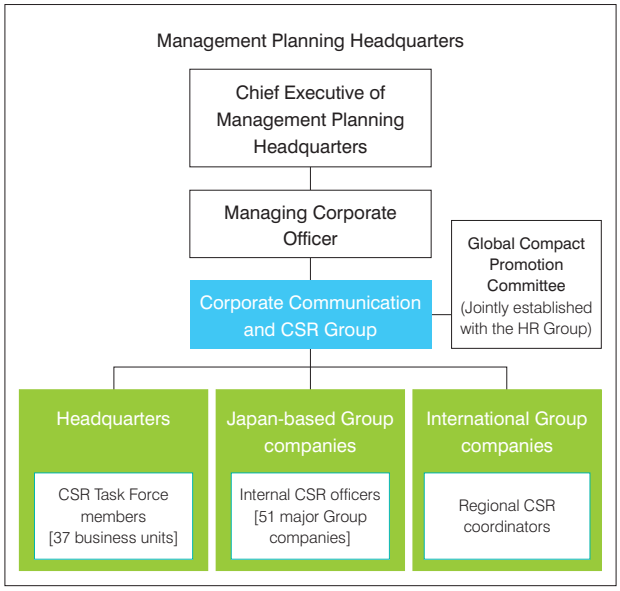
Overseas, we collect reports on CSR activities from regions worldwide and share those reports through the *Global CSR Newsletter*. Also, the NYK Group receives regional activity reports and discusses proposals from NYK's headquarters.

The 51 main Group companies in Japan have CSR officers. Overseas, we have deployed CSR coordinators at four regional management companies and at two companies in other regions to promote CSR activities that address local concerns and issues. In Japan and overseas, CSR officers share information with NYK's headquarters and other officers as activities are developed and implemented.

SRI Survey
Survey from socially responsible investment perspectives
Regional management companies
East Asia, South Asia, Europe, North America
Other regions
Oceania, Latin America

CSR Management Chart

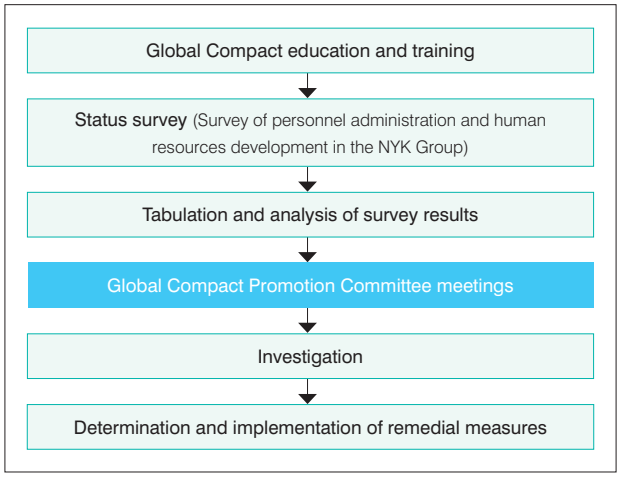
(As of April 1, 2014)



Global Compact Promotion Committee

In 2010, we established the Global Compact Promotion Committee to promote the United Nations Global Compact (UNGC) and to oversee investigations into and responses to human rights infringements. Comprising representatives from the Human Resources Group and the Corporate Communication and CSR Group under the control of the head of the Human Resources Group, the committee advances initiatives focused on UNGC Principles 1–6, which deal with human rights and labour standards. Since fiscal 2011, the Group has been promoting greater understanding of these areas of the UNGC by conducting training at Group companies in Japan and overseas. The Environment Group heads up initiatives for the environment area of the UNGC, while the Legal Group and Fair Trade Promotion Group lead initiatives for the anti-corruption area.

Global Compact Promotion Process



Business Strategy

Long-Term Strategies by Business

In the following pages, we explain the growth strategies of each business under our new medium-term management plan 'More Than Shipping 2018'. For details about the performance of each business in fiscal 2013, please see page 88.

Focus Offshore Business Grows Significantly under Previous Management Plan

Laying Foundations for Stable Earnings

The NYK Group is currently engaged in an array of investment projects. As part of a consortium comprising Mitsui & Co., Ltd., Kawasaki Kisen Kaisha Ltd. ("K" Line), and Japan Drilling Co., Ltd., the Group has invested jointly in a drillship for Brazil's state-run oil company Petroleo Brasileiro S.A. (Petrobras). In another joint investment project for Petrobras—for an FPSO (Floating Production, Storage, and Offloading) unit—we have partnered with major Dutch offshore developer SBM Offshore N.V. and ITOCHU Corporation. Furthermore, we have a 50% stake in Knutsen NYK Offshore Tankers AS (KNOT), the world's second largest operator of shuttle tankers, which transport oil from FPSO units above offshore oil fields to onshore storage bases.

Etesco Takatsugu J boasts the highest utilisation among the drillships that Petrobras charters.

Following on from providing Petrobras with *FPSO Cidade de Paraty*, which began production in June 2013, the FPSO business has received an order for two more FPSO units for Petrobras through a joint venture with SBM Offshore and Mitsubishi Corporation. Plans call for commencing charter contracts for these units and starting up crude oil production from the end of 2015.

Meanwhile, the shuttle tanker business has concluded long-term charter contracts for two shuttle tankers with Ente Nazionale Idrocarburi S.p.A., of Italy, and for one shuttle tanker each with Repsol YPF S.A., of Spain, and Repsol Sinopec Brasil S.A., of Brazil, a subsidiary of ExxonMobil Exploration and Production Norway AS, of Norway. Moreover, in December 2013 the business won an order from Total E&P Norge AS, of Norway, for the construction and charter of an FSO (Floating Storage and Offloading) unit due for completion in 2016.

The NYK Group's Offshore Business

Shuttle tankers (North Sea)

October 2011
Concludes time-charter contract with Ente Nazionale Idrocarburi S.p.A., of Italy, for two vessels (10 years)

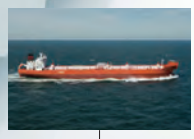
December 2011
Concludes time-charter contract with subsidiary of ExxonMobil Exploration and Production Norway AS, of Norway (10 years)

Drillships (off Brazil)

June 2009
Invests jointly in Etesco Drilling Services LLC

December 2011
Completes *Etesco Takatsugu J*

April 2012
Begins chartered vessel service for Petrobras, of Brazil (up to 20 years)



Shuttle tankers (off Brazil)

August 2011
Concludes time-charter contract with Repsol YPF S.A., of Spain (5 years)

January 2013
Concludes time-charter contract with Repsol Sinopec Brasil S.A., of Brazil (10 years)

Offshore Business Value Chain

KNOT (Norway)

December 2010
Takes 50% stake in former Knutsen Offshore Tankers ASA, changes name to Knutsen NYK Offshore Tankers AS (KNOT)

April 2013
Establishes affiliate KNOT Offshore Partners LP (KNOP), lists it on New York Stock Exchange

FSO unit (North Sea)

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

JAMSTEC

JAMSTEC

Oceanographic research vessel *Mirai* (Japan)

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

Deep sea scientific drilling vessel *Chikyu* (Japan)

2000s
Involved from launch of first project

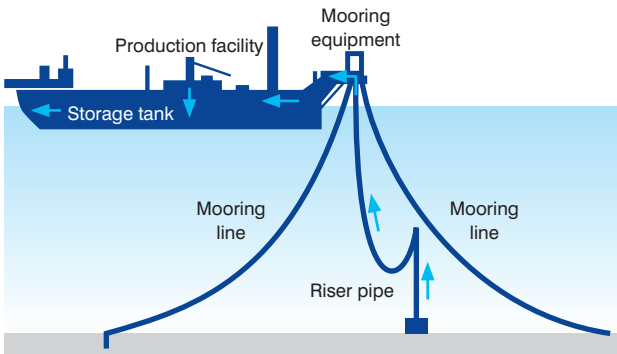
FPSO units (off Brazil)

April 2012
Concludes charter and operation contract with Petrobras (up to 20 years)

June 2013
Sees *FPSO Cidade de Paraty* begin crude oil production off Brazil

July 2013
Receives order jointly for two FPSO units for Petrobras

FPSO System



Diversifying Fundraising

Reflecting stepped-up offshore oil field development, approximately 150 new FPSO units are expected to be completed by 2020. The completion of these units is likely to generate demand for between 40 and 50 new shuttle tankers. To capture this demand, the NYK Group must order new vessels based on farsighted plans; however, the high cost of each shuttle tanker makes stable fundraising essential.

To this end, KNOT raised about ¥16 billion from the market needed for growth going forward by spinning off KNOT Offshore Partners LP (KNOP) and listing it on the New York Stock Exchange.

KNOP owns and operates shuttle tankers with long-term charter contracts of five years or more. In addition to its four existing vessels, the company will receive from KNOT five shuttle tankers that are slated for completion in 2014. Meanwhile, KNOT is responsible for short-to-medium-term transport, the FSO business, and a business that converts existing vessels into chemical injection vessels.

Building the Earning Power of the Offshore Business

The offshore business moved into the black in fiscal 2013 thanks to the favourable operation of drillships and FPSO units and improvement in the profitability of the shuttle tanker business. In fiscal 2020, the offshore business aims to post recurring profit of ¥10 billion, which is a target we can reach through the new contract for the two FPSO units, entry into the FSRU (Floating Storage and Regasification Unit) business, and the acquisition of new contracts for shuttle tankers.

Accumulating Expertise for the Offshore Business

By dispatching a captain, a chief engineer, and an engineer, NYK has become involved from the EPC (Engineering, Procurement, and Construction) stage of the FSO project, for which KNOT received a new contract. Similarly, NYK plans to send technical personnel to the project for the two FPSO units for which a new contract has been concluded. Ultimately, with a view to personnel development, we intend to dispatch around 50 technical personnel to such projects.

As offshore facilities, FPSO units and FSO units enable a shipping company to bring its expertise to bear. Further, we can become more deeply engaged in projects by ensuring knowledge of the entire system of integrated operations, which include pumping up crude oil from the seabed and refining, storing, and offloading it. We look forward to broadening the scope of the offshore business by taking advantage of expertise gained through dispatching technical personnel.

Transcending existing business frameworks, the NYK Group will source capacity from a broad spectrum of areas while using expertise garnered in a variety of fields as the basis for promoting Group synergies. We intend to prepare an extensive, unique menu of services catering to demand in global logistics that is diversifying ever more rapidly.

Hidetoshi Maruyama
Chief Executive of Global Logistic Services Headquarters
Director, Managing Corporate Officer
Responsible for liner trade segment (including Terminal Division) and logistics segment

Liner Trade

Review of Previous Medium-Term Management Plan (fiscal 2011–fiscal 2013)

Worldwide, we handle roughly 4 million containers. A simple calculation shows that if the freight rate per container declines US$100, profitability deteriorates ¥40.0 billion. In fact, freight rates fell more than US$200 from 2011 to 2013, causing revenues to decrease more than ¥80.0 billion.

Reflecting adverse conditions, the liner trade segment recognised a recurring loss of ¥37.0 billion in fiscal 2011. However, the segment has since steadily improved profitability by pursuing a light-asset business model and restructuring costs. In fiscal 2012, the segment shrank the deficit significantly and reduced it further to a recurring loss of ¥0.7 billion in fiscal 2013.

Conversion of Fleet Based on Light-Asset Business Model

Susceptible to freight rate fluctuation, the liner trade segment faced a huge capacity supply-demand gap. Therefore, the main task was to curb volatility as much as possible. To this end, we began moving the fleet towards a light-asset business model.

For many years, the international shipping industry has had a structural problem. Because owned and long-term chartered vessels accounted for a large proportion of the fleet, quick responses to freight rate changes were difficult. As a result, when demand decreased, losses rose. Recently, however, a more-flexible market for chartered vessels has been emerging. Consequently, shipping companies have been able to compose their own fleet by flexibly combining short-term and long-term chartered vessels and owned vessels.

However, by changing to a light-asset business model, we were not simply aiming to rationalise the fleet. A further aim was to increase cargo handling volume by adding cargo collection from the ocean forwarding of our in-house logistics company. Through the light-asset business model, we sought to increase transport volume by using more than simply our owned-space provision. Utilisation, which is transport volume divided by space provision, reflected the effectiveness of this unique solution to the problem of adjusting supply to demand. Looking at figures from fiscal 2011 through fiscal 2013, while the fleet of owned and long-term chartered vessels shrank from 84 vessels to 74, space provision and transport volume grew. Moreover, utilisation improved.

Containership Fleet Size (FY)

	2011	2012	2013	2014 (Forecast)
Number of operating vessels	99	92	99*	95
Of which are owned and long-term chartered vessels	84	76	74*	70
Asia → North America				
Transport volume (Thousands of TEUs)	650	624	663	696
Space provision (Thousands of TEUs)	802	759	787	826
Utilisation (%)	81%	82%	84%	84%
Asia → Europe				
Transport volume (Thousands of TEUs)	500	508	512	559
Space provision (Thousands of TEUs)	580	557	560	595
Utilisation (%)	86%	91%	91%	94%

* When preparing More Than Shipping 2018

Cost Reduction Initiatives

While advancing the light-asset business model, we concentrated efforts on reducing fixed costs and variable expenses. The liner trade segment alone realised cost reductions of more than ¥20.0 billion each year.

Aiming to save on fuel costs—which account for the majority of fixed costs—we lowered fuel consumption volumes through slow-steaming operations implemented in our 'Innovative Bunker and Idle-time Saving (IBIS) Project'.

IBIS Project

▶ For further details about the IBIS Project, please see page 42.

In 2012 when we launched the IBIS Project, our initial priority was to reconstruct shipping services so that they curbed fuel consumption. Once we gained a customer's approval for a shipping service, we were able to manage total fuel consumption in a planned way because, when we decided the details of a shipping route, we also decided its speed. Next, we turned our attention to reducing fuel consumption in routine operations. On board containerships, we introduced broadband communications equipment and an operation-monitoring system that enables onshore and onboard operations to share information on weather and sea conditions as well as a range of other information in real time. Under the project, by choosing optimal routes and speeds to suit conditions, we are able to realise energy-saving operations that do not consume fuel wastefully.

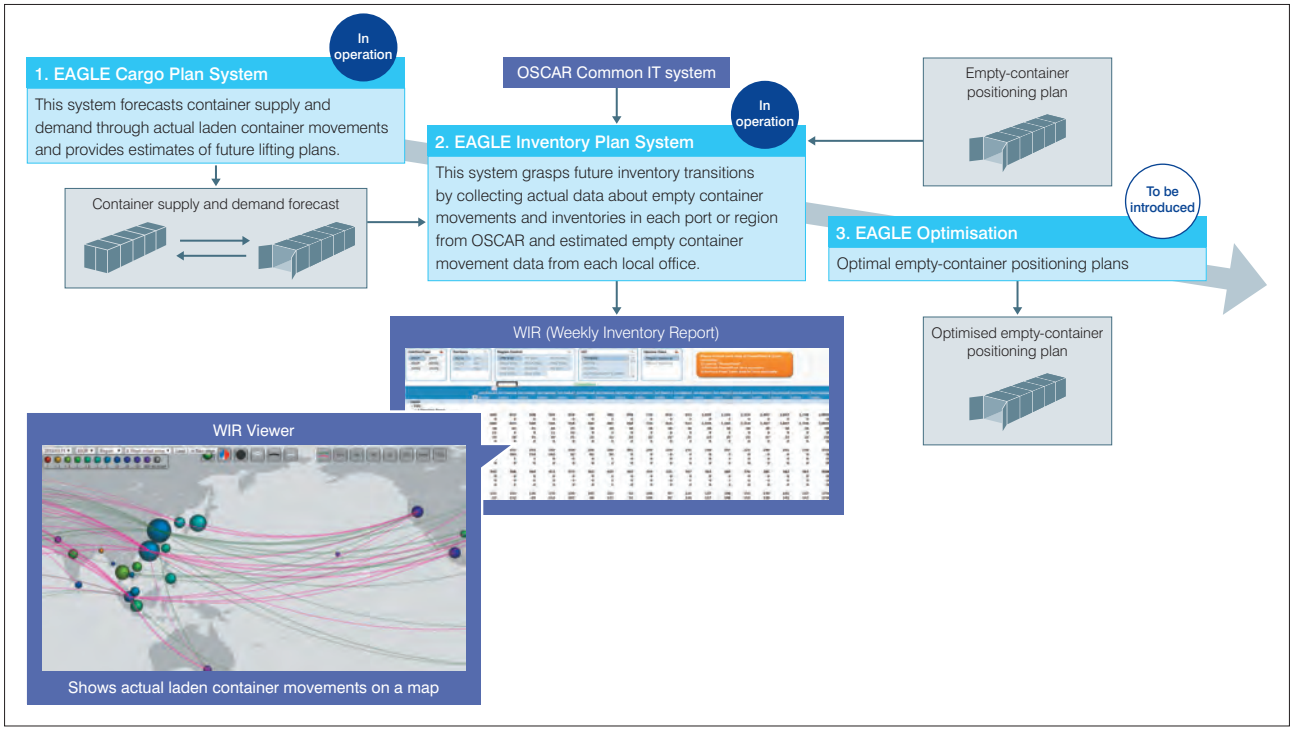
To complement the IBIS Project, which reduces fixed costs, in the year under review we launched the EAGLE (EQC Aspiration for Global Efficiency) Project to tackle variable expenses that reflect cargo volumes. Under the project, we have begun optimising profitability on an individual container basis.

EAGLE Project and Yield Management

We launched the EAGLE Project to improve the profitability of each container's round-trip voyage by considering the projected costs of transferring empty containers. To achieve such container movement management, close coordination between on-site managers at the point of origin and destination is called for.

With this in mind, we removed vertical organisational barriers between export sales, import sales, and cost management teams—which tended to focus solely on reaching their goals—and thereby encouraged a change in perspectives. The project has begun producing measurable benefits thanks to the development of precise, IT-enabled container movement management and direct and indirect contributions from the project management office and others involved.

EAGLE Project



Business Strategies of New Medium-Term Management Plan

Business Strategies

Over the coming five years, we expect freight rates to remain flat or decline marginally. We envisage solid container cargo movements centred on Asia. However, given trends to roll out new large vessels, East–West routes are likely to see continued oversupply. Further, there is concern that this oversupply could push vessels out of these shipping routes and onto intra-Asia routes, causing supply to swell and surpass steady demand. To heighten cost-competitiveness, the NYK Group plans to introduce new 14,000 TEU containerships on the shipping route between Asia and Europe in 2016. Meanwhile, we intend to continue advancing the light-asset business model. To achieve these initiatives, it is critical to acquire cargo for both voyage legs, rather than single legs only. The EAGLE Project has produced major benefits on North American shipping routes, and our next goal is to expand the project to European and intra-Asia routes.

Fleet Portfolio

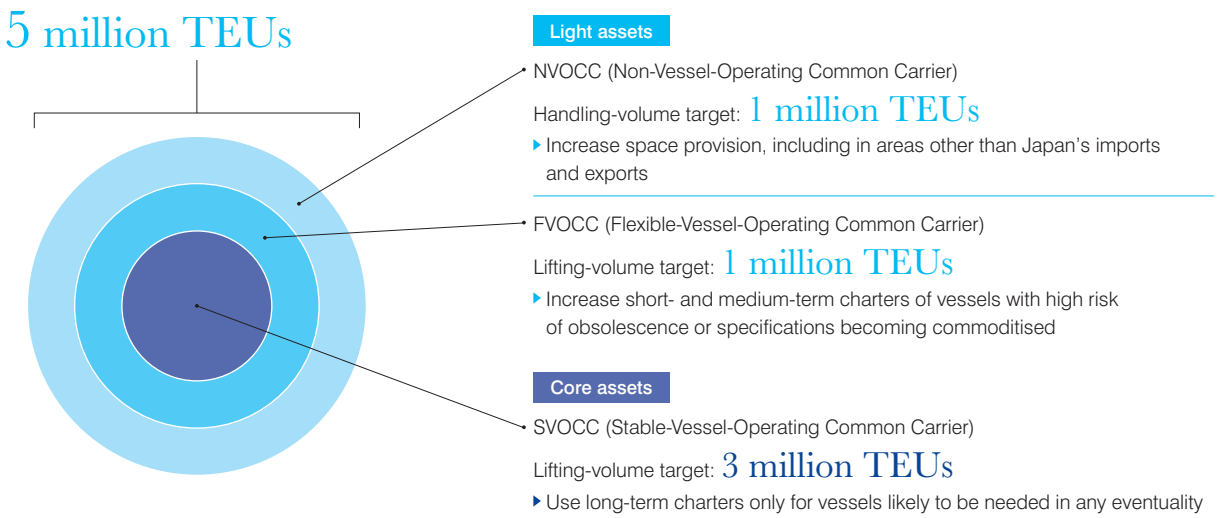
The new plan reconfirmed our strategy of combining space provision through different categories—the core fleet, short-term chartered vessels, and ocean forwarding—to ensure flexibility in response to freight rates and operational stability.

We call this strategy 3C5M, with '5M' standing for our target of transporting 5 million TEUs. Based on this target, the strategy calls for the development of a fleet portfolio with three methods of procuring space for container transport. We refer to these methods as '3C', which refers to carrier models: NVOCC (Non-Vessel-Operating Common Carrier); FVOCC (Flexible-Vessel-Operating Common Carrier); and SVOCC (Stable-Vessel-Operating Common Carrier).

Under the new plan, the handling-volume target for the NVOCC business is 1 million TEUs, while the lifting-volume targets are 1 million TEUs for the FVOCC business and 3 million TEUs for the SVOCC business. We can classify these businesses into operations with the flexibility to adapt to freight rates and those providing stability. Thus, the NVOCC and FVOCC businesses, which can adapt readily even if freight rates deteriorate rapidly, will account for 2 million TEUs, and the stable SVOCC business will account for 3 million TEUs, thereby giving a 4:6 ratio between adaptable and stable carrier formats in our business portfolio. The resulting balance promises to stabilise earnings further by allowing us to take action quickly when business conditions change. With lifting volume of about 3.5 million TEUs, the SVOCC business is currently above target. Therefore, we want to transfer some of this to the NVOCC and FVOCC businesses as soon as possible.

3C5M

Overall handling- and lifting-volume targets for the NYK Group's container transport



■ 3C5M
Represents goal of transporting 5 million TEUs through three carrier business models
- **3C:** NVOCC, FVOCC, SVOCC
- **5M:** 5 million TEUs

Liner Trade FAQ

Q What is the business results outlook for fiscal 2014?

A We aim to move combined business results for the liner trade segment and the Terminal Division into profitability.

We have set three progressively challenging goals. The first is to move the combined business results of the liner trade segment, the Terminal Division, and the logistics segment into the black. We must achieve this goal, even if business conditions are considerably worse than expected. At this point, however, we are not anticipating any deterioration of this sort. Our second goal is to move the combined business results of the liner trade segment and the Terminal Division into profitability. At this juncture, we project that together these businesses will post recurring profit of ¥2.5 billion in the current fiscal year. Our final goal is to have the liner trade segment become profitable independently. However, realistically we are unlikely to achieve this third goal until the introduction of highly economic 14,000 TEU containerships in fiscal 2016. Therefore, in the current fiscal year we aim to realise the first two goals.

Q Does the Group still have leeway for cost reduction?

A Yes, but the key is to reduce costs unrelentingly.

Slow-steaming operations have already become part of our standard process. We have prepared a manual and systems to ensure that vessel operation costs remain at appropriate levels. Nevertheless, rather than being satisfied, to ensure that we never move backwards, we constantly emphasise to personnel the importance of not slackening cost reduction efforts.

Q What are the Group's long-term tasks?

A We are focusing on the effect local production for local consumption will have on the transport of general consumer goods.

Without a doubt, worldwide cargo movements will continue to grow, centred on Asia. However, as local production for local consumption spreads, ocean transport distances will shorten steadily. For example, the world's shipping-route map would change dramatically if exports rose significantly from countries comparatively near to Europe, such as India and Middle Eastern countries, or from countries near to North America, including Mexico and Jamaica. If such sourcing near to consumption areas becomes common, a time may come when we re-examine the merits of the shipping routes we have taken for granted and of the trend towards larger vessels. In the new plan, we do not see these changes emerging rapidly; but, rather than assuming an optimistic outlook, we intend to analyse trends carefully.

Terminal Division

Business Strategies of New Medium-Term Management Plan

Going forward, the NYK Group will continue pursuing synergies between the Terminal Division and the liner trade segment. At the moment, we are looking at ports in Vietnam, Indonesia, and other Asian countries as potential investment targets. However, we will retain a conservative approach to investment decisions, thoroughly analysing cargo demand and the value of terminals from the standpoint of a terminal user. The Terminal Division is able to generate steady cash flows based on handling volume. Given that the NYK Group's terminals will handle most of the 5 million TEU handling and lifting volume that the liner trade segment is targeting, treating the two businesses as interlocked will curb business results volatility. For this reason, we began including the business results of the Terminal Division in those of the liner trade segment from fiscal 2013.

Further, we are in the process of extending hub-and-spoke operations with a view to increasing vessel sizes and heightening efficiency. By switching to larger vessel types and changing vessel allocation to such formats as hub-and-spoke operations, we will significantly improve the liner trade segment's profitability. For the Terminal Division, however, whether it handles large direct-service vessels or small feeder vessels does not matter; as long as it secures sufficient handling volume, it can perform stably. We plan to steadily increase handling volume based on this business model because it is an important way to enhance the stability of the liner trade segment, which is exposed to business results fluctuation risk.

Hub-and-spoke operations

This is a system in which cargo is concentrated in a central port, or hub, for transport to final destinations, or spokes. This system is more efficient than direct transport between producing countries and final destinations.

Logistics

Review of Previous Medium-Term Management Plan (fiscal 2011–fiscal 2013)

Building of Industry Presence

Reflecting a slump in the volume of air cargo worldwide, the air cargo handling volume of the NYK Group's air forwarding business was 190,000 tons below its 500,000-ton target. Similarly, the ocean forwarding business saw cargo handling volume of 570,000 TEUs versus a 1 million TEU target. Despite missing targets, and as competitors struggled, the ocean forwarding business grew handling volume 30% over the three years of the plan. So, as an air and ocean forwarder, the logistics segment steadily strengthened its presence. By developing the purchasing power to procure space, we were able to build relationships with shipping companies and customers that we had not previously dealt. In addition, the scope of this segment's business broadened. We received an increasing number of enquiries about contract logistics, leading to orders for logistics services spanning entire supply chains.

Business Strategies of New Medium-Term Management Plan

Further Strengthening of Presence

The logistics segment's core company, Yusen Logistics Co., Ltd., is following a three-year plan ending in fiscal 2016. This plan calls for 850,000 TEUs of seaborne cargo, 370,000 tons of air cargo, operating revenue of ¥500.0 billion, and operating income of ¥12.0 billion. Regarding seaborne cargo, while emphasising profit margins, we aim to reach 1 million TEUs early.

Differentiation through Technological Capabilities and Professional Skills

Referred to as 'Creative Solutions' in the new plan's subtitle, technological capabilities and professional skills will play an important part in further differentiating contract logistics. For example, in some projects we provide comprehensive services: we collect various products from the plants or bases of multiple manufacturers in China, ship them to subsidiaries in Europe and North America, sort them in accordance with sales conditions, and deliver them to shops or bases efficiently. Such projects call for advanced systemisation of processes at each stage, including cargo collection and sorting and delivery to shops. We view these projects as an opportunity to take advantage of our experience, technological capabilities, and professional skills.

Further, as consumer needs evolve with dizzying speed, providers of logistics services must cater flexibly to the movement of goods. Whether or not companies can rapidly detect consumer needs and provide unique, high-quality services matching them will separate winners from losers. Consequently, it is indispensable for companies to remain abreast of the latest developments in diverse business areas and regions and to acquire in-depth information as needed. Not only contract logistics but other areas engaged in consumer goods logistics need to analyse consumer trends in real time. The information obtained as a result is critical to the NYK Group's ability to realise synergies.

By using such information as a foothold for ocean transport projects, we aim to develop into a unique general logistics provider that only a shipping company could create.

In fiscal 2014, we expect to complete our plan to introduce eight new B747-8F aircraft into our fleet. By replacing aged aircraft, the segment will be able to make maximum use of the outstanding cargo capacity of the new aircraft and develop operations so that the segment can fully benefit from the introduction of these aircraft.

Hitoshi Oshika
General Manager of Air Freighter Business Group
Director, Corporate Officer

Review of Previous Medium-Term Management Plan (fiscal 2011–fiscal 2013)

Business Conditions and Business Results

After shrinking rapidly following the global recession, the air cargo market showed little sign of recovery. In particular, air cargo exports from Japan slumped more than expected. Although finally bottoming out towards the end of the plan's term, cargo movements remained at record lows.

Compared with exports in fiscal 2010, the air cargo transportation segment saw export volume from Japan decrease from 50% to 30% of its exports to North America and from 80% to 50% of its exports to Europe. As air cargo exports from Japan declined during the previous plan's three years, Japan-based Nippon Cargo Airlines Co., Ltd. (NCA), struggled. Meanwhile, air cargo exports from Asia grew to claim a larger share of exports as we captured business steadily in growing markets centred on Asia. This increase in market share testifies to the robust sales capabilities that NCA, which enjoys overwhelming strength in Japan's market, has developed in Asia. Therefore, we look forward to further growth.

Also, over the past several years NCA has reduced all costs rigorously. Low barriers between divisions have long been a feature of the company's corporate culture, facilitating information sharing. Consequently, NCA already has a firmly rooted awareness of cost improvement and takes pride in its world-class competitiveness.

Business Model Transformation

Aiming to establish revenue sources other than scheduled flights, we have increased the number of charter flights and created new services for airlines.

Generally, after receiving requests for charter flights, two or three weeks are required before the service begins. However, NCA has delivered such charter flights in as little as four days, earning it a favourable reputation. As a result, when customers have urgent projects, they always come to us for help. In addition, we began Japan's first airline charter services, which not only lease but also operate aircraft.

Further, we extended our existing network, launching scheduled flights linking North America and Germany. Prior to this, some aircraft configuration inefficiency was unavoidable. Due to the scarcity of cargo for the return legs of flights from Japan to North America, aircraft returned from North America with surplus cargo space. Another problem was that, because of the large volume of cargo from Europe to Japan, aircraft returning to Japan were unable to carry it all. The new North America–Germany flight has improved the efficiency of aircraft configuration. After transporting cargo from Japan to North America, aircraft continue on to Europe with cargo and from there carry cargo to Japan.

Business Strategies of New Medium-Term Management Plan

Growth Strategy Centred on New Aircraft

In the current fiscal year, we will realise the completion of our fleet of eight new B747-8F aircraft, which we have been building as planned.

Until now, a mix of new and aged aircraft has forced us to use the smaller cargo capacity of aged aircraft as a standard when conducting sales activities. However, by replacing the aging aircraft with new aircraft, the segment will be able to make maximum use of the newer plane's outstanding cargo capacity and develop operations so that this segment benefits fully from the introduction.

With a view to increasing the number of charter flights, we want to accumulate actively the capabilities and expertise that will enable us to handle cargo appropriately at airports other than major airports. We believe that continuing to hone professional services and earning a favourable reputation among customers are the source of business earnings.

In preparation for increasingly uncertain market trends from 2016 onward, we aim to balance cash flows by correcting as soon as possible an imbalance between cargo contracts and fleet composition, thereby establishing a business model less susceptible to market fluctuation.

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

Review of Previous Medium-Term Management Plan (fiscal 2011–fiscal 2013)

Profitability in Sight

Expecting annual crude steel production in China to reach 1 billion tons, we developed our fleet centred on capesize bulk carriers. However, the country's crude steel production was slightly less than 800 million tons in 2013. Consequently, transport demand did not grow as we had hoped, leaving us with significant surplus shipping capacity.

Under the previous plan, our main task was to narrow the supply-demand gap as far as we could through stepped-up sales efforts. In particular, we focused on accumulating long-term contracts. In the NYK Group as a whole, businesses with stable freight rates surpassed the target of ¥80.0 billion to accumulate recurring profit of ¥110.0 billion in fiscal 2013, and the Dry Bulk Carrier Division made a major contribution to this achievement.

During the same period, we began rationalising the fleet. Aiming to rightsize it, we redelivered vessels with high costs ahead of schedule or sold them. As for vessel operations, the sales team and the vessel operations team united to introduce slow-steaming operations to chartered vessels—which account for 70% of the fleet—and to reduce ballast voyages by restructuring our contract portfolio and adjusting vessel allocation. Thanks to these efforts, we expect to move into the black in fiscal 2014.

NYK Bulk & Projects Carriers

Former Group companies NYK-Hinode Line, Ltd. (Hinode), and NYK Global Bulk Corporation (NGB) merged to establish NYK Bulk & Projects Carriers Ltd. in October 2013. Hinode's competence lay in transporting steel and plant equipment, while NGB had strong bulk cargo transport capabilities. However, frequent ballast voyages were a problem for both companies. In addressing this problem, we are working to heighten utilisation through the merger by enabling the transport of Hinode's former cargo using the bulk carriers NGB once operated. Aiming to accelerate this initiative and raise profitability further, we are building new bulk carriers with stronger tank tops and including equipment that renders the vessels better suited to the transport of steel and plant equipment.

Ballast voyages
When vessels sail without cargo
Tank tops
Floor surfaces of cargo holds

Business Strategies of New Medium-Term Management Plan

Market Trends

Between 2010 and 2012, more than 200 new capesize bulk carriers were completed annually. In 2013, however, this halved to approximately 100 vessels. For the first time in several years, transport demand growth outstripped the increase in shipping-capacity supply. In 2014 and 2015, we expect to see roughly the same number of new capesize bulk carriers completed and about 4% growth in shipping-capacity supply.

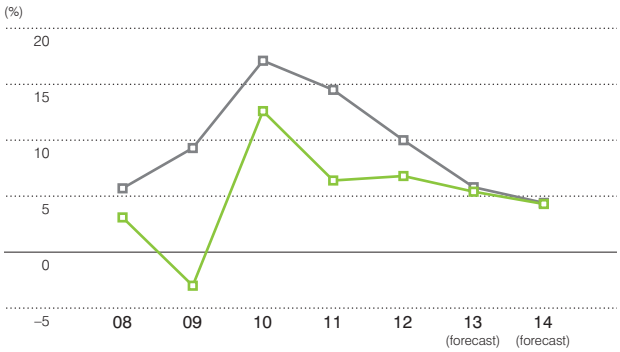
As for demand, we are continuing to monitor trends in China. The country is pursuing structural reform focused on infrastructural development, including the renewal of aged housing and the expansion of rail transport networks. China's economy is expected to grow between 6% and 7% annually. If this happens, crude steel production is likely to increase between 3% and 5%. In addition, the trend towards imported iron ore replacing domestically produced iron ore will probably gain momentum. Environmental considerations are restricting the use of China's iron ore, which is of low quality due to its low iron content. Furthermore, mining companies are ramping up production, and the cost-competitiveness of imported iron ore is rising. In light of these trends, transport demand for China could increase close to 10%.

Although new vessels completed in recent years are continuing to cause oversupply, we expect supply and demand will reach sounder levels in the second half of 2014.

However, we will need caution from 2016 onward because speculative investment is swelling the number of vessels on order. In 2013, US$10 billion flowed into the shipping industry from stock markets, most of which was invested in dry bulk carriers. Investment

levels have reached those of 2007, when a spike in the market fuelled excessive investment. Given the uncertainty of freight rates from 2016 onward, our greatest task under the new plan is to use the time we have in order to prepare.

Increase in Seaborne Trade and Fleet Tonnage



Source: Clarkson Dry Bulk Trade Outlook (March 2014)

Establishment of Business Model Resistant to Market Fluctuation

Until now, the main cause of deficits has been an inability to obtain enough long-term cargo contracts to match our fleet of owned and long-term chartered vessels and their high costs. This situation arose due to a mismatch between revenue-related contract periods and fleet composition. The new plan calls on us to redress this mismatch and establish a business model less susceptible to market fluctuation.

Accordingly, we will use vessels with long-term fixed costs for contracts that provide long-term fixed revenues and short-term chartered vessels for short-term contracts. When charter periods are short, we can redeliver vessels quickly if the market slumps, thereby minimising the effect on earnings. At present, because owned and long-term chartered vessels still account for a majority of the fleet, the immediate future will be an adjustment phase. With plans calling for the redelivery of vessels with high costs in fiscal 2015, the fleet's balance should improve from 2016.

Fleet Development and Investment Strategy

The fleet is still too large, so we are not considering investment to expand it. However, we will actively undertake renewal investment to replace existing vessels with new vessels that have superior energy-saving attributes. Due to a cap on the amount the division is permitted to invest under the new plan, we will recruit the help of shipowners and institutional investors when making investments.

For capesize bulk carriers, we do not intend to place prior orders, but we will consider placing orders if we receive long-term contracts requiring new vessels. Plans call for reducing the fleet from the current level of 126 vessels to 100 by the end of fiscal 2018. The fleet size of 100 vessels reflects the number of contracts we expect to have. If contracts increase, we will increase the fleet size accordingly.

Higher Earnings from Value-Added 'Creative Solutions'

From the perspective of risk management in relation to market deterioration, we believe that matching fleet composition and cargo contracts is important. At the same time, it is essential we take all possible measures to generate earnings. Accordingly, as the new plan's subtitle indicates, we will leverage 'Creative Solutions' based on technological capabilities and professional skills to offer the market added value and generate further earnings. In conjunction with these efforts, we will continue slow-steaming operations and other initiatives of the Innovative Bunker and Idle-time Saving Project as well as efficient vessel allocation that reduces ballast voyages. Extending beyond improvements to physical infrastructure, such as incorporating energy-saving equipment on board vessels, efforts to maximise earnings will include honing our skills. For example, we will hone our ability to analyse data, thereby heightening the accuracy of our short-to-medium-term market forecasts.

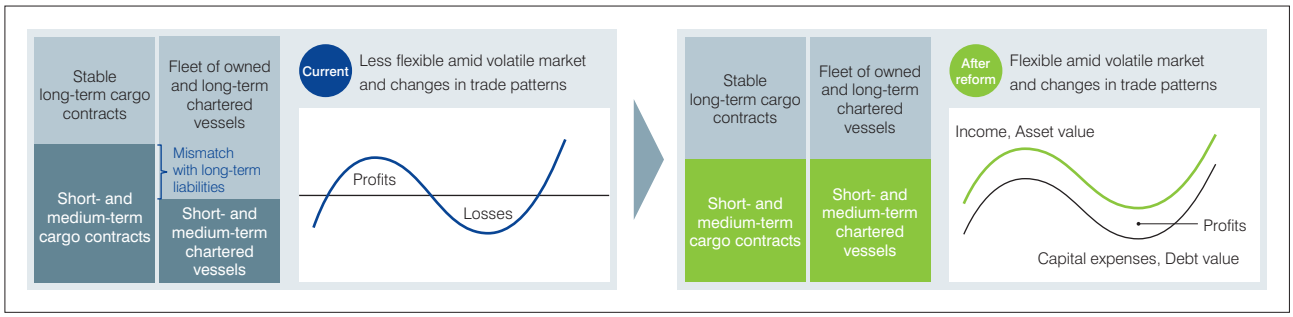
Dry Bulk Carrier Division FAQ

Q Going forward, what business opportunities do you anticipate?

A We are focusing on coal.

In Japan, demand for coal transport is certain to rise given plans to build new coal-fired power plants as an alternative to nuclear power generation. In addition, demand for coal in India is likely to grow strongly. The country depends on coal for 75% of its power generation and, in step with economic development, is expected to see an increase of more than 10% in demand for coal transport in fiscal 2014.

Towards a Business Model Less Susceptible to Market Fluctuation



While making good use of our fleet, we will explore forward-looking tanker business models. As for LNG carriers, we intend to focus on quality rather than volume. In the offshore business, the division will send personnel to projects to accumulate more knowledge and skills.

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

Review of Previous Medium-Term Management Plan (fiscal 2011–fiscal 2013)

Tankers

For the crude oil transport business, conditions have been extremely difficult over the past three years. Particularly in Japan, oil demand is trending downward due to structural problems, including a population that is aging and decreasing and the declining use of automobiles in cities. Given that transport to Japan is this division's mainstay, the term of the previous plan was a challenging period.

In response, we reduced the number of free vessels and adjusted the fleet to match demand while focusing efforts on accumulating long-term contracts for transport to Asia. As a result, we introduced three very large crude-oil carriers (VLCCs) as long-term chartered vessels for the Thai oil refiner Thai Oil Public Company Limited. This is a good example of successfully capturing Southeast Asia's growing oil demand.

LNG Carriers

Demand for LNG transport was up significantly due to an increasing changeover of fuel from oil to natural gas and the emergence of the shale oil and gas revolution. Such factors led to us receiving a range of business enquiries stemming from a host of new shale oil and gas projects starting up in North America. As a result, we accumulated long-term contracts for transport that are scheduled to begin over the coming five years.

In addition, we became the first Japanese shipping company to enter the LNG industry's midstream and upstream areas. Specifically, we took a stake in the Wheatstone LNG project in Australia, due to begin production at the end of 2016, and announced our intention to participate in the Cameron LNG project in the United States, which will come on stream in the second half of 2017. Rather than simply acquiring equity interests, we plan to create synergy benefits with our mainstay business by concluding contracts to transport the LNG these projects produce. Another benefit of these projects is that sending personnel to them allowed us to acquire new knowledge and skills, which we hope will lead to further business opportunities.

Stricter Quality-Control Requirements

While demand for LNG transport is rising, customers are requiring ever-stricter quality control. For example, they carefully check seafarers' work histories. It takes considerable time to foster seafarers with appropriate expertise and advanced ship-operation skills. One of our main strengths is our unique in-house personnel development systems, including a merchant marine academy in the Philippines, a training centre in Singapore, ship-management companies, and two vessels for training cadets. As with crude-oil carriers, the NYK Group takes responsibility for the operation and safety of LNG carriers by crewing them with highly skilled, reliable personnel it has trained. This in-house personnel development is highly regarded by customers.

Business Strategies of New Medium-Term Management Plan

Tankers

Unfortunately, transport demand for crude oil is unlikely to grow in the immediate future. Although companies have curbed orders for new vessels, supply and demand will take time to reach a balance. Another cause for considerable concern is that, despite slumping freight rates, speculative investment is spurring orders for new vessels.

The increasing number of vessels on order leaves us no option but to curb investment aimed at expansion. Further, because we cannot contemplate fleet renewal investment without the prospect of stable earnings, it will be difficult to order new vessels unless we have acquired long-term contracts. While explaining these constrictions to customers, we intend to explore forward-looking business models, such as the long-term chartered vessels we provide to Thai Oil Public.

LNG Carriers

LNG demand worldwide is forecast to double over the next 10 years, from the current level of 240 million tons to 450 million tons in 2025. In step with this rise, the number of LNG carriers is expected to increase from 370 to 650 by 2025. The NYK Group plans to expand its fleet of LNG carriers from 67 to at least 100 by the end of fiscal 2018. This is a target we feel confident is reachable. However, rather than expanding the fleet recklessly in pursuit of numerical targets, we believe maintaining service quality while accumulating contracts is paramount.

As for acquiring equity interests in midstream and upstream areas, with an emphasis on stable contracts and reliability, we will continue to consider projects actively if they promise not only investment opportunities but the prospect of creating synergy benefits with our transport and other mainstay businesses.

Business Opportunities Based on Technology and Skills

In some cases, oil or gas field development projects need to construct new port facilities. For such projects, the Group offers solutions featuring port facilities with outstanding safety and efficiency by recruiting the help of a subsidiary specialising in offshore marine consulting services, Japan Marine Science Inc. Based on expertise gained from decades of experience operating various types of tankers and LNG carriers, these solutions earn high praise from customers.

With the new plan calling for differentiation through technological capabilities and professional skills, our participation in such projects is likely to become increasingly common.

Pursuit of Synergies with Offshore Business

▶ For more information on the offshore business, please see 'Focus' on page 62.

Around the world, there are many unexploited natural gas fields. If refining and storing LNG offshore continues to increase, demand for FPSO for LNG, also known as FLNG (Floating Liquefied Natural Gas) units, and FSRUs (Floating Storage and Regasification Units), is likely to rise. Currently, there are 29 FLNG projects being planned, including 12 in Australia and five in Southeast Asia. Of these, two have reached the FLNG unit construction stage. If we can combine the technology and expertise we have fostered in relation to LNG transport over many years with the technology and expertise we are steadily building up in the offshore business, we will be able to develop highly sophisticated operations. With this in mind, we are dispatching personnel to EPC (Engineering, Procurement, and Construction) stages at FPSO and FSO (Floating Storage and Offloading) units.

Although it has burgeoning potential for further growth, our LNG transport business is a mature business with respect to its level of competence. Meanwhile, the offshore business is still in an early stage of its development. When we began the LNG transport business in about 1980, it was at a similar developmental stage to that of the offshore business today. The LNG transport business became a mature business by accumulating expertise and acquiring practical capabilities. By aiming for a comparable level of competence, the offshore business will be presented with a widening range of options in future. As the offshore business moves forward, the companies, businesses, and even the M&As that it may need to develop further will become apparent.

Tanker Division FAQ

Q What measures will the NYK Group take to realise further differentiation?

A We have introduced safety mission statements.

In the Tanker Division, we have prepared safety mission statements for all vessels. Proposals from NYK Group personnel, who were previously engaged for many years in quality control at oil majors, formed the basis of this initiative. We expect it will bring two benefits: a further heightening of in-house safety awareness and an opportunity to show customers the quality of our transport services.

SAFETY FIRST!

Strong values and ethics support our mission to be the partner of choice for the transportation of our customer's liquid products

Aligned and focussed operations ensure added value to the transportation chain

Focus on safe and environmentally friendly operations ensures we are at the forefront of the value chain

Empowered employees always strive for excellence in everything we do

Through our people we deliver goods and services that meet our customers' expectations

Years of experience plus integrity, innovation, and intensity provides our customers with world class performance

NYK Your Partner of Choice

First choice **I**n **R**eliable and **S**afe **T**ransportation of liquid products

We have established a system that caters to customer needs by increasing global bases strategically. Our goal going forward is to meet customer expectations by further expanding and optimising our network of bases so that it not only links single points but also connects shipping routes and enables the provision of comprehensive logistics services.

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

Review of Previous Medium-Term Management Plan (fiscal 2011–fiscal 2013)

Fleet Portfolio Optimisation

Although certain automotive markets expanded, such as those in China and India, the past three years was mainly a period in which a series of adverse developments emerged. The global recession caused automotive production and unit sales to slump worldwide. Other unfavourable factors included the Great East Japan Earthquake, flooding in Thailand, yen appreciation, and fuel price hikes.

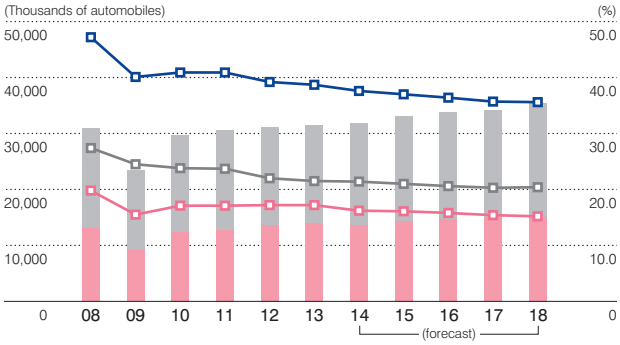
These conditions made optimising the fleet portfolio an urgent task. In step with the completion of large high-quality vessels ordered before the global recession, we disposed of 22 mainly aged vessels. Initially, this process entailed laying up as many vessels as possible because disposing of them would have given less leeway to adjust fleet size flexibly. However, conditions showed no sign of improving, so we resolutely decided to dispose of vessels. We streamlined the fleet from December 2008's 125 vessels to 116 vessel by April 2011 while curbing orders for new vessels. In this way, we kept the fleet at an appropriate size. Recently, we have begun ordering new vessels again. Including fleet renewal investment, four vessels are scheduled for delivery in 2014 and two are due to be delivered in 2015. All of these are competitive next-generation car carriers with capacity for 7,000 units, which we believe will become the standard vessel type for car carriers.

Comprehensive Response to Structural Change in Automotive Industry

Yen appreciation and the Great East Japan Earthquake encouraged Japan's automotive manufacturers to shift more production overseas. Furthermore, the trend towards local production for local consumption gained momentum. Between 2008 and 2013, despite worldwide automotive production rising from 67 million units to 82 million units, automotive exports from Japan declined from 5.2 million units to less than 4.5 million units. The NYK Group's transport of automobiles exported from Japan followed a parallel trend.

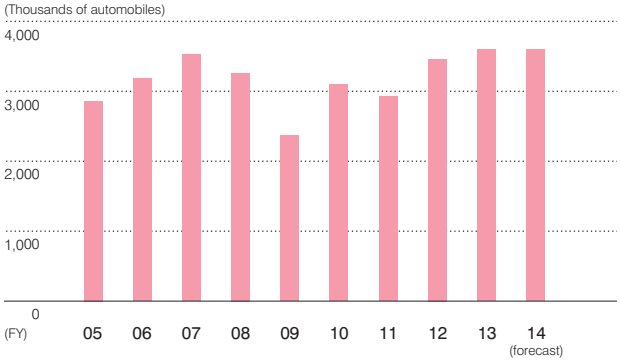
On the other hand, reflecting higher global production and unit sales, shipping cargo movements grew for the transport of automobiles between countries outside Japan. Between 2008 and 2013, our transport of automobiles between countries outside Japan increased approximately 1.5 times. This higher volume enabled the Group to grow its overall transport of automobiles from 3.26 million units to 3.60 million units during the same period. We take pride in the fact that we have catered comprehensively to changes in the transport of automobiles resulting from the significant growth in automobile transport volume between countries outside Japan as a percentage of the overall transport of automobiles.

Current and Forecast Worldwide Automobile Transport Volume



* Percentages are automobiles transported as a percentage of automobiles manufactured.
Source: NYK Research Group

The NYK Group's Automobile Transport Volume



Establishment of Diversified Earnings Sources

By 2017, worldwide automotive production is predicted to reach approximately 100 million units, and shipping cargo movements are likely to surpass 35 million units. While unit production is forecast to increase at a steady rate of between 5% and 6% annually, shipping cargo movements are unlikely to grow as vigorously, with projected annual growth at between 2% and 3%. Such an outlook can be attributed to automotive manufacturers advancing strategies of local production for local consumption.

Without question, ocean transport is set to increase. However, as local production for local consumption advances, land transport and coastal transport within regional blocs will become prevalent, thereby shortening ocean transport distances. Therefore, in addition to services based on traditional ocean transport of automobiles, the Group has responded to these trends by significantly widening the scope of its earnings foundations through the provision of value-added services linked to the ocean transport of automobiles. In one such initiative, we began actively providing transport services for construction machinery and heavy machinery. Established in 2009, the High and Heavy RORO (Roll-on, Roll-off) Team led these efforts. As a result, in the four years through 2013 these services tripled lifting volume. We plan to grow these services even further in future.

Another initiative was the expansion of the automotive logistics business. In 2008, this business had 19 bases worldwide. By 2013, it had increased this number to 35 through the steady addition of bases in Malaysia, Singapore, Kazakhstan, the Philippines, India, Russia, Thailand, and Mexico.

Practical Application of New Technology

For some time, we researched technology that enables efficient, precise, and instantaneous checking of the location of automobiles stored at terminals for loading onto vessels through a GPS (global positioning system) and original software compatible with secure smartphones and other mobile devices. Recently, several automotive manufacturers have adopted this technology for the efficient loading of vessels in port—the purpose we developed it for originally. However, recognising the technology's potential as an effective method of inventory control, one customer is considering introducing the technology to logistics bases and several hundred dealerships in Japan. Going forward, we anticipate that such applications of the technology will spread.

RORO: **R**oll-**o**n, **R**oll-**o**ff
This refers to the direct loading and unloading of vehicles on and off vessels without the use of cranes. An RORO vessel is similar to a ferry that has a ramp way and a vehicle deck that enables vehicles to be driven on and off the vessel.

Business Strategies of New Medium-Term Management Plan

Business Strategies

The age composition of our car-carrier fleet means we need to replace four or five vessels every year. Through this process, and to heighten competitiveness even further, we intend to change over from car carriers with capacity for 6,500 units to car carriers with capacity for 7,000 units. Matching the growth in shipping cargo movements, our fleet is expected to reach 125 vessels by the end of fiscal 2018.

Regarding construction machinery and heavy machinery transport, exports from Japan and other countries are rising. And we intend to cater to such demand rigorously, with plans calling for growing lifting volume more than 50% above its current level by 2016. With this target in mind, the Car Carrier Group and the Auto Logistics Group meet regularly to strengthen sales activities and realise further synergies.

In automotive logistics, we will establish another base in Mexico. By 2016, we plan to expand the network from the present 35 bases to 42 bases.

Currently, automotive manufacturers from a range of countries are building global networks. Consequently, their logistics needs are becoming ever more diverse and complex. Rather than simple transport from point A to point B, which was once common, today's automotive manufacturers need efficient transport that links many of their bases. For example, as well as transport from point A to point B, they need transport from point B to point C and from point C to points D, E, and F. In response, we have established a system that caters to customer needs by increasing bases strategically. Our goal going forward is to meet customer expectations by further expanding and optimising our network of bases so that it not only links single points but also connects shipping routes and enables the provision of comprehensive logistics services.

Realising sustainable profitability is our prime objective going forward. We will continue to listen to the market to offer highly attractive and innovative products to enhance utilisation and profitability.

Masahiro Samitsu
Chief Executive of Cruise Headquarters
Director, Managing Corporate Officer

Review of Previous Medium-Term Management Plan (fiscal 2011–fiscal 2013)

■ Realisation of Profitability

The business environment in the U.S. cruise market was quite positive and companies were enjoying healthy earnings. However, Crystal Cruises, Inc., trailed behind the pack. Turning around the business called for drastic measures. Accordingly, Crystal Cruises introduced a new sales strategy. The launch prices of all cruises were lowered. Thereafter, the price was flexibly set in accordance with bookings. The price was raised every 2 months for cruises with strong bookings, and for those with modest bookings the price was kept unchanged. In comparison to when cruises were sold at listed prices, we were able to sell popular cruises at higher prices while offering fair prices to the market to increase the utilisation. Higher income and utilisation was achieved, and as a result the company managed to move into the black in fiscal 2013.

Serving the Japanese market, NYK Cruises Co., Ltd., posted profit in fiscal 2012. The economic policies of the government (Abenomics) gave confidence to the market. Improved share and capital markets were a fair wind that led to strong bookings. Fiscal 2013 saw a further rise in bookings, sales, and profit. The company posted revenues and earnings exceeding those of the previous year. Regarding the concern over the consumption tax rise, so far we are not feeling any negative effect. Bookings remain brisk.

Business Strategies of New Medium-Term Management Plan

■ Business Conditions

In 2013, we saw foreign cruise lines enter the Japanese market, targeting the 'mass' segment. The 'luxury' market segment in which we operate has no immediate competition with the 'mass' segment. Therefore, the entry did not cause us to lose customers. In fact, the entry of foreign cruise lines has attracted wide media attention and heightened general public interest about cruises. In the United States, the cruise market is about 3.0% of the population, while in Japan the market only represents 0.2%. The U.S. market has matured to this extent because the supply of a variety of cruise ships has formed and fostered the market. In a similar way, the entry of foreign cruise lines is likely to cultivate the Japanese cruise market. We anticipate that broader experience of cruises among the public will enhance the demand for the 'luxury' segment.

■ Business Strategies

Realising sustainable profitability is our prime objective going forward.

In Japan, through the Japan Oceangoing Passenger Ship Association, we are working on easing some of the regulations unique to Japanese flag cruise ships. We managed to reduce the frequency of mandatory annual dry-dock inspections to twice every five years. Also, we managed to relax regulations concerning the employment of non-Japanese crew on Japanese cruise ships. Progress has been made. However, cruise ships carrying the Japanese flag remain subject to various regulations unique to Japan. Therefore, we intend to continue lobbying authorities to ease regulations so that Japanese flag cruise ships can compete on an equal footing with foreign cruise lines.

As for Crystal Cruises, bookings and sales remain strong. We will continue to listen to the market to offer highly attractive and innovative products to enhance utilisation and profitability.

Management System

The NYK Group's Business Management System

To meet the expectations of all our stakeholders, we are building an optimal system that ensures the transparency and efficiency of business management. In this section, we highlight the foundations that support our growth strategies.

Corporate Governance

Web CSR > Corporate Governance

Corporate Governance Initiatives

(1) Operational Execution System

The Company has elected to use the board of corporate auditors' governance model, based on its judgement that the most appropriate approach is to raise the effectiveness of auditing through the board of corporate auditors while implementing management centred on internal directors who have a thorough knowledge of the Company's operations. The board of corporate auditors consists of four members, including two outside corporate auditors, who audit the execution of duties by directors of the Company. NYK also has an Auditing Department, which comprises full-time corporate auditors.

The board of directors consists of 13 members, of whom two were highly independent outside directors, as of June 24, 2014. The board is responsible for making decisions on legal matters, formulating major management policies and strategies, and supervising the execution of operations. NYK maintains a Corporate Officers system.

The Committee of Corporate Officers comprises 31 members, including officers who concurrently serve on the board of directors. (Outside directors do not concurrently serve as Corporate Officers.)

Based on resolutions and under the supervision of the board of directors, the Committee of Corporate Officers convenes weekly in principle. To help the board of directors make decisions expeditiously, the committee approves resolutions on matters as required and discusses in advance matters to be discussed by the board of directors.

Overall, our internal structure is designed to clarify lines of authority and responsibility for business operations, promote fast and accurate decisions, and enhance management transparency and efficiency.

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 / corporate auditors as stipulated by stock exchanges in Japan for all four outside directors / outside corporate auditors

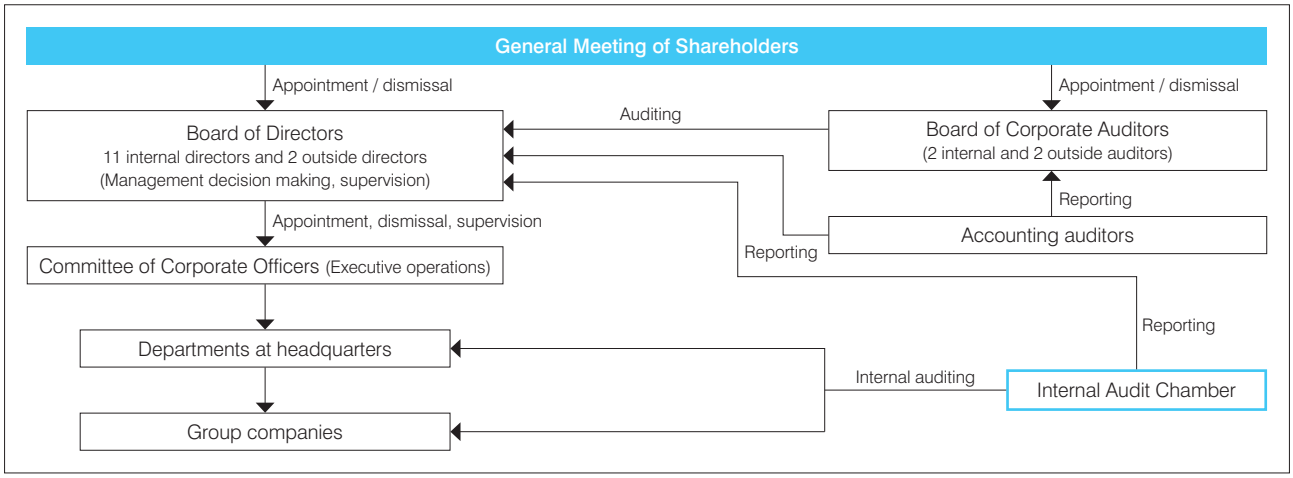
(2) Executive Compensation

Compensation Paid to the Company's Directors and Corporate Auditors

Classification	Number of people	Compensation
Directors (Amount allocated to outside directors)	17 (2)	¥604 million (¥38 million)
Corporate Auditors (Amount allocated to outside corporate auditors)	5 (2)	¥101 million (¥26 million)
Total	22 (4)	¥705 million (¥65 million)

*1. Includes directors that retired in the fiscal year ended March 31, 2014
*2. There were no bonus payments to directors for the fiscal year ended March 31, 2014.

NYK's Corporate Governance Organisation Chart



(3) 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 heads of regional headquarters.

All four corporate auditors, including the two outside corporate auditors, undertake auditing activities in accordance with audit plans determined by the board of corporate auditors. These activities include attending board of directors' meetings 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. The Corporate Auditors' Chamber is staffed by two full-time auditors and supports corporate auditors in the execution of their auditing duties. Corporate auditors ensure the impartiality of the independent auditor while keeping lines of communication open, complementing audit-related activities through information exchange, and working to raise audit quality and efficiency.

Corporate auditors 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 independent auditor, thereby strengthening communication between all three audit-related groups.

The certified public accountants who audit the NYK Group's books are Toshiyuki Ono, Toru Igarashi, 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 nine certified public accountants and 23 others. Audits are undertaken in accordance with standards generally accepted as fair and appropriate.

(4) Auditor Compensation

Compensation Paid to the Company's Certified Public Accountants

Classification	Fiscal 2012		Fiscal 2013	
	Compensation paid for audit certification activities (Millions of yen)	Compensation paid for non-audit activities (Millions of yen)	Compensation paid for audit certification activities (Millions of yen)	Compensation paid for non-audit activities (Millions of yen)
Filing company	150	4	145	5
Consolidated subsidiaries	144	0	146	0
Total	294	5	291	5

Other important compensation

Most principal overseas consolidated subsidiaries 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 compensation for non-audit activities of certified public accountants and others engaged in audits of the Company

In the previous fiscal year and the fiscal year under review, compensation for non-audit activities of certified public accountants and others engaged in audits of the Company consisted of fees related to financial surveys and other activities.

Policy for determining auditor compensation

The Company strives to determine auditor compensation 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.

Internal Control System

(1) Internal Control Activities

The Internal Control Committee, chaired by the president, was established to strengthen compliance with 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.

(2) 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.

(3) Internal Auditing Activities

Internal auditing activities comprise confirmation of the soundness, effectiveness, and efficiency of management, and, for the purpose of improvement, the provision of advice and the tracking of progress. The Internal Audit Chamber implements audits of NYK's headquarters and operating audits of about 150 domestic Group companies. Internal audits of about 160 overseas bases are implemented by internal auditors at four regional headquarters overseas—the Americas, Europe, East Asia, and South Asia—and reports are made to the Internal Audit Chamber and the heads of regional headquarters. In addition, NYK sub-subsidiaries with management rights and NYK subsidiaries and affiliates in which NYK's ownership is less than 50% are also subject to audits. These companies, including overseas Group companies, are audited about once every three years.

Major auditing activities in fiscal 2013

1. Group companies audited: regular audits of 28 domestic companies, 55 international bases
2. Audits of divisions and branches at NYK's headquarters
3. Auditing of payment control at domestic and international Group companies to which payment operations have been assigned
4. Auditing of control of operations involving inflows and outflows of funds to and from NYK's headquarters

Status of Investor Relations (IR) Related Activities

Web CSR > Together with Stakeholders ☐ Together with Investors

Fiscal 2013 IR Highlights

	No. of participating companies	No. of participating individuals
One-on-one meetings with investors in Japan	369 (54)*	431 (54)*
Overseas IR tours	91	95
Tours of Facilities and Briefings		
In Japan (1 time)	22	23
Overseas (1 time)	10	10
IR Seminar for Individuals		
In Japan (6 times)	—	722

* Parentheses indicate participation by the NYK president

IR Activities

The NYK Group believes that the keys to fair assessment of its corporate value are timely, fair, and appropriate disclosures to shareholders, investors, and all other stakeholders and mutual communications with them. The president and other members of the senior management team take the initiative to provide disclosure about the business environment and management strategy proactively and in a readily understandable manner. Furthermore, we are mindful of creating even more opportunities to explain the Group. We hold various meetings, including the annual General Meeting of Shareholders (avoiding the dates most Japanese companies hold their annual meetings), quarterly results presentation meetings and round-table meetings with the president for institutional investors, business briefings, facility tours in Japan and overseas, and seminars for individual investors.

In fiscal 2013, the Group explained in greater detail the progress of initiatives in the offshore business and the LNG transport business as well as the Group's strategies to overcome freight rate volatility by earnings accumulation in businesses with stable freight rates.

Strengthening of Compliance

Response to Antitrust Law

In September 2012, Nippon Yusen Kabushiki Kaisha (the Company) and certain overseas subsidiaries were investigated by the Japan Fair Trade Commission (JFTC) in relation to the car transportation business and alleged violations of Japan's antitrust law and, based on similar laws and regulations, have been investigated by U.S. authorities and served with an interrogatory by European authorities. In March 2014, the Company received from the JFTC a cease and desist order and a surcharge payment order. In the United States and other countries, actions for damages (class action lawsuits) have been filed against the Company and the above-mentioned overseas subsidiaries in connection with the matter.

We apologise sincerely to all stakeholders for causing concern.

We view as a grave matter the fact that this 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 about rigorous compliance with antitrust law; we had established and managed control networks in each division and Group company in Japan and overseas; we had prepared manuals and conducted a variety of in-house training about antitrust law; and we had established regulations pertaining to contact with competitors. In response to this incident, we are building systems and advancing measures to reinforce rigorous compliance with antitrust law.

Specific Measures

1. Measures to improve antitrust law compliance

(1) Establishment of a committee to ensure rigorous antitrust law compliance

In May 2013, we established a committee to ensure rigorous antitrust law compliance. The committee is chaired by the president and includes corporate officers, general managers, outside directors, and outside lawyers. Each division will report on and share its compliance initiatives, thereby instilling awareness of rigorous antitrust law compliance among executives and other employees and advancing compliance initiatives of the entire NYK Group.

(2) Conduct of antitrust law risk assessments

Since January 2013, we have been conducting risk assessments of all in-house groups and Group companies in stages. We identify opportunities for contact with competitors and antitrust law infringement risks throughout our operations and take corrective action and countermeasures in light of verification by in-house and outside lawyers.

(3) Introduction of mandatory antitrust law risk evaluations

Since April 2013, we have been evaluating new investments and identifying points requiring care from the viewpoint of antitrust law at meetings tasked with analysing new investments in which in-house lawyers participate.

(4) Introduction of antitrust law compliance pledges

As of April 2013, all Group employees are required to sign an antitrust law compliance pledge. Furthermore, before employees sign pledges, we further their understanding of antitrust law by conducting thorough presentations and training on the subject.

(5) Strengthening of the Compliance Division's authority to implement audits, investigations, and corrections and introduction of an in-house leniency policy

In November 2013, we revised our articles of incorporation to strengthen the authority of the Chief Compliance Officer. Also, we introduced an in-house leniency policy to increase our preparedness. We are strengthening governance so that we discover antitrust law violations early and correct them promptly.

2. Priority measures for the car transportation business

We have given priority to conducting antitrust law risk assessments of the Car Carrier Division, including overseas Group companies. Further, through the preparation of guidelines, we are rigorously informing related employees about antitrust law compliance.

3. Training initiatives

In fiscal 2013, we continued to conduct training programmes targeting many Group company employees in Japan and overseas. In collaboration with the antitrust law managers of each company, we checked the penetration of antitrust law compliance at each company and reformed the attitude of each Group company employee towards antitrust law. In fiscal 2013, we conducted 162 training sessions (34 overseas and 128 in Japan), in which 3,271 employees (1,560 overseas and 1,711 in Japan) participated.

Prohibition of Bribery

In response to the Foreign Corrupt Practices Act in the United States and the Bribery Act 2010 in the United Kingdom, in January 2014 we established a basic policy and guidelines on the prohibition of bribery and rigorously informed Group employees about the new directions.

Compliance Initiatives

In fiscal 2013, the basic aim of compliance initiatives was established to instil various rules and to foster an employee mindset towards proactive compliance that considers the views of various stakeholders. Specifically, the Compliance Committee, chaired by the president, convened every six months to discuss the Group's compliance measures. During the annual comprehensive compliance checkup activities held every September, we conducted a survey to monitor employees' compliance awareness. We reflected the survey's results in revisions to measures and posted the results on the intranet. Moreover, to increase compliance awareness, we distributed compliance information almost weekly that provided in a readily understandable manner general examples from outside the Group, laws and regulations, and company rules, in addition to compliance training for specific employee ranks and e-learning.

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 helplines that we have established in Japan and overseas, including the Yusen Chat Room in Japan.

Yusen Chat Room
This system comprises six personnel, including outside lawyers, who receive whistle-blower reports and provide consultation on a wide range of compliance-related matters. This system covers NYK and 65 domestic Group companies.

Compliance Training Sessions in Fiscal 2013

	Number of sessions	Number of attendees
Group training sessions*	14	656

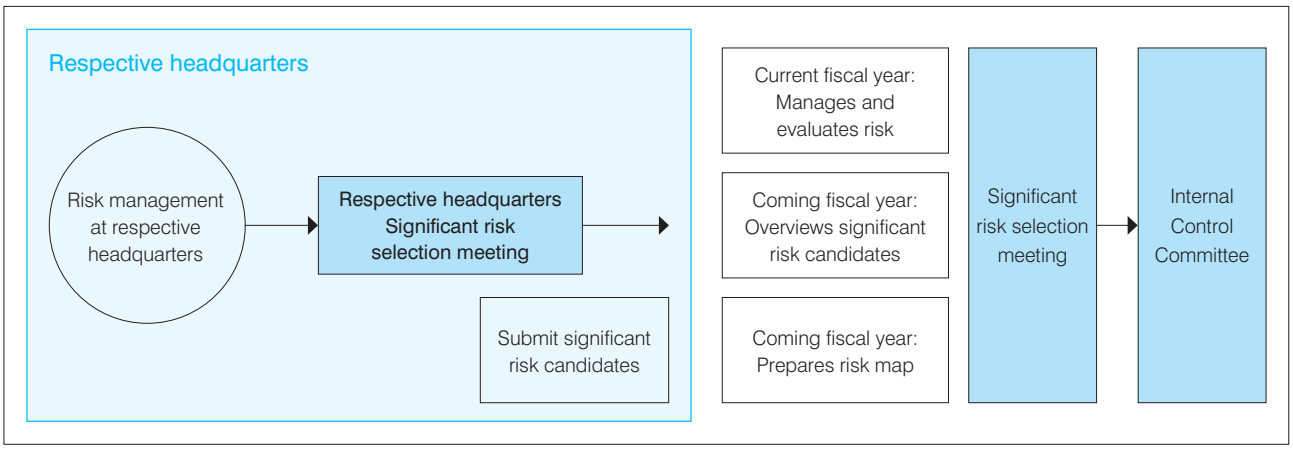
* Since fiscal 2002, we have implemented 332 training sessions, which were attended by a total of 8,619 people.

Risk Management

(1) 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.

Groupwide Risk Management System

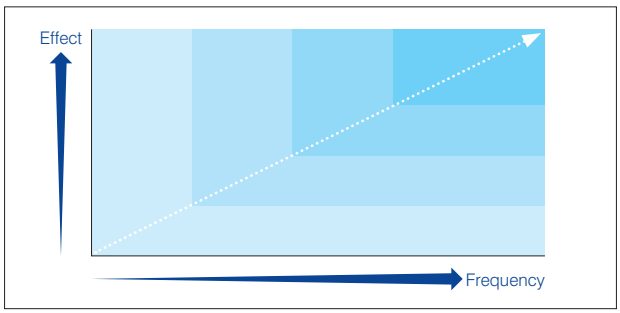


Enterprise Risk Management (ERM)

As part of our analysis of Groupwide risk, we periodically identify and evaluate risk, and executives, including outside directors, select risks at a significant risk selection meeting held once a year.

Further, we prepare a risk map that categorises risks selected from the entire Group, based on the effect on business management and frequency, and we manage risk accordingly.

Risk Map



Information security measures

Security measures for electronic information are an important issue. The NYK Group implements encryption of data in computers, spyware countermeasures, security education activities for users and IT staff, and the re-evaluation of network security measures.

(2) Crisis Management

Emergency response

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

Responding to the Great East Japan Earthquake in March 2011, we prepared more practical BCPs that include preparations for working from home, infrastructure to enable working from home, the supplementation and revision of stockpiles for disasters, and conversion to emergency generators usable for three consecutive days at offices, and we conducted training accordingly.

Further, we are revising BCPs based on the third edition of the Business Continuity Guidelines that the Cabinet Office issued in August 2013 and a final report on countermeasures for and envisaged damage resulting from an earthquake directly below Tokyo that a working group of the Cabinet Office's Central Disaster Prevention Council issued in December 2013.

Directors, Auditors, and Corporate Officers

(As of June 24, 2014)

Koji Miyahara

Chairman, Chairman Corporate Officer

1970 Joined the Company
1996 General Manager of Management Coordination Group
2000 Director
2002 Managing Director and Corporate Officer
2003 Senior Managing Director and Corporate Officer (Representative Director thereafter)
2004 President and Corporate Officer
2009 Chairman, Chairman Corporate Officer (to the present)

Yasumi Kudo

President, President Corporate Officer

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 (to the present)

Tadaaki Naito

Representative Director,
Executive Vice-President Corporate Officer
Assists the President
Chief Executive of Technical Headquarters (Executive Chief of Environmental Management (ECEM), Chairman of Technology Strategy Committee)
Chairman of IT Strategy Committee
Chief Information Officer

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 (to the present)

Naoya Tazawa

Representative Director,
Senior Managing Corporate Officer
Chief Executive of General Affairs Headquarters
Chief Compliance Officer

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 (to the present)

Kenji Mizushima

Representative Director,
Senior Managing Corporate Officer
Chief Executive of Management Planning Headquarters
Chief Financial Officer

1979 Joined the Company
2007 Corporate Officer, General Manager of Container Trade Management Group
2008 Managing Corporate Officer
2009 Director, Managing Corporate Officer
2012 Representative Director, Senior Managing Corporate Officer (to the present)

Hitoshi Nagasawa

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

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

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)

Hidetoshi Maruyama

Director, Managing Corporate Officer
Chief Executive of Global Logistic Services Headquarters

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

Masahiro Samitsu

Director, Managing Corporate Officer
Chief Executive of Dry Bulk Division
Chief Executive of Cruise Headquarters

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

Hitoshi Oshika

Director, Corporate Officer

1982 Joined the Company
2006 General Manager of Global Management Strategy Group
2009 Corporate Officer
2013 Director, Corporate Officer (to the present)

Kazuo Ogasawara

Director, Corporate Officer

1982 Joined the Company
2006 General Manager of Capesize Bulker Group
2009 Corporate Officer
2013 Director, Corporate Officer (to the present)

Senior Managing Corporate Officer

Koichi Akamine

Managing Corporate Officers

Fukashi Sakamoto
Takashi Abe
Yasuo Tanaka

Corporate Officers

Takuji Nakai
Yuji Isoda
Kenichi Miki
Keizo Nagai
Tsutomu Shoji
Yoshiyuki Yoshida
Eiichi Takahashi
Hiroyuki Yasukawa
Noriaki Tajima
Hiroyuki Okamoto
Svein Steimler
Jeremy Nixon
Tomoyuki Koyama
Keiji Tsuchiya
Hiroki Harada
Noriko Miyamoto

Corporate Auditors

Mikitoshi Kai
Hiroshi Sugiura

Independent Directors and Auditors

Yukio Okamoto

Outside Director

Attendance at board of directors' meetings: 12 / 14 (Number of meetings attended / Total number of meetings)

☐ Provided statements based on extensive knowledge and insight as an expert on international affairs

Resume

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

Significant Concurrent Positions

President of Okamoto Associates Inc.
Outside director of Mitsubishi Materials Corporation
Outside director of NTT DATA Corporation

Yuri Okina

Outside Director

Attendance at board of directors' meetings: 14 / 14 (Number of meetings attended / Total number of meetings)

☐ Provided statements based on extensive knowledge and insight as an expert on economic and financial affairs

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 Vice Chairman of the Japan Research Institute Ltd. (current position)
2008 Outside director of NYK (part-time, independent director)

Significant Concurrent Positions

Vice Chairman of the Japan Research Institute Ltd.
Outside Director of Seven Bank, Ltd.
Outside Director of Bridgestone Corporation

Fumio Kawaguchi

Outside Corporate Auditor

Attendance at board of directors' meetings: 14 / 14 Attendance at board of corporate auditors' meetings: 16 / 16
(Number of meetings attended / Total number of meetings)

☐ Used insight developed from abundant experience in corporate management to audit the NYK Group

Resume

1964 Joined Chubu Electric Power Company, Incorporated
1997 Director and general manager of the Purchasing & Contracting Department of the company
1999 Managing director and general manager of the Nagoya regional office of the company
2001 President and director of the company
2006 Chairman of the board of directors of the company
2010 Adviser of the company
2011 Outside corporate auditor of NYK (part-time, independent auditor)

Significant Concurrent Positions

Advisor of Chubu Electric Power Company, Incorporated
Outside corporate auditor, Nagoya Railroad Co., Ltd.

Mitsuoki Kikuchi

Outside Corporate Auditor

Attendance at board of directors' meetings: 14 / 14 Attendance at board of corporate auditors' meetings: 16 / 16
(Number of meetings attended / Total number of meetings)

☐ Used insight developed from abundant experience in government service to audit the NYK Group

Resume

1967 Joined Prime Minister's Office
1996 Director-General of Personnel Bureau, Management and Coordination Agency
1997 Director-General of the Secretariat of the Agency
1999 Vice-Minister of the Agency
2001 Retired from the position
2001 President, the National Archives of Japan, an Independent Administrative Institution
2009 Advisor of the National Archives of Japan
2012 Outside corporate auditor of NYK (part-time, independent auditor)

Significant Concurrent Positions

None

Appointment Policy of Outside Directors / Outside Corporate Auditors

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 two outside directors and the two outside corporate auditors as of March 31, 2014.

Performance Information

Financial and Non-Financial Review

In this review, we analyse and explain financial and non-financial information for the fiscal year ended March 31, 2014.

Management's Discussion and Analysis

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

Overview of Operating Performance

Consolidated Operating Performance

(Billions of yen)
(Years ended March 31)

	2013 (result)	2014 (result) 1Q	2014 (result) 2Q	2014 (result) 3Q	2014 (result) 4Q	Full year	Change year on year	2015 (forecast)	Change year on year
Revenues	1,897.1	528.4	560.6	565.2	582.8	2,237.2	340.1	2,316.0	78.7
Operating income	17.4	6.7	13.2	15.7	9.2	44.9	27.5	70.0	25.0
Recurring profit	17.7	11.4	14.1	24.7	8.0	58.4	40.6	70.0	11.5
Net income	18.8	8.5	11.9	7.8	4.6	33.0	14.1	35.0	1.9
Currency exchange rate (¥/US$)	¥82.33	¥97.72	¥98.34	¥99.56	¥103.39	¥99.75	−¥17.42	¥100.00	−¥0.25
Bunker oil price (US$/MT)	US$673.27	US$643.46	US$613.86	US$621.30	US$617.82	US$624.11	−US$49.16	US$640.00	+US$15.89

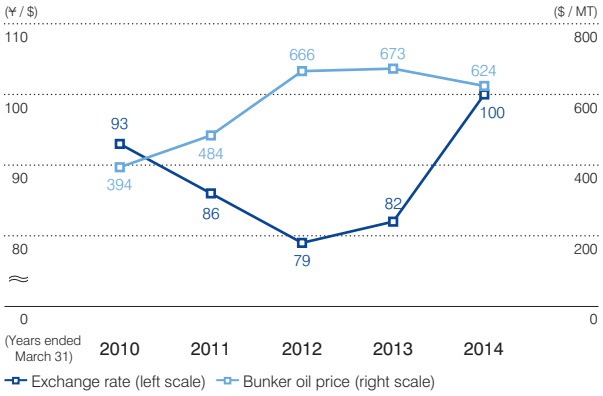
Overview of Operating Performance

In the fiscal year ended March 31, 2014, the global economy continued its moderate recovery trend with the support of higher stock prices in markets around the world amid the cautious easing of U.S. monetary policy and other factors. Although the European economy remained stagnant, certain economies in the region appeared to have bottomed out. Asia continued to post solid economic growth overall despite concerns of a slowdown in China. In Japan, the economy demonstrated moderate recovery amid yen depreciation and higher stock prices from the start of the fiscal year. In the fourth quarter of the fiscal year, uncertainty emerged in certain areas of the global economy due to global risk avoidance stemming from the devaluation of the Argentine peso, political tension in Ukraine, and problematic high-yield investment products in China.

In the business environment surrounding the shipping industry, a number of positive signs emerged despite the prolonged high bunker oil prices and a strong sense of uncertainty over the direction of freight rates. In the container shipping business, although freight rates declined due to a worsening of the supply-demand imbalance amid deliveries of ultra-large containerships, diligent efforts were made to reduce cargo expenses and fuel consumption. In the Bulk Shipping Business, shipping markets improved year on year for all types of vessels and in all regions. Signs of improvement in the supply-demand imbalance began to emerge from summer for certain types of vessels, and, combined with seasonal factors, freight rates for dry bulk carriers and tankers surged. Shipment volumes of finished automobiles in the Car Carrier Division remained firm. The entire NYK Group continued striving to restore freight rates and to improve profitability by reducing various costs through intensified slow-steaming of vessels and other measures, including the disposal of older and unprofitable vessels. In non-shipping businesses, the air cargo transportation segment faced severe profitability pressure amid the decline in Japan-originated freight. The logistics segment posted solid results, while the cruises segment enjoyed robust sales.

As a result of the aforementioned factors, consolidated revenues for the fiscal year ended March 31, 2014, increased by ¥340.1 billion (an increase of 17.9%) compared with the previous fiscal year. Although costs and expenses rose by ¥286.4 billion year on year (an increase of 16.8%), due to the implementation of various cost-cutting measures operating income increased by ¥27.5 billion year on year (an increase of 158.1%) and the operating income margin improved from 0.9% to 2.0% year on

Movements in Exchange Rates and Bunker Oil Prices



Analysis of Year-on-Year Change in Recurring Profit (Loss) (2013 vs. 2014)

(Billions of yen)
(Years ended March 31)

Yen depreciation	24.4	Yen depreciates ¥17.42: depreciation by ¥1 increases earnings approx. ¥1.4 billion
Bunker oil price cuts	8.4	Price decreases US$49.16/MT: increase of US$1 per metric ton reduces earnings approx. ¥170 million
Shipping market effects, etc.	−23.8	Bulk Shipping Business improves, liner trade segment deteriorates significantly
Cost reduction	25.7	Liner trade segment reduces cost by ¥21.2 billion
Other	5.9	
Total	40.6	

year. Recurring profit increased by ¥40.6 billion year on year (an increase of 229.4%). Net income improved by ¥14.1 billion year on year (an increase of 74.9%) despite the booking of a ¥13.1 billion provision for losses related to antitrust law as an extraordinary loss.

Changes in currency exchange rates and bunker oil prices from the same period of the previous fiscal year are summarised in the table on the left.

Forecasts

In the container shipping business, freight rates are expected to remain low as a result of the continued supply-demand imbalance. The NYK Group will continue striving to reduce costs through the deployment of large modern vessels, the slow-steaming of vessels, and the implementation of a programmme to reduce empty container transfer costs. In the Bulk Shipping Business, the Car Carrier Division is expected to continue enjoying robust automobile shipment demand. In the Dry Bulk Carrier Division, freight rates are expected to rise a notch higher from summer 2014. In the LNG tanker and offshore businesses, the NYK Group will expand its services to meet continued robust demand. The air cargo transportation segment is expected to face continued severe profit pressure, while the logistics and cruises segments are expected to post stable performance. Given the above forecasts, in fiscal 2014, ending March 31, 2015, the NYK Group expects to post higher revenues and earnings as shown in the table below.

Segment Review

Results by Segments

(Billions of yen)
(Years ended March 31)

		2014 operating performance			2015 operating performance forecast	
		2013	2014	Change	2015	Change
Global logistics	Liner trade*1, *2	536.0	617.4	81.4	676.5	59.0
		–1.6	–0.7	0.8	2.5	3.2
	Air cargo transportation	77.8	88.8	10.9	93.0	4.1
		–4.8	–7.3	–2.5	–7.0	0.3
	Logistics	366.8	431.5	64.7	478.5	46.9
		4.7	6.5	1.7	7.0	0.4
Bulk shipping*2		824.5	988.4	163.9	986.5	–1.9
		17.7	54.8	37.0	64.5	9.6
Others	Cruises	35.0	45.2	10.2	48.0	2.7
		–3.7	0.7	4.4	2.0	1.2
	Real estate	10.4	9.9	–0.4	9.5	–0.4
		3.9	3.8	–0.1	3.0	–0.8
	Other business services	173.6	192.7	19.1	210.5	17.7
		1.4	0.6	–0.8	0.5	–0.1

Upper row: Revenues Lower row: Recurring profit (loss)
*1. The Terminal Division is included in the liner trade segment from the year ended March 31, 2014.
*2. NYK-Hinode Line, Ltd., which was previously included in the liner trade segment, is included in the Bulk Shipping Business from the year ended March 31, 2014.

Liner Trade

In the Container Shipping Division, although lifting volumes increased, freight rates declined during the fiscal year due to continued deliveries of ultra-large containerships, mainly on European routes, which caused large vessels to be assigned to other routes and a worsening of the supply-demand imbalance. In regard to services, the G6 Alliance was expanded to North American East Coast routes from the fiscal year under review, enabling further consolidation and the enhancement of the service network. In Asia, which the Company has positioned as a key growth region, lifting volumes surged compared with the previous year after services were realigned to improve competitiveness and the business structure was bolstered to better respond to customer needs. The Company achieved a large reduction in costs while raising competitiveness by returning uneconomical vessels, introducing highly fuel efficient ultra-large containerships, and implementing measures to reduce ship operation and navigation costs. In the Terminal Division, the depreciation of the yen boosted the overseas terminal business. As a result of the aforementioned factors, the liner trade segment increased revenues year on year and further reduced the recurring loss.

Container Freight Rates (figures are indexed: Year ended March 31, 2009, Q1 = 100)
(Years ended March 31)

	2013 (result)	2014 (result)				Full year	2015 (forecast)
		1Q	2Q	3Q	4Q		
Asia → North America	104	100	96	93	94	96	94
Asia → Europe	80	69	73	70	77	72	71

Air Cargo Transportation

Nippon Cargo Airlines Co., Ltd. (NCA), strove to continually reduce costs while building a business structure resistant to market volatility by offering new services, such as the first airline charter services provided by a domestic airline. However, Japan-originated cargo demand remained in a slump and freight rates declined as a result. Although demand rebounded in the fourth quarter prior to the increase in the consumption tax in Japan, business performance declined year on year and the segment loss increased.

Logistics

In the airfreight forwarding business, although cargo demand began to recover in the second half of the fiscal year, handling volumes were at an equivalent level year on year. In the ocean freight forwarding business, handling volumes were robust, driven by Asia-originated cargo demand. The logistics business did not accomplish its sales volume target in the United States and continued to slump in Europe. However, the business actively expanded its scope in South Asia. As a result of the above factors, the logistics segment posted increases in revenues and profit compared with the previous fiscal year.

Cargo Handling Volume of the Logistics Segment (export)
(Years ended March 31)

	2012 (result)	2013 (result)	2014 (result)	2015 (forecast)
Ocean forwarding (TEU 1,000)	450	550	570	650
Air forwarding (Ton 1,000)	350	310	310	330

Bulk Shipping

In the Car Carrier Division, finished automobile shipments increased year on year as a result of higher vehicle sales in North America and a rebound in certain export markets after a correction in yen appreciation. In the automotive logistics business, measures were taken to expand the finished vehicle terminal business, the finished vehicle inland transportation business, the vehicle distribution centres business, and the PDI (Pre-Delivery Inspection) business mainly in China, India, and Russia, in order to better respond to customer needs and enhance customer engagement.

In the Dry Bulk Carrier Division, the substantial capacity oversupply continued despite a slowdown in large deliveries of newbuilt tonnage. From summer, the supply-demand balance improved due to intensified slow-steaming of vessels and higher cargo demand for shipments of iron ore and coal to China. As a result, shipping markets for all types of vessels and all routes increased compared with the previous year, with the most conspicuous gains for capesize vessels. The division thoroughly implemented slow-steaming operations and took other measures to reduce costs.

In the Tanker Division, shipping markets rebounded strongly from the previous year, as deliveries of VLCC (very large crude-oil carrier) newbuilt tonnage declined and the supply-demand balance tightened due to higher seasonal demand in winter and an increase in shipments from South America and West Africa to Asia. The LNG carrier business performed well amid a healthy supply-demand balance. In the offshore business, Knutsen NYK Offshore Tankers AS (KNOT), in which the NYK Group owns a 50% share, established a shuttle tanker company and listed it on the New York Stock Exchange in April 2013. Additionally, the NYK Group's first FPSO (Floating Production, Storage, and Offloading) unit began operating in waters off Brazil in June 2013 and continued to operate at high capacity with the drillship. As a result of the aforementioned factors, the Bulk Shipping segment posted substantially higher revenues and profit compared with the previous fiscal year.

Automobile Transport Volume
(Years ended March 31)

(1,000 vehicles)

2013 (result)	2014 (result)	2015 (forecast)
3,460	3,600	3,600

Freight Rates for Dry Bulk Carriers and Tankers

(Years ended March 31)

		2013 (result)	2014 (result)	2015 (forecast)
Dry bulk carriers	Dry bulk market trends (BDI)	905	1,348	1,560
	Capesize bulk carriers (US$/day, Average of four shipping routes)	7,370	17,256	20,000
Tankers	VLCCs (US$/day)	16,360	22,913	25,000

Cruises

Sales of both Crystal Cruises in North America and Asuka Cruises in Japan were robust. Profit structure reforms also took effect with the implementation of various sales and marketing and cost reduction measures. As a result, the cruises segment showed significant improvement and, on sharply higher revenues compared with the previous fiscal year, turned a good profit.

Real Estate and Other Business Services

Real estate earnings declined year on year due to lower office building rents. In other business services, the trading business posted higher sales of mainstay vessel fuel oil due to yen depreciation, while the manufacturing and process business posted lower profits due to rising raw material and heating and lighting costs. The other business segment as a whole reported lower profit on higher revenues compared with the previous fiscal year.

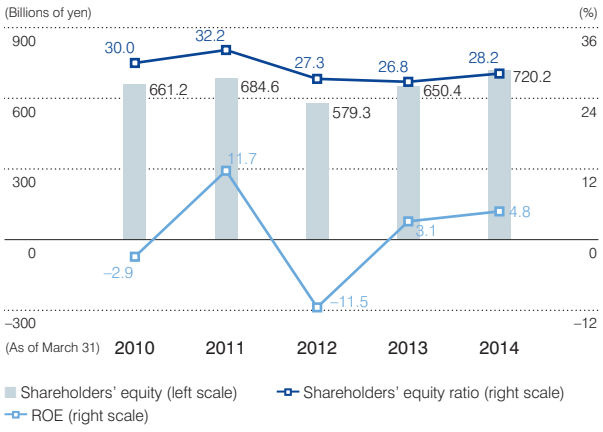
Analysis of Financial Position

Total assets amounted to ¥2,551.2 billion at the end of the fiscal year (March 31, 2014), an increase of ¥121.0 billion compared with the end of the previous fiscal year (March 31, 2013).

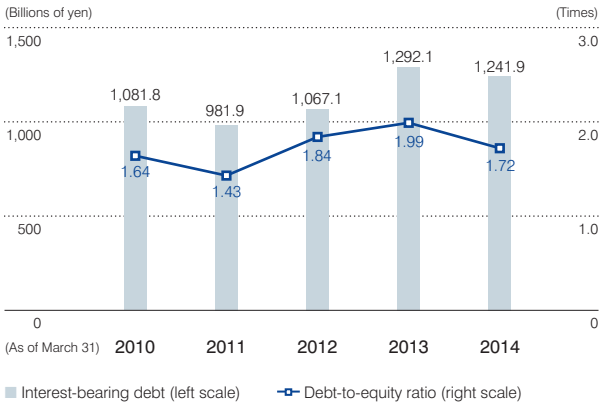
Total liabilities amounted to ¥1,777.3 billion, a ¥45.1 billion increase from the end of the previous fiscal year, due mainly to a rise in notes and operating accounts payable–trade.

In equity, retained earnings increased ¥26.6 billion from the end of the previous fiscal year. Shareholders' equity—the aggregate of shareholders' capital and accumulated other comprehensive income (loss)—amounted to ¥720.2 billion, and adding minority interests of ¥53.6 billion, total equity amounted to ¥773.8 billion. As a result, the debt-to-equity ratio was 1.72.

Shareholders' Equity / Shareholders' Equity Ratio / ROE



Interest-Bearing Debt / Debt-to-Equity Ratio



Analysis of Capital Sources and Liquidity

Cash Flows

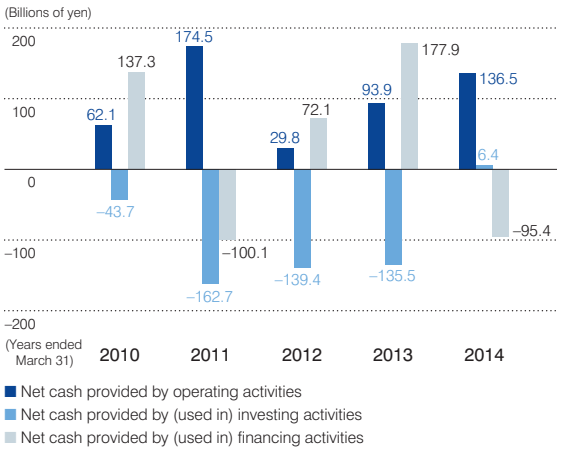
Net cash provided by operating activities in the fiscal year ended March 31, 2014, was ¥136.5 billion, reflecting income before income taxes and minority interests of ¥53.1 billion and non-cash depreciation and amortization of ¥105.9 billion, which was partially offset by ¥19.2 billion in interest expenses paid. Net cash provided by investing activities totalled ¥6.4 billion, reflecting efforts to move assets off the balance sheet. Net cash used in financing activities was ¥95.4 billion, largely as a result of repayments of long-term loans payable. As a result, the balance of cash and cash equivalents stood at ¥349.7 billion at March 31, 2014, an increase of ¥51.2 billion compared with the beginning of the fiscal year (April 1, 2013), 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 Business. 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 segment, Terminal Division, and air cargo transportation segment. 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 ¥248.2 billion.

Cash Flows



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, 2014, the outstanding amount of long-term borrowings stood at ¥875.9 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 ¥235.4 billion as of March 31, 2014.

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, 2014, 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 November 22, 2013, 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

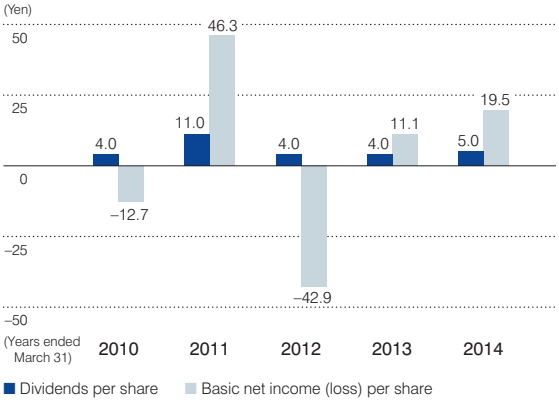
(As of November 22, 2013)

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

Dividend Policy and Dividends for the Fiscal Year Ended March 31, 2014, and the Fiscal Year Ending March 31, 2015

The Company regards returning profits to shareholders to be one of its top management priorities. The Company determines the amounts of its dividend distributions in light of its earnings forecasts and various other considerations, with a consolidated payout ratio target of 25%. For the fiscal year ended March 31, 2014, the Company plans to pay a year-end dividend of ¥3 per share, for a full-year payment of ¥5 per share, including the ¥2 per share interim dividend. For the fiscal year ending March 31, 2015, the Company aims to pay dividends equivalent to a 25% consolidated payout ratio in view of its policy of continuing stable shareholder returns. As a result, the Company plans to pay a ¥2 per share interim payment and a ¥3 per share year-end payment, totalling ¥5 per share for the full year.

Dividends per Share / Basic Net Income (Loss) per Share



Operating Risks

A wide variety of economic, political, and social factors in countries throughout the world have the potential to impact negatively the NYK Group's mainstay shipping and integrated logistics operations as well as the Group's cruise and other businesses. Indicated below are some of the risks that could affect the Group's operating performance, share price, and financial conditions. The items described in the text below represent the Group's judgement of potential future events as of the end of the fiscal year under review.

(1) A Major Shipping Accident

Based on the Group mission statement that we contribute to the betterment of societies throughout the world as a comprehensive global-logistics enterprise offering ocean, land, and air transportation through safe and dependable *monohakobi* (transport), the NYK Group operates and controls vessels throughout the world. We recognise the safe operation of vessels and preservation of the environment as our top operational imperatives. To ensure operational safety, we have implemented our own safety management system, NAV9000, to pursue environmental management certification. We have established the Safety and Environmental Management Committee, which is chaired by the president of NYK, to periodically review safety measures for shipping and other operations. This structure is designed to guarantee steady improvements in the Group's safety levels and to ensure appropriate responses in the event of an emergency. Nevertheless, a major unforeseen accident, such as an oil spill or some other type of environmental contamination, injury to or death of a seafarer or passenger, damage to or loss of a vessel, or a safety-related incident, such as an act of piracy or terrorism, could delay or halt cargo transport; nullify transport agreements or render them uncollectible; result in administrative fines, lawsuits, penalties, or trade restrictions; prompt higher insurance premiums; or cause damage to the Group's reputation and relationships with customers. The materialisation of such risks or the inability to cover them with insurance could impact the operating performance and financial condition of the NYK Group.

(2) Changes in the Overall Shipping and Freight Markets

The NYK Group endeavours to generate stable operating revenue that is not affected by overall changes in the shipping market. However, such factors as general economic fluctuations, a falloff in international freight demand, increasingly severe competition, or changes in the balance of shipping supply and demand could cause a substantial decline in shipping revenues or vessel rental income. Such a situation could impact the operating performance and financial condition of the NYK Group.

Furthermore, recent imbalances in shipping supply and demand are causing major fluctuations in freight rates. This disparity between capacity and demand is forecast to continue affecting the shipping industry in future, which could significantly impact the NYK Group's revenues. The value of the NYK Group's vessels might also be affected.

Factors that affect shipping industry demand include the following.

- Global and regional economic conditions
- Trends in the demand for and consumption of the energy resources, raw materials, and products that the NYK Group transports
- Globalisation of production
- Inventory levels
- Changes in marine and other transport methods, as well as the development of alternative methods
- International trade development, and global and regional political trends and economic conditions
- Environmental development and other legislative trends

Moreover, excess shipping capacity could affect the financial condition and operating performance of the NYK Group.

Factors that affect shipping supply include the following.

- Number and capacities of new vessels
- Scrap prices for used vessels
- Congestion or closure of ports and canals
- Number of vessels out of service due to periodic maintenance or idling
- Vessel reductions owing to changes in or expanded provisions for environmental legislation or other regulations that could limit the useful life of vessels

Falling market rates for chartered freight and declines in the value of the NYK Group's vessels as a result of oversupply could impact the operating performance and financial condition of the NYK Group.

The NYK Group sources part of its fleet through the construction and ownership of new vessels. Long-term fixed costs to the NYK Group related to new vessel construction include depreciation and amortization, interest on loans, and ship operation and maintenance costs. Some of the vessels in the NYK Group's fleet are provided as long-term chartered vessels, for which the Group pays fixed charter fees over the charter period. However, shipping demand and freight rates can vary significantly in short periods of time. The NYK Group places orders for the construction of new vessels or enters into long-term charter contracts based on its forecasts of demand trends and the number of vessels needed to satisfy this demand. If vessel utilisation rates do not exceed a certain level or if market freight rates fall dramatically after entering into short-term agreements, the NYK Group may be unable to generate revenue from transportation sufficient to cover its costs. This situation could affect the NYK Group's business, operating performance, and financial position.

(3) Impacts of Competition with Other Companies

In addition to Japanese marine transport operators, the NYK Group competes with international shipping companies operating throughout the world, and the competitive situation is growing more intense. If the NYK Group becomes unable to maintain its competitive position in any of the sectors in which it operates, the NYK Group's business, operating performance, and financial condition could be affected.

(4) Fluctuations in Currency Exchange Rates

Many of the NYK Group's operations are denominated in foreign currencies, creating the possibility of losses resulting from exchange rate fluctuations. To match the currencies in which it generates revenue and pays expenses, the NYK Group conducts hedging transactions, including foreign exchange contracts and currency swaps, to minimise the effects of exchange rate fluctuations.

When preparing consolidated financial statements, the NYK Group converts the financial statements of its consolidated overseas subsidiaries into yen. As a result, fluctuations in currency exchange rates could affect the operating performance and financial condition of the NYK Group.

(5) Changes in Fuel Prices

The NYK Group regularly purchases bunker oil for use as fuel for the vessels and aircraft it uses to transport cargo throughout the world. Bunker oil prices account for a substantial portion of the costs the NYK Group incurs in the liner trade segment, bulk shipping business, and air cargo transportation segment. Bunker oil prices and purchase availability are subject to global crude oil supply and demand, foreign exchange market fluctuations, changes involving OPEC and other crude oil producing countries, the state of environmental legislation, competition, and changes in myriad other factors, and forecasting the changes in all of these conditions is difficult. The NYK Group seeks to minimise the impact of such factors on its operating performance by purchasing bunker oil from diverse regions, using derivative transactions to hedge against fuel price fluctuations, and economising on fuel consumption. Even so, these measures have limited effect, and there is no guarantee that they will be sufficient to protect the Group against price fluctuations and supply shortages. Furthermore, the future expansion or strengthening of environmental regulations could require vessels to use better quality fuel with low environmental burden, thereby compelling the NYK Group to purchase higher priced fuel. The NYK Group typically is unable to pass on all the costs of bunker fuel price increases to customers through freight rate hikes or fuel surcharges. Consequently, a rise in fuel costs could affect the NYK Group's business, operating performance, and financial position.

(6) Changes in Regional Economic Conditions Affecting Global Operational Developments

Because the NYK Group's operations extend to many areas around the world, economic conditions in each of these areas can influence the Group's operations. We gather information ourselves and employ outside consultants to minimise and, where possible, avoid such risks.

Nevertheless, these changes could affect the operating performance and financial condition of the NYK Group. Some potential risks are described below.

1. Disadvantageous political or economic factors
2. Government regulations, such as operational or investment permissions, taxes, foreign exchange controls, monopolies, or commercial limitations
3. Joint operations or tie-ups with other companies
4. Social upheaval, such as wars, riots, terrorist acts, piracy, infectious diseases, strikes, and computer viruses
5. Earthquakes, tsunamis, typhoons, and other natural disasters
6. Difficulty in situating or managing personnel involved in international operations
7. Standards of liability that differ from those in Japan and legal systems that are difficult to predict

These factors have the potential to negatively affect the NYK Group's operations in certain international markets, which in turn could have a negative impact on the business of the NYK Group.

Through its containership business, the NYK Group is a member of the Grand Alliance and the G6 Alliance, which are strategic alliances with other marine transport companies. The NYK Group considers these alliances as necessary to ensure the efficiency of its containership operations and the ability to maintain a global network. At the same time, it is difficult to maintain the same safety and service standards and management directions and procedures across alliance activities, and an alliance could be integrated or dissolved or members could withdraw, which presents the risk that an alliance may not deliver the anticipated results. If it is unable to respond appropriately to such factors, the NYK Group's business, operating performance, and financial condition could be affected.

The NYK Group's business depends on having sufficient marine seafarers. High-quality seafarers are particularly vital to the safe operation of vessels. The majority of the NYK Group's seafarers are citizens of Asian countries other than Japan (for example, the Philippines and India). The NYK Group employs various methods to secure quality seafarers, such as providing education and training and recruiting in other countries, but there is no guarantee that the Group will always be able to employ enough seafarers that have the necessary skills at an appropriate price. For instance, for several years before the collapse of Lehman Brothers in 2008, shipping demand was strong, and personnel costs for seafarers skyrocketed. If the NYK Group becomes unable to employ a sufficient number of seafarers at a reasonable price, its business, operating performance, and financial condition could be affected. In addition, roughly 70% of the NYK Group's current seafarers are Philippine nationals, and war or other political factors could adversely affect the NYK Group's business. Furthermore, some NYK Group employees, including seafarers, belong to labour unions. Any employee strikes, work stoppages, or acts of sabotage could impact the NYK Group's business, financial condition, and operating performance. Third-party strikes or work stoppages by employees outside the NYK Group could also impact the NYK Group's business, operating performance, and financial condition.

The NYK Group is affected by the risk of conflicts throughout the world, including the Middle East. Some of the vessels the NYK Group owns or charters operate along the coast of Iran, where tension exists in relation to nuclear development. In particular, these vessels regularly operate in the Strait of Hormuz, which is on the shipping route to the Persian Gulf. Further, some of the vessels the NYK Group owns or charters operate in areas of frequent pirate attacks, including the straits of Malacca and Singapore and along the west coast of Africa, and in areas where Somali pirates are active, including the Gulf of Aden, the Arabian Sea, and the Indian Ocean. The NYK Group takes piracy countermeasures, such as gathering information from relevant agencies and getting escorts by the Maritime Self-Defense Force in the Gulf of Aden region. However, terrorist or pirate attacks, or political instability or conflict, could impact the NYK Group's business, operating performance, and financial condition. The exclusion of regions in which NYK Group vessels operate from coverage by standard war risks insurance (certain areas are already so designated) could impact insurance premiums and claim payments.

(7) Impacts of Incidents Arising During System Development or Operation

The smooth operation of its fundamental IT systems is essential to the operations of the NYK Group. In the event that an earthquake, fire, or other calamity affects the stable operation of these systems or causes them to go down, the Group will make every effort to get these systems back online promptly. However, if these systems remain down for more than a certain period of time, the provision of information to customers and our business operations could be affected. Such incidents could impact the NYK Group's operating performance and financial condition.

(8) Stronger Legislation on Environmental Preservation, Safety, and Security

In each of the regions in which it operates, the NYK Group is obliged to observe international law regarding the safe operation of its vessels and the prevention of marine accidents. The Group also must comply with regional legislation and other requirements concerning environmental protection, import-export, taxation, and foreign exchange.

The NYK Group recognises the importance of environmental preservation activities and measures to ensure the stability and safety of its distribution supply chain while developing and expanding its global operations. Examples of the NYK Group's environmental preservation measures include incorporating ballast water management systems in vessels; responding to regulations aimed at preventing the transfer of algae, shellfish, moths, and other organisms that attach to vessels; reducing CO_2 emissions by lowering fuel consumption; reducing SOx emissions by using low-sulphur bunker oil; and reducing NOx emissions by introducing electronically controlled engines.

The costs required to respond to increasingly stringent legislative measures or social expectations for environmental preservation, including the prevention of global warming, atmospheric pollution, and the preservation of biodiversity, as well as safety and security, could affect the operating performance and financial condition of the NYK Group. In the event that compliance with legislation or other regulations in certain regions becomes problematic, this situation could limit the NYK Group's operations in that region, which could impact the Group's operating performance.

(9) Air Cargo Transportation Segment

The NYK Group ordered fourteen 747-8F aircraft from Boeing. The Group took delivery of five of these aircraft in fiscal 2013 and plans to take delivery of the remaining nine aircraft in or after fiscal 2014.

However, the delivery of the remaining nine aircraft could be delayed, which could result in losses for the NYK Group. Conversely, even if these aircraft do become available, the NYK Group may not be able to deploy all of them if the air cargo transportation market enters a downturn. In that situation, the Group could face losses unless it takes aircraft out of service or leases or sells them.

As with its marine transport business, the NYK Group's air cargo transportation segment faces various potential risks, outlined below. These factors could impact the NYK Group's operating performance and financial condition.

- Aircraft accidents
- Promotion of environmental legislation or other regulations
- Downturn in airfreight rates owing to increasingly stringent competition or a drop-off in demand
- Fluctuations in aircraft fuel prices
- Currency exchange fluctuations
- Insufficient insurance coverage
- Takeoff / landing slots granted by legislation or competent authorities
- IT system malfunctions
- Fixed-cost inflexibility
- Acts of terrorism, political unrest, and natural disaster

(10) Relations with Business Partners

The NYK Group's Dry Bulk Carrier Division and Tanker Division place importance on long-term contracts with business partners, particularly for large vessels. These long-term agreements help stabilise the Group's business in the face of market fluctuations by fixing freight rates, carrying volumes, and rate adjustment conditions. If business conditions for some of the business partners with which the NYK Group maintains long-term agreements were to deteriorate, these business partners may become unable to continue fulfilling all terms of the agreements that are in place.

Furthermore, the NYK Group may find itself unable to procure third-party chartered vessels that would enable it to fulfil the terms of the long-term agreements it has made. If charter companies become unable to fulfil the terms of their agreements with the NYK Group before their charter period has ended, the NYK Group could suffer losses due to an inability to procure alternative vessels. Such circumstances could impact the NYK Group's business, operating performance, and financial condition. Also, although long-term agreements provide some insulation against market fluctuations, in an upward-trending market the NYK Group may become unable to pass on rising market prices immediately by demanding higher freight rates.

Important business partners of the NYK Group include leading Japanese automakers, paper manufacturers, electronics manufacturers, steelmakers, and public utilities as well as U.S.-based retailers. The scale of its transactions with important business partners could shrink, or the NYK Group could lose an important business partner. Such a situation could impact the NYK Group's financial condition.

(11) Operational Restructuring

The NYK Group has restructured its operations when necessary. Future operational restructuring activities, if implemented, could affect the operating performance and financial condition of the NYK Group.

(12) Medium-Term Management Plan

In March 2014, the NYK Group formulated 'More Than Shipping 2018—Stage 2, leveraged by Creative Solutions—', a new five-year medium-term management plan. Nevertheless, progress under this medium-term management plan could be affected by a variety of factors, and the plan's achievement is not necessarily guaranteed.

(13) Investment Plans

Although the NYK Group's plans include investment in the expansion of its fleet of vessels and aircraft, fluctuations including market conditions and government regulations could prevent these plans from progressing as initially intended. Such changes could affect the operating performance and financial condition of the NYK Group.

The NYK Group spends a substantial amount of money on capital investments in new vessels. Large-scale shipbuilding plans are subject to delays and may be affected by shipyard labour disputes, management difficulties, or other factors that affect the shipyard itself. Cargo transport demand could slacken just as new vessels are delivered, or demand could increase while vessel delivery is delayed beyond expected dates. Such situations could impact the business, operating performance, and financial condition of the NYK Group.

(14) Fluctuations in Interest Rates

To meet funding requirements for capital investment, such as vessels, aircraft, and transportation-related facilities, and for working capital, the NYK Group uses internal funds as well as funds procured from external sources. Currently, a portion of the external funds are procured at floating interest rates. The Group seeks to minimise the effect of interest rate changes by moving towards fixed interest rates on the basis of its assumptions about the interest rate environment. However, certain changes in interest rates could impact the operating performance and financial condition of the NYK Group and affect the future cost of procuring funds.

(15) Disposal of Vessels

Changes in shipping supply and demand conditions, as well as technical developments and advances, cause physical limitations on the use of vessels as they become outdated or no longer comply with safety and other legal requirements. In such cases, the NYK Group may dispose of its vessels or aircraft, or cancel certain charter contracts for vessels to be chartered. Such activities could affect the operating performance and financial condition of the NYK Group.

The NYK Group typically sells fully depreciated vessels and aircraft.

However, there is no guarantee that the NYK Group will be able to sell such vessels and aircraft under attractive conditions or, indeed, be able to sell them at all. The Group also may face a growing need to sell superannuated vessels or aircraft during times of economic stagnation or when market prices on vessels and aircraft are falling. If the NYK Group were compelled to sell vessels or aircraft that were not fully depreciated for prices below their book values, it could be forced to record a loss on their sale and retirement. Furthermore, if markets fail to recover from their current malaise or deteriorate further, the Group may suffer valuation losses on its vessels, aircraft, and other assets.

(16) Valuation Losses on Investment Securities

The NYK Group uses the current value method to evaluate its holdings of 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. As a result, changes in stock market conditions could affect the operating performance and financial condition of the NYK Group.

(17) Retirement Benefit Plans

The NYK Group's defined benefit plans include a defined benefit pension plan, an employees' pension fund plan, and a retirement payment. Changes in the pension plan, the investment of pension assets, or the assumptions underlying the accounting for retirement benefits could affect the operating performance and financial condition of the NYK Group.

(18) Evaluation of Prospects for Recovery of Deferred Tax Assets

The NYK Group performs an evaluation based on estimated future taxable income to determine the likelihood of recovering deferred tax assets. If we decide that part of or all deferred tax assets cannot be recovered because of a decline in estimated future taxable income or a revision in a nation's tax system, including a change in the statutory tax rate, we will reduce deferred tax assets and post a corresponding expense for taxes in the fiscal period when this decision was made.

These expenses could affect the operating performance and financial condition of the NYK Group.

(19) Litigation and Other Legal Procedures

The NYK Group is engaged in the ocean cargo transport, global logistics, cruise, air cargo transportation, and other businesses. There is a risk of litigation or investigation or punishment by regulatory authorities concerning all of these business activities. Including the examples below, depending on the outcome, litigation could affect the operating performance and financial condition of the NYK Group.

In the United States, Nippon Cargo Airlines Co., Ltd., is a defendant in a class action lawsuit demanding an unspecified payment to compensate for damages caused by an alleged price-fixing cartel. As it is difficult to reasonably estimate the outcome of this lawsuit, no provision has been set aside.

In the United States, Yusen Logistics Co., Ltd., one of its consolidated subsidiaries, and more than 60 international freight forwarders are defendants in a class action lawsuit demanding an unspecified payment to compensate for damages caused by alleged violation of U.S. antitrust law in relation to international air freight services. As it is difficult to reasonably estimate the outcome of this lawsuit, no provision has been set aside.

Yusen Logistics and one of its consolidated subsidiaries are being investigated by the Competition Commission of Singapore for suspected violation of competition laws in relation to international air freight services from Japan to Singapore and received advance notice of the commission's provisional findings on April 1, 2014. It is difficult to reasonably estimate the outcome of this investigation.

Since September 2012, the NYK Group and one of its consolidated subsidiaries have been investigated by authorities in Japan and the United States respectively on suspicion of the violation of antitrust law in relation to the transport of automobiles and other cargoes and have been served with an interrogatory by European authorities. The NYK Group is cooperating fully with these investigations. Among the above-mentioned proceedings, the NYK Group received from the Japan Fair Trade Commission a cease and desist order and a surcharge payment order (¥13,101 million) on March 18, 2014. Other than the proceedings in Japan, however, it is difficult to reasonably estimate the outcomes of the U.S. authorities' investigation and the interrogatory served by European authorities.

Further, in the United States and other countries, the NYK Group and certain subsidiaries are defendants in class action civil lawsuits demanding injunctions and unspecified payments to compensate for damages based on the allegation that the NYK Group and major automobile shipping companies jointly set freight rates with respect to the ocean transport of finished vehicles. It is difficult to reasonably estimate the outcome of these lawsuits.

The specific items described above are some of the ongoing risks that the NYK Group faces in its everyday operations and are not intended to encompass all potential risks.

Summary of CSR Activities in Fiscal 2013 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 2013 and goals for fiscal 2014, following the structure of the seven core subjects of the ISO 26000 standard.

ISO 26000 core subjects	Initiatives	Fiscal 2013 targets	Fiscal 2013 programmes
Organizational governance	Strengthening of CSR management	Hold CSR Task Force member and Group company CSR officer meetings	Hold in-house briefings and meetings of CSR officers of domestic Group companies
		Prepare integrated report through collaboration among divisions	Develop integrated annual and CSR report through collaboration among relevant divisions and enhance website
	Dialogue with stakeholders	• Hold seminars for individual investors • Organise business briefings and facility tours for institutional investors and analysts • Approach target overseas investors proactively • Further understanding of investor relations activities through feedback to in-house divisions • Achieve third place or better in transportation category of Securities Analysts Association of Japan's evaluation ranking	• Achieve third place in transportation category of Securities Analysts Association of Japan's evaluation ranking • Maintain frequency of individual investors' seminars • Hold briefings and facility tours for institutional investors and analysts • Coordinate divisions' interaction responses to ratings agencies
Human rights	Respect for human rights, prohibition of discrimination	Provide education about human rights protection and human rights awareness	Conduct human rights training through NYK Business College
	Promotion of diversity	Further spread Global Compact Promotion Committee activities in NYK Group	Continue activities of Global Compact Promotion Committee
		Conduct human resources survey, analyse findings, and issue instructions for improvement	Conduct human resources survey of Group companies in Japan and overseas; after collecting results, seek improvements from companies with problems
Labour practices	Support for diversity work styles	Implement Third Action Plan for Act on Advancement of Measures to Support Raising Next-Generation Children and activities by Work-Life Balance Promotion Committee to promote work-life balance	Implement Third Action Plan (Fiscal 2011–2014) for Act on Advancement of Measures to Support Raising Next-Generation Children 1) At least five men taking parental leave during a four-year period 2) Internal seminars on work-life balance 3) Programmes to encourage employee children to understand their parents' workplaces 4) Work-Life Balance Promotion Committee to promote work-life balance
	Human resources development	Use NYK Business College and NYK Maritime College in human resources development	Enhance training programmes
Fair operating practices	Compliance enforcement	Continue compliance activities and education	Strengthen authority of chief compliance officer (CCO), establish basic policy for prohibition of bribery, conduct compliance awareness survey, conduct anonymous questionnaire, and distribute compliance information almost every week
	Promotion of fair competition and trade	1) Assess potential risk on Antitrust law 2) Implement pledge policy 3) Establish Executive committee overseeing thorough compliance 4) Appraisal for legal risk over new business investment	1) Conduct questionnaires, interviews, potential risk evaluations 2) Sign to adhere to Antitrust law 3) Establish committee to oversee thorough compliance chaired by president 4) Appraisal for legal risk over new business investment
	Protection and management of information	Advance measures in accordance with Basic Information Security Policies	• Implement PDCA for information systems and security countermeasures • Rollout ISMS-based security standards to affiliated companies, improve information security levels throughout the Group
Consumer issues	Improvement of customer satisfaction services	Ensure quality assurance	Implement rigorous quality assurance by CS Improvement Committee (*Asuka II*)
	Promotion of safety	Deploy safety activities for all NYK Group employees	Promote SEMC activities, including expansion of SEMC organisations and measures to deal with growing fleet, such as measures to deal with environmental changes affecting shipping
	Development of safety programmes	Enhance safety measures to prevent accidents	Enforce terminal safety standards for companies operating NYK-operated terminals in Japan
Community involvement and development	Social contribution activities	Promote employee donation opportunities and volunteer activities in line with social contribution activity guidelines	Hold events in cooperation with NPOs
		Promote disaster relief and international cooperation activities using transportation services and other business resources	Provide transportation assistance (picture books, school backpacks, bicycles, etc.)
		Hold various events, collaborate with City of Yokohama and nearby facilities	Hold events, collaborate with City of Yokohama and nearby facilities
	Support for areas affected by Great East Japan Earthquake	Undertake volunteer activities to support restoration of areas affected by Great East Japan Earthquake	Ongoing dispatch of volunteers to Rikuzentakata, Iwate prefecture
	Involvement in community development	Enhance level of education for seafarers further	Review NYK Maritime College, including response to new agreements Expand and beautify Philippine training center by reconstructing and extending building

ISMS: Information Security Management System CS: Customer Satisfaction SEMC: Safety and Environmental Management Committee

	Achievement as at the end of March 2014	Evaluation	Fiscal 2014 targets
	CSR Task Force members (in-house): Convened twice in total, 37 departments, 45 participants Group company managers liaison committee: Convened four times in total, 43 companies, 56 participants	⛵⛵⛵	Heighten Group employees' CSR awareness, aim to enhance corporate value by fulfilling corporate responsibility through CSR activities that take advantage of mainstay businesses while disclosing appropriately
	NYK Report 2013 received favourable evaluations from all quarters, increased opportunities to present Group's CSR initiatives Received Special Achievement Award in Integrated Report category at Nikkei Annual Report Awards	⛵⛵⛵	• Prepare integrated report linked with public relations and investor relations • Implement as needed by strengthening Internet distribution
	• Achieved second place in the transportation category of Securities Analysts Association of Japan's evaluation ranking • Held briefings targeting various groups, including briefing for individuals held in the NYK Maritime Museum and briefing for women	⛵⛵⛵	• Maintain first position in transportation category (shipping) of Securities Analysts Association of Japan's evaluation ranking • Maintain frequency of individual investors' seminars • Hold briefings and facility tours for institutional investors and analysts • Coordinate divisions' interaction responses to ratings agencies
	Implemented three times during year	⛵⛵⛵	Continue human rights training through NYK Business College
	Continued activities of Global Compact Promotion Committee (jointly established by Human Resources Group and Corporate Communication and CSR Group) and participated in respective subcommittees of Global Compact Japan Network	⛵⛵⛵	• Continue human rights initiatives through Global Compact Promotion Committee and its subcommittee • Participate in respective subcommittees of Global Compact Japan Network (ISO 26000, Human Rights Due Diligence, etc.) • Distribute information on advancement of female employees to media in Japan and overseas
	Human resources survey: Completed implementation for consolidated subsidiaries as of fiscal 2013 (145 companies)	⛵⛵⛵	Conduct human resources survey, analyse findings, and issue instructions for improvement
	Completed implementation of 1)~4)	⛵⛵⛵	Through Work-Life Balance Promotion Committee, reduce overtime work and heighten awareness of taking leave
	Implemented training incorporating desired improvements as much as possible	⛵⛵⛵	Continue conducting training syllabus, including NYK Business College training and rank-specific training
	Completed implementation of respective items	⛵⛵⛵	Revise 'NYK Standards', conduct compliance activities overseas, distribute booklets, including mission statement, business credo, and code of conduct. And distribute compliance related information.
	1) Introduced to some business divisions 2) Introduced for head office executives and employee 3) Held three times within a year 4) Completed introduction and functioning effectively	⛵⛵⛵	1) Enhance awareness of Antitrust law compliance. 2) Strengthen organization for ensuring Antitrust law compliance. 3) Commit to thorough compliance through executive committee meeting. 4) Continue risk assessment over Antitrust law. 5) Continue appraisal for legal risk over new business investment.
	• Through PDCA cycle, enhanced measures for threats to systems and security, which are increasing year by year, including virus and hacking countermeasures • Informed employees through e-learning and noticeboards to raise awareness of security	⛵⛵⛵	Implement educational activities aimed at heightening security awareness of end users
	Implemented improvements reflecting opinions obtained from customers directly or through customer questionnaires	⛵⛵⛵	Continue rigorous quality assurance by CS Improvement Committee (*Asuka II*)
	Implemented according to plan, ongoing	⛵⛵⛵	Develop NAV9000 activities further
	1) Held monthly safety meetings with operators 2) Conducted checks of safe operation compliance at meetings every morning before beginning operations at NYK-operated terminals 3) Conducted bottom-up reviews of dangers identified during operations through *hiyarihatto* (near-miss) reporting, etc.	⛵⛵⛵	Continue to enforce terminal safety standards for companies operating at NYK-operated terminals in Japan
	Continued as usual	⛵⛵⛵	Prepare plan for social contribution activities (volunteer work) in training programme for new employees; further, encourage participation in social contribution activities in respective regions during approximately six-month training period
	Continued as usual	⛵⛵⛵	Continue cooperation activities using transport services, including new initiatives
	Held events and campaigns in collaboration with City of Yokohama and nearby facilities	⛵⛵⛵	Continue holding events and campaigns in collaboration with City of Yokohama and nearby facilities Invite and cater to corporate training and school field trips
	Aiming to broaden outlook of participants, implemented during weekends six times in total	⛵⛵⛵	Advance voluntary activities of Group employees (support for disaster areas, sale of fair trade goods, implementation of in-house workshops, coastal clean-ups, etc.)
	Number of students who have attended Philippine training centre 137,940 (approximately); established seafarer education and training system suited to Philippines	⛵⛵⛵	Provide opportunities to experience operations and duties firsthand to students in internships or at career schools who show interest in NYK Group or shipping industry

[Self-evaluation standard] ⛵⛵⛵ Achieved ⛵⛵ Almost Achieved ⛵ Partially Achieved

ISO 26000 core subjects	Initiatives	Fiscal 2013 targets	Fiscal 2013 programmes	
The environment	Use of ISO 14001 certification to promote environmental activities	Maintain and expand NYK Group environmental certification	Maintain activities appropriate for communities and businesses and expand certification as requested by customers	
		Strengthen operation of EMS through internal audits (internal audits of NYK's main branches and discussions with Group companies) and external audits	Revise EMS manual and facilitate adoption after revision; continue improvements through internal audits (internal audits of NYK's main branches and discussions with Group companies) and external audits	
	Adherence to domestic and international laws and regulations, formulation of and adherence to industry and Company standards	Identify and rigorously adhere to treaties, laws, and regulations that impact ships	Monitor treaties, laws, and regulations; perform rigorous NAV9000 audits (ship-management companies and ships)	
		Contribute to formulation of international rules for sustainable societies	Proactively participate in the formulation of international rules through industry bodies	
	Reduction of fleet accidents	Reduce fleet downtime (10 hours/year/ship)	Reduce fleet downtime	
			Conduct NAV9000 audits	
			Near Miss 3000 activities (increase companies to be covered)	
			Hold various safety promotion meetings and safety seminars	
			Conduct safety campaigns	
			Continue activities to minimise engine accidents	
	Creation and administration of emergency response network	Conduct emergency preparedness and response	Conduct emergency response exercises and reviews	
			Conduct media response training and reviews	
	Reduction of CO_2 emissions	Monitor environmental management indicators, improve precision	Extract data for calculation of environmental management indicators from SPAS for more accurate monitoring	
		Establish environmental management benchmarks 1) 10% from fiscal 2006 levels by fiscal 2013 2) 10% from fiscal 2010 levels by fiscal 2015	Advance IBIS TWO	
		Monitor total CO_2 emissions for the NYK Group	Use environmental performance data tabulation system (NYKECOM)	
	Reduction of NOx and SOx emissions	Reduce NOx and SOx emissions	Increase usage of electronically controlled engines	
			Cooperate with California Speed Reduction Program	
			Make onshore power charging equipment compliant with global standards	
			Cooperate with SCR onboard testing	
			Rigorously enforce EU and California low-sulphur fuel guidelines	
	Recycling, conservation of resources, reduction of toxic substance emissions	Scrap ships in an environment-friendly manner	Adhere to 'NYK Standards' on ship recycling	
	Reduction of office environmental burden	Reduce water and electricity usage at least 1% versus fiscal 2012 levels Maintain paper uses at fiscal 2012 levels	Endeavour to reduce usage of water, electricity, and paper	
	Research and development of new technologies	Develop technology for measuring surface tidal currents to realise fuel-efficient voyages	Develop measuring technology that enables highly precise estimates and forecasts of surface tidal currents over wide areas	
		Monitor engine rooms, Phase-1	Develop environment that enables monitoring of actual values versus target propulsion engine loads; develop environment that enables onshore monitoring to decide if slow-steaming operations are viable or if number of generators operating is appropriate	
		Analyse data from operating coal carrier that uses air-lubrication system	Identify energy-saving benefits of air-lubrication method for 50% of propulsion engine load; realise optimal operation of air-lubrication system to heighten energy-saving benefits	
	Use of equipment that reduces air and marine pollution and protects biodiversity	Install NYK Total Bilge System	Install in new ships at shipyards able to adhere to 'NYK Standards'	
		Operate shoreside generator facilities	Expand operations	
		Evaluate performance of ships that use ballast water management system, encourage other ships to use system	Expand installation	
	Stimulation of interest in environmental protection activities	Develop awareness and understanding among personnel of environmental preservation activities	Hold training sessions and study groups; use EMI report card and ECO Channel classes	
			Create content and increase student numbers	
	Disclosure of environmental information	Disclose environmental information about entire NYK Group, strengthen system for reducing environmental burden	Collect, calculate, and disclose data based on Scope 3	
			Participate in and provide data for CCWG of BSR (a U.S. NPO)	

EMS: Environmental Management System SEMC: Safety and Environmental Management Committee SPAS: Ship Performance Analyzing System
CCWG: Clean Cargo Working Group

	Achievement as at the end of March 2014	Evaluation	Fiscal 2014 targets
	Expanded to four additional companies (Geneq Corporation, Nippon Nozzle Seiki Co., Ltd., Honma Corporation, Naikai Tug Boat Service Co., Ltd.) Total: 56 companies, 151 sites	♣♣♣	• Maintain and expand NYK Group multi-site environmental certification • Step up NYK Group multi-site environmental initiatives • ISO 14001: Prepare for new certification standards in 2015
	Manual revisions: 1 Improvement requests resulting from audits: Internal audits 188, external audits 86	♣♣♣	
	Audited 284 ships / 35 companies, 3,629 improvement proposals	♣♣♣	Identify and rigorously adhere to treaties, laws, and regulations that impact ships
	Participated in industry body steering committees and International Marine Organization's (IMO's) Marine Environment Protection Committee	♣♣♣	Contribute to formulation of international rules for sustainable societies
	18.2 hours/ship/year	♣♣	• Eliminate major accidents • Reduce fleet downtime (10 hours/year/ship) • Conduct emergency preparedness and response
	Audited 284 ships / 35 companies, 3,629 improvement proposals	♣♣♣	
	48 companies / 60,000 reports	♣♣♣	
	Held fleet safety promotion meetings; Global SEMC Safety Meeting; meetings between president, captains, and chief engineers	♣♣♣	
	Visited 533 ships / 862 participants	♣♣♣	
	4.5 hours/ship/year	♣♣♣	
	3 times	♣♣♣	
	Media response training session held in July 2013	♣♣♣	
	587 ships, 6,834 reports	♣♣♣	Establish environmental management benchmarks 1) Improve fuel consumption efficiency 10% versus fiscal 2010 by fiscal 2015 2) Improve fuel consumption efficiency 15% versus fiscal 2010 by fiscal 2018
	Improvement rate: 1) 18.1% (against fiscal 2006); 2) 9.0% (against fiscal 2010)	♣♣♣	
	Collected data from 61 companies / 87 operating bases (overseas), 54 companies / 267 operating bases (Japan)	♣♣♣	Determine total CO_2 emissions for NYK Group
	Adopted for 9 ships in fiscal year under review	♣♣♣	Reduce NOx and SOx emissions
	Compliance percentages, Los Angeles: 100% (20 mile), Long Beach: 100% (40 mile)	♣♣♣	
	Took measures to comply with international unified standards issued in July 2012	♣♣♣	
	Began joint project with MTI for onboard installation of SOx scrubber Began project (subsidised by Ministry of Land, Infrastructure, Transport and Tourism) for installation of EGR onboard operating ships	♣♣♣	
	All vessels using low-sulphur bunker oil	♣♣♣	
	Implemented for 2 ships in fiscal year under review	♣♣♣	Scrap ships in an environment-friendly manner
	Water usage: –3.92%, electricity usage: –2.60%, paper usage: –0.49% versus fiscal 2012 levels	♣♣♣	Maintain paper, water, and electricity use at fiscal 2013 levels
	Implemented data collection and analysis by experimental radar, ongoing	♣♣♣	Enhance precision of measurement of ship speed relative to water
	Developed onboard measuring devices and onshore monitoring devices	♣♣♣	Monitor engine rooms, Phase-3
	Measured onboard data for 50% of propulsion engine load and confirmed energy-saving benefits	♣♣♣	Enhance efficiency of air-blower and scavenging-air-type air-lubrication methods
	Adopted for 25 ships in fiscal year under review	♣♣♣	• Advance operation of onshore power supply (AMP) • Advance installation of ballast water management systems
	Equipped 9 ships with equipment to make use of shoreside generators; shoreside generators used 56 times (full-year)	♣♣♣	
	Equipped 15 ships in fiscal year under review	♣♣♣	
	Conducted training for new employees and CSR training	♣♣	Step up environmental education for employees
	8,001 participants (Japan: 3,402, overseas: 4,599)	♣♣♣	Step up dissemination of information to employees
	Completed data verification for Scope 1, 2, and 3 and acquired certification	♣♣♣	Disclose through dissemination of information externally
	Participated in CCWG and acquired certification for 2 car carriers in relation to CSI data	♣♣♣	Disclose through responses to external enquiries, etc.

SCR: Selective Catalytic Reduction EMI: Environmental Management Indicator ECO Channel: Environmental training (classroom) EGR: Exhaust Gas Recirculation

Consolidated Balance Sheets

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(March 31, 2014 and 2013)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
ASSETS			
CURRENT ASSETS:			
Cash and deposits (Notes 4 and 13)	¥ 218,358	¥ 176,939	$ 2,121,632
Notes and operating accounts receivable–trade (Note 4)	268,612	222,532	2,609,912
Short-term investment securities (Notes 4, 5 and 13)	136,046	127,042	1,321,867
Inventories (Note 7)	72,147	64,603	701,004
Deferred and prepaid expenses	72,621	60,353	705,614
Deferred tax assets (Note 15)	4,622	4,872	44,911
Other	101,802	81,140	989,141
Allowance for doubtful accounts (Note 4)	(2,429)	(2,437)	(23,601)
Total current assets	871,782	735,047	8,470,482
NONCURRENT ASSETS:			
VESSELS, PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION (Notes 8, 10, 11 and 13):			
Vessels	923,623	900,342	8,974,184
Buildings and structures	77,254	73,926	750,630
Aircraft	18,505	22,651	179,807
Machinery, equipment and vehicles	35,231	33,119	342,318
Equipment	5,669	6,203	55,083
Land	64,906	64,391	630,648
Construction in progress	97,054	180,138	943,006
Other	6,320	5,652	61,414
Net vessels, property, plant and equipment	1,228,565	1,286,426	11,937,093
INTANGIBLE ASSETS:			
Leasehold right	5,102	3,958	49,579
Software	7,621	7,649	74,054
Goodwill	24,179	23,173	234,935
Other	5,029	4,226	48,868
Total intangible assets	41,933	39,008	407,437
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4, 5, 9 and 13)	291,212	251,891	2,829,502
Long-term loans receivable (Note 4)	24,177	17,857	234,918
Net defined benefit asset (Note 21)	36,913	—	358,666
Deferred tax assets (Note 15)	7,445	6,613	72,347
Other	52,240	96,249	507,581
Allowance for doubtful accounts (Note 4)	(3,698)	(3,579)	(35,939)
Total investments and other assets	408,291	369,033	3,967,076
Total noncurrent assets	1,678,790	1,694,468	16,311,607
DEFERRED ASSETS	664	622	6,452
TOTAL ASSETS	¥2,551,236	¥2,430,138	$24,788,543

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
LIABILITIES			
CURRENT LIABILITIES:			
Notes and operating accounts payable–trade (Notes 4 and 13)	¥ 229,738	¥ 180,680	$ 2,232,204
Short-term loans payable (Notes 4, 12 and 13)	115,090	127,013	1,118,256
Income taxes payable (Note 15)	6,190	5,469	60,145
Deferred tax liabilities (Note 15)	4,156	6,578	40,387
Advances received	70,156	53,515	681,664
Provision for bonuses	7,991	7,105	77,646
Provision for directors' bonuses	345	314	3,352
Provision for losses related to antitrust law	13,307	1,632	129,297
Provision for losses related to purchase contract	3,892	—	37,822
Provision for losses related to cancellation of charter contract	906	—	8,808
Other	74,787	71,892	726,661
Total current liabilities	526,564	454,201	5,116,246
NONCURRENT LIABILITIES:			
Bonds payable (Notes 4 and 12)	235,445	245,445	2,287,650
Long-term loans payable (Notes 4, 12 and 13)	875,956	911,920	8,511,047
Deferred tax liabilities (Note 15)	33,928	33,657	329,660
Provision for retirement benefits	—	16,189	—
Net defined benefit liabilities (Note 21)	17,433	—	169,391
Provision for directors' retirement benefits	1,867	1,983	18,149
Provision for periodic dry docking of vessels	19,726	16,707	191,672
Other	66,414	52,053	645,301
Total noncurrent liabilities	1,250,773	1,277,957	12,152,873
Total liabilities	1,777,337	1,732,158	17,269,119
EQUITY (Notes 12, 16 and 25)			
SHAREHOLDERS' CAPITAL:			
Common stock	144,319	144,319	1,402,252
Capital surplus	155,617	155,619	1,512,022
Retained earnings	428,173	401,561	4,160,255
Treasury stock	(2,034)	(1,998)	(19,768)
Total shareholders' capital	726,076	699,502	7,054,762
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Unrealized gain (loss) on available-for-sale securities	29,169	30,050	283,422
Deferred gain (loss) on hedges	(22,638)	(34,705)	(219,963)
Foreign currency translation adjustments	(8,289)	(43,423)	(80,547)
Remeasurements of defined benefit plans	(4,046)	(933)	(39,318)
Total accumulated other comprehensive income (loss)	(5,805)	(49,011)	(56,406)
Minority interests	53,628	47,488	521,067
Total equity	773,899	697,979	7,519,423
TOTAL LIABILITIES AND EQUITY	¥2,551,236	¥2,430,138	$24,788,543

	Yen		U.S. dollars (Note 2)
Equity per share	¥424.67	¥383.50	$4.13

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, 2014 and 2013)

(Consolidated Statements of Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
REVENUES	¥2,237,239	¥1,897,101	$21,737,656
COST AND EXPENSES	1,991,043	1,704,591	19,345,548
Gross profit	246,195	192,510	2,392,107
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	201,200	175,075	1,954,918
Operating income	44,995	17,434	437,189
NON-OPERATING INCOME:			
Interest income	2,603	2,128	25,296
Dividend income	4,188	4,525	40,698
Equity in earnings of unconsolidated subsidiaries and affiliates	15,321	1,745	148,865
Foreign exchange gains	5,299	4,378	51,492
Other	7,955	6,871	77,294
Total non-operating income	35,368	19,648	343,647
NON-OPERATING EXPENSES:			
Interest expenses	18,985	17,457	184,465
Other	2,954	1,889	28,707
Total non-operating expenses	21,939	19,347	213,172
Recurring profit	58,424	17,736	567,664
OTHER GAINS:			
Gain on sales of noncurrent assets	11,216	7,663	108,979
Gain on sales of investment securities (Note 5)	14,058	12,815	136,598
Other	2,205	1,850	21,426
Total other gains	27,480	22,328	267,004
OTHER LOSSES:			
Loss on sales of noncurrent assets	2,415	1,300	23,471
Provision for losses related to antitrust law	13,101	—	127,293
Impairment loss (Note 17)	6,832	1,420	66,383
Provision for losses related to purchase contract	3,892	—	37,822
Other	6,556	4,749	63,701
Total other losses	32,797	7,470	318,671
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	53,106	32,594	515,997
Income taxes–current	16,767	11,757	162,913
Income taxes–deferred	(1,014)	(900)	(9,861)
Total income taxes (Note 15)	15,752	10,857	153,052
NET INCOME BEFORE MINORITY INTERESTS	37,354	21,736	362,944
MINORITY INTERESTS IN NET INCOME	4,305	2,840	41,828
NET INCOME	¥ 33,049	¥ 18,896	$ 321,115

PER SHARE OF COMMON STOCK (Note 3.M):	Yen		U.S. dollars (Note 2)
Basic net income	¥19.48	¥11.14	$0.19
Diluted net income	19.48	—	0.19
Cash dividends applicable to the year	5	4	0.05

(Consolidated Statements of Comprehensive Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Net income before minority interests	¥37,354	¥21,736	$362,944
Other comprehensive income (Note 18)			
Unrealized gain (loss) on available-for-sale securities	(922)	8,063	(8,961)
Deferred gain (loss) on hedges	6,844	25,807	66,501
Foreign currency translation adjustments	24,433	31,474	237,401
Remeasurements of defined benefit plans	(805)	(58)	(7,826)
Share of other comprehensive income of associates accounted for using equity method	18,292	3,645	177,731
Loss or gain on change in equity	—	(282)	—
Total other comprehensive income	47,841	68,649	464,845
Comprehensive income	¥85,196	¥90,386	$827,790
Comprehensive income			
Comprehensive income attributable to owners of the parent	¥78,962	¥83,866	$767,219
Comprehensive income attributable to minority interests	6,233	6,520	60,570

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2014 and 2013)

	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total equity
Balance, April 1, 2012	¥144,319	¥155,623	¥389,767	¥(1,988)	¥687,722	¥21,876	¥(52,306)	¥(77,466)	¥ (484)	¥(108,380)	¥43,148	¥622,490
Cumulative effect of changes in accounting policies	—	—	(160)	—	(160)	—	—	—	(405)	(405)	(155)	(721)
Restated Balance, April 1, 2012	¥144,319	¥155,623	¥389,607	¥(1,988)	¥687,562	¥21,876	¥(52,306)	¥(77,466)	¥ (889)	¥(108,785)	¥42,992	¥621,769
Dividends from surplus	—	—	(6,785)	—	(6,785)	—	—	—	—	—	—	(6,785)
Net income	—	—	18,896	—	18,896	—	—	—	—	—	—	18,896
Purchase of treasury stock	—	—	—	(16)	(16)	—	—	—	—	—	—	(16)
Disposal of treasury stock	—	(4)	—	7	2	—	—	—	—	—	—	2
Change of scope of consolidation	—	—	(0)	—	(0)	—	—	—	—	—	—	(0)
Change of scope of equity method	—	—	75	—	75	—	—	—	—	—	—	75
Gain or loss on change in equity	—	—	(282)	—	(282)	—	—	—	—	—	—	(282)
Increase by merger	—	—	104	—	104	—	—	—	—	—	—	104
Other	—	—	(55)	(0)	(55)	—	—	—	—	—	—	(55)
Net change of items other than shareholders' capital	—	—	—	—	—	8,173	17,601	34,043	(43)	59,774	4,496	64,270
Total changes of items during the period	—	(4)	11,953	(9)	11,939	8,173	17,601	34,043	(43)	59,774	4,496	76,210
Balance, March 31, 2013	144,319	155,619	401,561	(1,998)	699,502	30,050	(34,705)	(43,423)	(933)	(49,011)	47,488	697,979
Dividends from surplus	—	—	(6,784)	—	(6,784)	—	—	—	—	—	—	(6,784)
Net income	—	—	33,049	—	33,049	—	—	—	—	—	—	33,049
Purchase of treasury stock	—	—	—	(41)	(41)	—	—	—	—	—	—	(41)
Disposal of treasury stock	—	(2)	—	5	3	—	—	—	—	—	—	3
Adjustments due to change in the fiscal periods of consolidated subsidiaries	—	—	234	—	234	—	—	—	—	—	—	234
Change of scope of consolidation	—	—	138	—	138	—	—	—	—	—	—	138
Change of scope of equity method	—	—	(0)	—	(0)	—	—	—	—	—	—	(0)
Other	—	—	(23)	—	(23)	—	—	—	—	—	—	(23)
Net change of items other than shareholders' capital	—	—	—	—	—	(880)	12,066	35,133	(3,113)	43,205	6,139	49,345
Total changes of items during the period	—	(2)	26,612	(36)	26,573	(880)	12,066	35,133	(3,113)	43,205	6,139	75,919
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

	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total equity
Balance, March 31, 2013	$1,402,252	$1,512,043	$3,901,681	$(19,415)	$6,796,562	$291,975	$(337,204)	$(421,910)	$ (9,067)	$(476,208)	$461,415	$6,781,770
Dividends from surplus	—	—	(65,924)	—	(65,924)	—	—	—	—	—	—	(65,924)
Net income	—	—	321,115	—	321,115	—	—	—	—	—	—	321,115
Purchase of treasury stock	—	—	—	(407)	(407)	—	—	—	—	—	—	(407)
Disposal of treasury stock	—	(20)	—	53	33	—	—	—	—	—	—	33
Adjustments due to change in the fiscal periods of consolidated subsidiaries	—	—	2,278	—	2,278	—	—	—	—	—	—	2,278
Change of scope of consolidation	—	—	1,342	—	1,342	—	—	—	—	—	—	1,342
Change of scope of equity method	—	—	(8)	—	(8)	—	—	—	—	—	—	(8)
Other	—	—	(231)	—	(231)	—	—	—	—	—	—	(231)
Net change of items other than shareholders' capital	—	—	—	—	—	(8,552)	117,241	341,362	(30,250)	419,801	59,652	479,453
Total changes of items during the period	—	(20)	258,573	(353)	258,199	(8,552)	117,241	341,362	(30,250)	419,801	59,652	737,653
Balance, March 31, 2014	$1,402,252	$1,512,022	$4,160,255	$(19,768)	$7,054,762	$283,422	$(219,963)	$ (80,547)	$(39,318)	$ (56,406)	$521,067	$7,519,423

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2014 and 2013)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
OPERATING ACTIVITIES			
Income before income taxes and minority interests	¥ 53,106	¥ 32,594	$ 515,997
Adjustments for:			
Depreciation and amortization	105,956	97,522	1,029,506
Impairment loss	6,832	1,420	66,383
Loss (gain) on sales and retirement of vessels, property, plant and equipment and intangible assets	(8,520)	(6,149)	(82,783)
Loss (gain) on sales of short-term and long-term investment securities	(14,198)	(13,154)	(137,959)
Loss (gain) on valuation of short-term and long-term investment securities	47	2,087	457
Equity in (earnings) loss of unconsolidated subsidiaries and affiliates	(15,321)	(1,745)	(148,865)
Interest and dividend income	(6,792)	(6,653)	(65,994)
Interest expenses	18,985	17,457	184,465
Foreign exchange (gains) losses	(1,533)	(1,924)	(14,903)
Decrease (increase) in notes and accounts receivable–trade	(35,067)	(17,474)	(340,726)
Decrease (increase) in inventories	(6,820)	(2,758)	(66,269)
Increase (decrease) in notes and accounts payable–trade	40,812	10,364	396,546
Increase (decrease) in provision for losses related to antitrust law	11,674	(1,532)	113,435
Increase (decrease) in provision for losses related to purchase contract	3,892	—	37,822
Other, net	8,743	3,114	84,950
Subtotal	161,796	113,170	1,572,059
Interest and dividends income received	10,194	10,148	99,052
Interest expenses paid	(19,246)	(17,533)	(187,001)
Income taxes paid	(16,222)	(11,833)	(157,622)
Net cash provided by operating activities	136,522	93,951	1,326,487
INVESTING ACTIVITIES			
Purchase of short-term investment securities	—	(72)	—
Proceeds from sales of short-term investment securities	42	318	415
Purchase of vessels, property, plant and equipment and intangible assets	(233,985)	(307,050)	(2,273,473)
Proceeds from sales of vessels, property, plant and equipment and intangible assets	246,586	158,498	2,395,906
Purchase of investment securities	(29,307)	(9,829)	(284,761)
Proceeds from sales of investment securities	38,100	28,311	370,193
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(923)	—	(8,972)
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	—	(250)	—
Payments of loans receivable	(29,941)	(5,837)	(290,915)
Collections of loans receivable	13,669	1,901	132,819
Other, net	2,167	(1,555)	21,064
Net cash provided by (used in) investing activities	6,409	(135,566)	62,275
FINANCING ACTIVITIES			
Net increase (decrease) in short-term loans payable	(15,588)	9,763	(151,458)
Proceeds from long-term loans payable	49,226	282,344	478,295
Repayments of long-term loans payable	(108,032)	(99,584)	(1,049,677)
Proceeds from issuance of bonds	39,812	39,797	386,829
Redemption of bonds	(50,000)	(45,000)	(485,814)
Proceeds from stock issuance to minority shareholders	126	—	1,228
Purchase of treasury stock	(41)	(16)	(407)
Proceeds from sales of treasury stock	3	2	33
Cash dividends paid to shareholders	(6,784)	(6,785)	(65,924)
Cash dividends paid to minority shareholders	(1,540)	(978)	(14,963)
Other, net	(2,665)	(1,576)	(25,901)
Net cash provided by (used in) financing activities	(95,485)	177,966	(927,760)
Effect of exchange rate change on cash and cash equivalents	3,891	10,811	37,810
Net increase (decrease) in cash and cash equivalents	51,337	147,162	498,813
Cash and cash equivalents at beginning of period	298,429	151,336	2,899,628
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	268	(162)	2,612
Increase (decrease) in cash and cash equivalents resulting from merger of subsidiaries	—	92	—
Increase (decrease) in beginning balance of cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	(312)	—	(3,037)
Cash and cash equivalents at end of period (Note 14)	¥ 349,723	¥ 298,429	$ 3,398,017

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2014 and 2013)

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 or 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 United States dollars using the exchange rate prevailing at March 31, 2014, which was ¥102.92 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 610 consolidated subsidiaries at March 31, 2014.

During the fiscal year ended March 31, 2014, the Company newly established three companies and judged nine 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, 2014.

One company became a consolidated subsidiary due to the acquisition of shares.

One company, previously an affiliate not accounted for by the equity method, became a consolidated subsidiary due to the acquisition of additional shares.

Forty-six companies were excluded from consolidation due to liquidation.

Two companies were excluded from consolidation due to merger.

One company was excluded from the scope of consolidation since materiality had decreased.

(2) Investments in unconsolidated subsidiaries and affiliates are accounted for either by the cost method or by the equity method, depending on the extent of influence or fiscal significance each carries. The Company accounted for 13 unconsolidated subsidiaries and 130 affiliates by the equity method at March 31, 2014.

In the consolidated fiscal year ended March 31, 2014, the Company newly established 10 companies and judged 12 companies to have a material impact on the consolidated financial statements. Consequently, these companies are newly included in the scope of companies accounted for by the equity method.

Four companies were excluded from the scope of companies accounted for by the equity method due to liquidation.

Two companies were excluded from the scope of companies accounted for by the equity method due to merger.

(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 all 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, 2014, December 31 was used by 40 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.

Two 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 "Minority 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 in 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:
   i) NIPPON CARGO AIRLINES CO., LTD. ("NCA") has recorded a provision for possible future losses associated with the Korean Fair Trading Law.
   ii) The Company has recorded the amount of losses estimated as of the present time for a surcharge payment to the Japan Fair Trade Commission.

(7) Provision for losses related to purchase contract:
Provision for losses related to purchase contract is provided for possible losses associated with contracts to purchase non-current assets based on estimated amounts of losses.

(8) Provision for losses related to cancellation of charter contract:
Provision for losses related to cancellation of charter contract is provided for possible losses associated with cancellation of contracts for chartering ships based on estimated amounts of cancellation penalty, etc.

H. Accounting Method for Retirement Benefits

(1) Method of attributing estimated amounts of retirement benefits to periods:
In calculating retirement benefit obligations, the estimated amount of retirement benefits attributed to a period up to the current fiscal year is primarily determined based on the straight-line 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 principally 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 net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share for the year ended March 31, 2013, is not disclosed because it is antidilutive.

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:

i) As International Accounting Standards (IAS) 19 "Employee Benefits" (amended on June 16, 2011) became applicable to the fiscal year beginning on or after January 1, 2013, some subsidiaries and affiliates started to adopt the revised IAS 19 in the fiscal year ended March 31, 2014. In line with the change in accounting policy, the financial statements for the fiscal year ended March 31, 2013, have been retroactively applied to reflect this change.

The retroactive application had only a negligible impact on the financial statements for the fiscal year ended March 31, 2013.

ii) Effective from March 31, 2014, the Company applied Accounting Standards Board of Japan (ASBJ) Statement No. 26 "Accounting Standard for Retirement Benefits" (May 17, 2012) and ASBJ Guidance No. 25 "Guidance on Accounting Standard for Retirement Benefits" (May 17, 2012), ("The Guidance on Retirement Benefits"), except for the main clause of Article 35 of the Accounting Standard for Retirement Benefits and the main clause of Article 67 of the Guidance on Retirement Benefits. In accord with this, accounting treatments for retirement benefits have been changed to record "net defined benefit liability" in the amount of retirement benefit obligations less the value of

plan assets. Unrecognized actuarial gain/loss and unrecognized prior service cost are also included in "net defined benefit liability." When the value of plan assets exceeds the amount of retirement benefit obligations, the surplus is recorded to "net defined benefit asset."

The Accounting Standard for Retirement Benefits and its guidance are applied with transitional treatments stipulated in paragraph 37 of the Accounting Standard for Retirement Benefits. As of March 31, 2014, impact of this change was reflected in "Remeasurements of defined benefit plans" under accumulated other comprehensive income.

As a result, as of March 31, 2014, accumulated other comprehensive income was ¥2,428 million lower.

Equity per share was ¥1.43 lower.

Furthermore, in the fiscal year ended March 31, 2013, unrecognized actuarial gains/loss and unrecognized prior service cost for some foreign subsidiaries and affiliates were stated as "Pension liability adjustment of foreign subsidiaries and affiliates" in the consolidated statements of comprehensive income, the consolidated statements of changes in equity, and the consolidated balance sheets. Effective from the fiscal year ended March 31, 2014, however, these are included in "Remeasurements of defined benefit plans."

(2) Changes in presentation:

i) Changes in accord with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations.

Consolidated balance sheets

"Cash and deposits" included in "Cash and cash equivalents" prior to April 1, 2013, is disclosed separately.

Certificates of deposit with a maturity of not more than three months after the purchase date included in "Cash and cash equivalents" prior to April 1, 2013, are included in "Short-term investment securities."

Time deposits with a maturity of more than three months included in "Other" within the current assets section prior to April 1, 2013, are included in "Cash and deposits."

"Deferred and prepaid expenses" included in "Other" within the current assets section prior to April 1, 2013, is disclosed separately.

"Investments in unconsolidated subsidiaries and affiliates" disclosed separately prior to April, 2013, is included in "Investment securities."

Investment in capital included in "Investments in unconsolidated subsidiaries and affiliates" prior to April 1, 2013, is included in "Other" within the investments and other assets section.

"Intangible assets" classified as "Investments and other assets" prior to April 1, 2013, is newly established as a separate classification.

"Software" included in "Intangible assets" within the investments and other assets section prior to April 1, 2013, is disclosed separately.

"Leasehold right" included in "Intangible assets" within the investments and other assets section prior to April 1, 2013, is disclosed separately.

Current portion of long-term loans payable included in "Current portion of long-term debt" prior to April 1, 2013, is included in "Short-term loans payable."

Current portion of obligations under finance lease included in "Current portion of long-term debt" prior to April 1, 2013, is included in "Other" within the current liabilities section.

"Advances received" included in "Other" within the current liabilities section prior to April 1, 2013, is disclosed separately.

"Long-term loans payable" included in "Long-term debt" prior to April 1, 2013, is disclosed separately.

"Bonds payable" included in long-term debt prior to April 1, 2013, is disclosed separately.

Obligations under finance lease included in "Long-term debt" prior to April 1, 2013, is included in "Other" within the noncurrent liabilities section.

Consolidated statements of income

"Interest income" and "Dividend income" included in "Interest and dividend income" prior to April 1, 2013, are disclosed separately.

"Gain on sales of noncurrent assets" and "Loss on sales of noncurrent assets" disclosed as net prior to April 1, 2013, are disclosed separately.

"Gain on sales of investment securities" disclosed as net after loss prior to April 1, 2013, is disclosed separately.

"Recurring profit" is newly established as a subtotal.

Consequently, the presentation of notes to financial statements has also changed.

ii) Changes due to the materiality of amounts

Consolidated statements of income

In the previous fiscal year, ended March 31, 2013, "Loss on valuation of investment securities" was stated separately in "Other income (expenses)" of the consolidated statement of operations. However, because "Loss on valuation of investment securities" as a percentage of "Other income (expenses)" was 10% or less, "Loss on valuation of investment securities" has been included in "Other" under "Other losses" from the fiscal year under review, ended March 31, 2014. To reflect this change in presentation, the classifications of the consolidated financial statements of the previous fiscal year have been changed. As a result, in the consolidated statement of income of the previous fiscal year, "Loss on valuation of investment securities" of ¥1,656 million that was previously presented under "Other income (expenses)" has been reclassified and presented in "Other" under "Other losses."

Consolidated statements of cash flows

In the previous fiscal year, ended March 31, 2013, "increase (decrease) in provision for losses related to antitrust law" was included in "Other, net" under "Operating activities" in the consolidated statement of cash flows. However, because the materiality of the amount of "Increase (decrease) in provision for losses related to antitrust law" has increased, it has been stated separately from the fiscal year under review, ended March 31, 2014. To reflect this change in presentation, the classifications of the consolidated financial statements of the previous fiscal year have been changed. As a result, in the consolidated statement of cash flows of the previous fiscal year, ¥1,582 million that was previously presented in "other, net" under "Operating activities" has been reclassified and presented as "Decrease in provision for losses related to antitrust law" of –¥1,532 million and "Other, net" of ¥3,114 million.

(3) New accounting pronouncements:

ASBJ Statement No. 26 "Accounting Standard for Retirement Benefits" (May 17, 2012)

ASBJ Guidance No. 25 "Guidance on Accounting Standard for Retirement Benefits" (May 17, 2012)

i) Summary

The Accounting Standards Board of Japan ("ASBJ") has established a revised accounting standard for retirement benefits from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on how actuarial gains and losses and prior service costs should be accounted for, how retirement benefit obligations and current service costs should be determined, and the enhancement of disclosures.

ii) Planned adoption date

The Company plans to adopt the revised calculation methods for retirement benefit obligations and current service costs from the beginning of the consolidated fiscal year ending March 31, 2015.

Because the said accounting standard stipulates transitional treatment, retrospective application to the consolidated financial statements of previous periods has not been implemented.

iii) Effect of adoption of the said accounting standard, etc.

The effect of adoption of the revised calculation methods for retirement benefit obligations and current service costs is under evaluation as of the preparation of these consolidated financial statements.

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 as 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 as 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 paid 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, 2014 and 2013, 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)		
	2014			2013			2014		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
① Cash and deposits	¥ 218,358	¥ 218,358	¥ —	¥ 176,939	¥ 176,939	¥ —	$ 2,121,632	$ 2,121,632	$ —
② Notes and operating accounts receivable–trade	268,612			222,532			2,609,912		
Allowance for doubtful accounts*1	(1,393)			(1,405)			(13,541)		
Balance	267,218	267,218	—	221,126	221,126	—	2,596,371	2,596,371	—
③ Short-term and long-term investment securities (Note 5)									
Held-to-maturity debt securities	136,625	136,625	0	127,635	127,635	(0)	1,327,489	1,327,490	0
Available-for-sale securities	109,449	109,449	—	124,530	124,530	—	1,063,442	1,063,442	—
Investments in unconsolidated subsidiaries and affiliates	12,422	12,549	127	10,746	9,417	(1,328)	120,703	121,938	1,234
④ Long-term loans receivable	24,177			17,857			234,918		
Allowance for doubtful accounts*1	(0)			(0)			(3)		
Balance	24,177	24,677	500	17,857	18,479	621	234,914	239,773	4,858
Subtotal	768,251	768,879	627	678,836	678,129	(707)	7,464,553	7,470,648	6,094
① Notes and operating accounts payable–trade	229,738	229,738	—	180,680	180,680	—	2,232,204	2,232,204	—
② Short-term loans payable	115,090	115,090	—	127,013	127,013	—	1,118,256	1,118,256	—
③ Bonds payable	235,445	244,451	9,006	245,445	252,048	6,603	2,287,650	2,375,164	87,514
④ Long-term loans payable	875,956	885,578	9,621	911,920	932,093	20,173	8,511,047	8,604,534	93,487
Subtotal	1,456,231	1,474,860	18,628	1,465,059	1,491,836	26,776	14,149,158	14,330,160	181,001
Derivative financial instruments*2	¥ 494	¥ 494	¥ —	¥ (1,315)	¥ (1,315)	¥ —	$ 4,806	$ 4,806	$ —

* 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 the 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 is calculated based on either the present value of expected future cash flows or the 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)
	2014	2013	2014
Segment	Book value	Book value	Book value
Investments in unconsolidated subsidiaries and affiliates	¥136,978	¥ 97,265	$1,330,926
Shares in unlisted companies	20,944	18,510	203,500
Others	10,838	245	105,307
Total	¥168,761	¥116,021	$1,639,734

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

	2014				2013			
	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	¥218,358	¥ —	¥ —	¥ —	¥176,939	¥ —	¥ —	¥ —
Notes and operating accounts receivable–trade	268,062	549	—	—	221,934	597	—	—
Short-term and long-term investment securities:								
Held-to-maturity debt securities (government bonds)	—	—	100	—	—	—	100	—
Held-to-maturity debt securities (corporate bonds)	—	500	—	—	—	500	—	—
Held-to-maturity debt securities (others)	136,000	25	—	—	127,000	25	10	—
Available-for-sale securities with maturity dates (government bonds)	—	60	—	—	42	18	—	—
Available-for-sale securities with maturity dates (others)	46	—	—	—	42	—	—	—
Long-term loans receivable	—	9,323	9,325	5,528	—	8,608	3,431	5,818
Total	¥622,467	¥10,458	¥9,425	¥5,528	¥525,958	¥9,748	¥3,541	¥5,818

Thousands of U.S. dollars (Note 2)

	2014			
	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years
Cash and deposits	$2,121,632	$ —	$ —	$ —
Notes and operating accounts receivable–trade	2,604,570	5,342	—	—
Short-term and long-term investment securities:				
Held-to-maturity debt securities (government bonds)	—	—	971	—
Held-to-maturity debt securities (corporate bonds)	—	4,858	—	—
Held-to-maturity debt securities (others)	1,321,414	242	—	—
Available-for-sale securities with maturity dates (government bonds)	—	582	—	—
Available-for-sale securities with maturity dates (others)	452	—	—	—
Long-term loans receivable	—	90,588	90,609	53,720
Total	$6,048,069	$101,614	$91,580	$53,720

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

Millions of yen

	2014					
	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	¥115,090	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	—	—	40,000	50,000	30,000	115,445
Long-term loans payable	—	86,364	83,823	94,545	115,824	495,399
Total	¥115,090	¥86,364	¥123,823	¥144,545	¥145,824	¥610,844

Thousands of U.S. dollars (Note 2)

	2014					
	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	$1,118,256	$ —	$ —	$ —	$ —	$ —
Bonds payable	—	—	388,651	485,814	291,488	1,121,696
Long-term loans payable	—	839,139	814,455	918,632	1,125,380	4,813,439
Total	$1,118,256	$839,139	$1,203,107	$1,404,446	$1,416,868	$5,935,135

Millions of yen

	2013					
	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	¥127,013	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	—	50,000	—	40,000	50,000	105,445
Long-term loans payable	—	96,165	82,902	76,945	90,046	565,858
Total	¥127,013	¥146,165	¥82,902	¥116,945	¥140,046	¥671,303

5. Securities

(1) Short-term and long-term investment securities held-to-maturity with fair value as of March 31, 2014 and 2013, are summarized as follows:

	Millions of yen						Thousands of U.S. dollars (Note 2)		
	2014			2013			2014		
	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	¥ 105	¥ 5	¥ 100	¥ 106	¥ 6	$ 973	$ 1,024	$ 51
Corporate bonds	200	202	2	200	203	3	1,943	1,969	25
Others	—	—	—	—	—	—	—	—	—
Subtotal	300	308	7	300	310	9	2,916	2,994	77
Securities for which fair value is equal to or less than book value:									
Government bonds and others	—	—	—	—	—	—	—	—	—
Corporate bonds	300	292	(7)	300	290	(9)	2,915	2,839	(75)
Others	136,025	136,024	(0)	127,035	127,034	(0)	1,321,657	1,321,656	(0)
Subtotal	136,325	136,317	(7)	127,335	127,324	(10)	1,324,572	1,324,496	(76)
Total	¥136,625	¥136,625	¥ 0	¥127,635	¥127,635	¥ (0)	$1,327,489	$1,327,490	$ 0

(2) Short-term and long-term investment securities classified as available-for-sale securities with fair value as of March 31, 2014 and 2013, are summarized as follows:

	Millions of yen						Thousands of U.S. dollars (Note 2)		
	2014			2013			2014		
	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	¥ 92,471	¥44,984	¥47,487	¥106,388	¥56,665	¥49,722	$ 898,484	$437,082	$461,401
Government bonds and others	59	59	0	60	59	0	579	575	4
Corporate bonds	—	—	—	—	—	—	—	—	—
Others	38	28	10	64	61	3	375	273	102
Subtotal	92,570	45,071	47,498	106,513	56,786	49,726	899,439	437,930	461,508
Securities for which book value is equal to or less than acquisition costs:									
Corporate shares	16,828	20,944	(4,115)	17,971	23,035	(5,063)	163,507	203,498	(39,990)
Government bonds and others	—	—	—	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—	—	—	—
Others	51	57	(6)	46	52	(6)	495	562	(67)
Subtotal	16,879	21,001	(4,122)	18,017	23,088	(5,070)	164,003	204,061	(40,057)
Total	¥109,449	¥66,073	¥43,375	¥124,530	¥79,874	¥44,656	$1,063,442	$641,991	$421,450

"Acquisition costs" are the book value after recording impairment losses. Impairment losses were recognized in the fiscal year ended March 31, 2013, and were recorded as a loss on valuation of investment securities in the amount of ¥1,656 million.

(3) Proceeds, gains, and losses on sales of available-for-sale securities in the fiscal years ended March 31, 2014 and 2013, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Proceeds from sales	¥28,397	¥27,795	$275,915
Gross realized gains	14,058	12,815	136,598
Gross realized losses	(6)	(31)	(66)

6. Derivatives

Derivative financial instruments with fair value as of March 31, 2014 and 2013, are summarized as follows:

(1) Derivative transactions not qualifying for hedge accounting

	Millions of yen						Thousands of U.S. dollars (Note 2)		
	2014			2013			2014		
	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	¥ 2,418	¥ 91	¥ 30	¥ 1,834	¥ 183	¥ 91	$ 23,497	$ 888	$ 296
Sell U.S. dollar, buy Japanese yen	55,108	—	(228)	5,422	—	(449)	535,453	—	(2,223)
Buy Euro, sell Japanese yen	304	—	1	196	—	(0)	2,960	—	11
Sell Euro, buy Japanese yen	4,134	—	(156)	1,822	722	(22)	40,167	—	(1,519)
Buy U.S. dollar, sell Euro	3,139	—	0	3,514	—	10	30,506	—	7
Sell Pound sterling, buy U.S. dollar	1,256	—	(56)	1,240	—	(64)	12,208	—	(552)
Others	2,754	463	(28)	2,841	370	(22)	26,759	4,502	(275)
	¥69,116	¥ 554	¥(437)	¥16,872	¥ 1,275	¥(458)	$671,552	$ 5,391	$(4,255)
b. Interest rate-related									
Interest rate swaps:									
Receive fixed, pay floating	¥16,811	¥ 9,078	¥ 297	¥20,360	¥16,811	¥ 497	$163,346	$ 88,211	$ 2,886
Receive floating, pay fixed	16,428	9,018	(401)	20,184	16,428	(649)	159,625	87,626	(3,897)
	¥33,240	¥18,097	¥(104)	¥40,544	¥33,240	¥(152)	$322,972	$175,837	$(1,011)
c. Commodity-related									
Freight (chartered-freight) forward transactions:									
Forward chartered-freight agreements on buyer's side	¥ 1,558	¥ —	¥ 269	¥ 978	¥ —	¥ (5)	$ 15,141	$ —	$ 2,621
Forward chartered-freight agreements on seller's side	409	—	13	1,134	—	19	3,978	—	129
Fuel swaps:									
Receive floating, pay fixed	1,605	—	16	—	—	—	15,597	—	159
Fuel option contracts:									
Buy call option, sell put option	—	—	—	2,942	—	9	—	—	—
	¥ 3,573	¥ —	¥ 299	¥ 5,055	¥ —	¥ 23	$ 34,717	$ —	$ 2,909

* 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, 2014 and 2013.
2. The fuel option contracts are zero-cost option contracts, and call options and put options are shown as a lump sum because they are included in integrated contracts.

(2) Derivative transactions qualifying for hedge accounting

		Millions of yen						Thousands of U.S. dollars (Note 2)		
		2014			2013			2014		
		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:									
Buy U.S. dollar, sell Japanese yen	Forecasted capital expenditures	¥ 1,606	¥ 1,438	¥ 0	¥ 3,295	¥ —	¥ 494	$ 15,610	$ 13,977	$ 7
Sell U.S. dollar, buy Japanese yen	Investment for equity of overseas subsidiary	4,211	—	(19)	1,028	—	(0)	40,920	—	(193)
Others		8	2	0	154	57	9	77	25	4
Non-deliverable forward:	Principal items hedged:									
Sell Russian ruble, buy U.S. dollar	Investment for equity of overseas subsidiary	3,688	—	(12)	4,272	—	42	35,842	—	(124)
Currency swaps:	Principal items hedged:									
Receive Japanese yen, pay U.S. dollar	Charterage received	244	—	(1)	—	—	—	2,378	—	(18)
Receive U.S. dollar, pay Malaysian ringgit	Loans payable	760	412	14	920	558	(58)	7,384	4,006	145
Receive Singapore dollar, pay U.S. dollar	Loans receivable	705	642	(8)	—	—	—	6,853	6,238	(87)
Currency options:	Principal items hedged:									
Buy U.S. dollar put option, sell U.S. dollar call option	Freight	4,181	—	12	9,474	—	18	40,629	—	125
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	77,740	25,354	13,210	156,209	44,470	13,559	755,353	246,352	128,355
Sell U.S. dollar, buy Japanese yen		205	—	(0)	7,834	—	(56)	1,998	—	(1)
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	10,208	8,847	281	—	—	—	99,188	85,963	2,739
		¥103,562	¥ 36,697	¥ 13,477	¥183,189	¥ 45,085	¥ 14,010	$1,006,238	$ 356,563	$ 130,952
b. Interest rate-related										
Derivative transactions qualifying for general accounting policies, deferral hedge accounting										
Interest rate swaps:	Principal items hedged:									
Receive fixed, pay floating	Long-term loans payable	¥ 12,694	¥ 12,335	¥ 74	¥ 10,000	¥ 10,000	¥ 223	$ 123,340	$ 119,853	$ 727
Receive floating, pay fixed		155,275	141,734	(12,266)	162,052	141,862	(16,157)	1,508,696	1,377,130	(119,188)
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	242,907	242,907	*2
Receive floating, pay fixed		69,794	63,103		75,873	69,215		678,144	613,131	
		¥262,764	¥242,173	¥(12,191)	¥272,925	¥246,077	¥(15,933)	$2,553,089	$2,353,022	$(118,460)
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	¥ 2,056	¥ —	¥ (477)	¥ 368	¥ —	¥ 20	$ 19,984	$ —	$ (4,642)
Fuel swaps:	Principal items hedged:									
Receive fixed, pay floating	Fuel	—	—	—	82	—	1	—	—	—
Receive floating, pay fixed		24,811	588	216	21,380	2,695	1,054	241,073	5,719	2,102
Fuel oil collar transactions:	Principal items hedged:									
Buy call option, sell put option	Fuel	9,537	—	(5)	7,449	—	(6)	92,664	—	(48)
		¥ 36,405	¥ 588	¥ (266)	¥ 29,280	¥ 2,695	¥ 1,069	$ 353,722	$ 5,719	$ (2,588)

* 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, 2014 and 2013.
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, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Products and goods	¥ 2,820	¥ 2,487	$ 27,408
Work in progress	502	423	668,714
Raw materials, fuel and supplies	68,824	61,692	701,004

8. Accumulated Depreciation

As of March 31, 2014 and 2013, accumulated depreciation of vessels, property, plant and equipment is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Accumulated depreciation	¥902,363	¥861,834	$8,767,620

9. Investment in Nonconsolidated Subsidiaries and Affiliates

Amounts corresponding to nonconsolidated subsidiaries and affiliates as of March 31, 2014 and 2013, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Investment securities (stocks)	¥149,401	¥108,011	$1,451,629
Other in investment and other assets (investment in capital)	12,917	11,272	125,512

10. Investment and Rental Property

The Company and certain 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, 2014, totaled ¥4,618 million ($44,873 thousand).

The amounts recorded in the consolidated balance sheets, the increase (decrease) during the fiscal years ended March 31, 2014 and 2013, and the fair values of the relevant investment and rental property as of March 31, 2014 and 2013, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Amount recorded in consolidated balance sheet:			
Balance at end of the previous year	¥ 41,346	¥42,817	$401,738
Increase (decrease) during the fiscal year	(714)	(1,470)	(6,945)
Balance at end of the current year	40,632	41,346	394,792
Fair value as of current fiscal year-end	¥100,089	¥99,413	$972,497

* 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, 2014, the primary increase was ¥433 million ($4,211 thousand) from acquisition and the primary decreases were –¥1,005 million (–$9,767 thousand) from depreciation and –¥198 million (–$1,929 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 ¥5,437 million ($52,836 thousand) and ¥5,506 million as of March 31, 2014 and 2013, respectively.

12. Short-Term and Long-Term Debt

(1) Bonds as of March 31, 2014 and 2013, consisted of the following:

	Interest rate	Maturity date	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 2) 2014
Unsecured Straight Bonds No. 22 *1	1.58%	June 9, 2014	¥ —	¥ 20,000	$ —
Unsecured Straight Bonds No. 23	2.36%	June 7, 2024	10,000	10,000	97,162
Unsecured Straight Bonds No. 24	2.06%	June 22, 2016	20,000	20,000	194,325
Unsecured Straight Bonds No. 25	2.65%	June 22, 2026	10,000	10,000	97,162
Unsecured Straight Bonds No. 27	2.05%	June 20, 2017	30,000	30,000	291,488
Unsecured Straight Bonds No. 28 *1	0.968%	August 11, 2014	—	30,000	—
Unsecured Straight Bonds No. 29	1.782%	August 9, 2019	30,000	30,000	291,488
Unsecured Straight Bonds No. 30	0.475%	September 9, 2016	20,000	20,000	194,325
Unsecured Straight Bonds No. 31	1.218%	September 9, 2021	25,000	25,000	242,907
Unsecured Straight Bonds No. 32	2.13%	September 9, 2031	10,000	10,000	97,162
Unsecured Straight Bonds No. 33	0.472%	June 16, 2017	20,000	20,000	194,325
Unsecured Straight Bonds No. 34	0.594%	June 18, 2018	10,000	10,000	97,162
Unsecured Straight Bonds No. 35	1.177%	June 17, 2022	10,000	10,000	97,162
Unsecured Straight Bonds No. 36	0.572%	September 13, 2018	20,000	—	194,325
Unsecured Straight Bonds No. 37	0.939%	September 11, 2020	20,000	—	194,325
Convertible bonds *2	0%	September 24, 2026	445	445	4,323
Total			¥235,445	¥245,445	$2,287,650

* 1. Unsecured Straight Bonds No. 22 and Unsecured Straight Bonds No. 28 were treated as a redemption as debt assumption contract was entered into and debts to be discharged were transferred.
2. Details of convertible bonds are 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 ($7.56 (Note 2))
Total amount of debt securities issued	¥445 million ($4,323 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 with warrants and bonds as of March 31, 2014, were as follows:

Millions of yen

2014				
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
¥ —	¥ —	¥40,000	¥50,000	¥30,000

Thousands of U.S. dollars (Note 2)

2014				
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
$ —	$ —	$388,651	$485,814	$291,488

(2) Loans payable, obligations under finance lease and other interest-bearing liabilities as of March 31, 2014 and 2013, were as follows:

Classification	Average interest rate	Repayment deadline	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 2) 2014
Short-term loans payable (including overdraft)	1.37%	—	¥ 16,346	¥ 29,495	$ 158,822
Current portion of long-term loans payable	1.00%	—	98,744	97,518	959,433
Current portion of obligations under finance lease	3.44%	—	1,819	1,182	17,682
Long-term loans payable	0.96%	2015~2031	875,956	911,920	8,511,047
Obligations under finance lease	2.61%	2015~2021	13,650	6,630	132,634
Other interest-bearing liabilities:					
Current portion of long-term accounts payable	1.61%		1,361	—	13,225
Long-term accounts payable	1.74%	2021	11,684	—	113,525
Total			¥1,019,563	¥1,046,746	$9,906,371

* 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, 2014, are as follows:

	Millions of yen			
	2014			
	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	¥86,364	¥83,823	¥94,545	¥115,824
Obligation under finance lease	1,764	4,030	856	812
Long-term accounts payable	1,361	1,361	1,361	1,361

	Thousands of U.S. dollars (Note 2)			
	2014			
	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	$839,139	$814,455	$918,632	$1,125,380
Obligation under finance lease	17,145	39,163	8,325	7,898
Long-term accounts payable	13,225	13,225	13,225	13,225

13. Pledged Assets and Secured Liabilities

As of March 31, 2014, 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	¥ 467	$ 4,542
Short-term investment securities	46	452
Vessels, net	200,594	1,949,033
Buildings and structures	2,212	21,495
Machinery, equipment and vehicles	170	1,653
Land	4,319	41,971
Construction in progress	14,032	136,345
Investment securities	35,917	348,986
Total	¥257,761	$2,504,480

Secured liabilities	Millions of yen	Thousands of U.S. dollars (Note 2)
Notes and operating accounts payable–trade	¥ 46	$ 452
Short-term loans payable	16,373	159,086
Long-term loans payable	165,551	1,608,545
Total	¥181,971	$1,768,083

* Investment securities includes ¥35,782 million ($347,674 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, 2014 and 2013, are reconciled to cash and deposits reflected in the accompanying consolidated balance sheets as of March 31, 2014 and 2013, as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Cash and deposits	¥218,358	¥176,939	$2,121,632
Time deposits with a maturity of more than three months	(4,681)	(5,509)	(45,481)
Certificates of deposit with a maturity of not more than three months after the purchase date (included in short-term investment securities on consolidated balance sheets)	136,046	127,000	1,321,867
Cash and cash equivalents	¥349,723	¥298,429	$3,398,017

15. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Deferred tax assets:			
Provision for bonuses	¥ 2,551	¥ 2,470	$ 24,787
Provision for retirement benefits	—	5,189	—
Net defined benefit liabilities	5,283	—	51,337
Impairment loss on vessels, property, plant and equipment	5,459	4,691	53,050
Losses on revaluation of securities	1,258	1,077	12,231
Tax loss carryforwards	49,573	62,157	481,672
Unrealized gains on sale of vessels, property, plant and equipment	1,575	2,215	15,309
Provision for periodic dry docking of vessels	6,344	5,306	61,644
Accrued expenses	2,273	1,759	22,090
Foreign tax credit carryforwards	3,860	3,447	37,507
Deferred loss on derivatives under hedge accounting	7,033	7,616	68,340
Others	9,716	8,107	94,405
Subtotal of deferred tax assets	94,931	104,037	922,378
Valuation allowance	(74,798)	(84,134)	(726,766)
Total deferred tax assets	20,132	19,903	195,612
Deferred tax liabilities:			
Gain on securities contribution to employee retirement benefit trust	(3,193)	(3,193)	(31,030)
Depreciation	(7,460)	(7,369)	(72,485)
Reserve for reduction entry	(4,000)	(4,113)	(38,865)
Reserve for special depreciation	(22)	(46)	(220)
Valuation difference on available-for-sale securities	(13,987)	(14,359)	(135,907)
Deferred gain on derivatives under hedge accounting	(4,878)	(5,806)	(47,397)
Others	(12,607)	(13,762)	(122,494)
Total deferred tax liabilities	(46,149)	(48,652)	(448,401)
Net deferred tax (liabilities) assets	¥(26,017)	¥(28,749)	$(252,789)

(2) Reconciliation of the statutory income tax rate to the effective income tax rate for the years ended March 31, 2014 and 2013, was as follows:

	2014	2013
Normal statutory income tax rate	34.4%	34.4%
Increase (decrease) in taxes resulting from:		
Amortization of goodwill	0.9	0.8
Equity in earnings of unconsolidated subsidiaries and affiliates	(7.0)	2.0
Permanently non-deductible expenses for tax purposes, such as entertainment expenses	9.8	1.9
Permanently non-taxable income, such as dividend income	(0.7)	(0.8)
Changes in valuation allowance	(2.8)	(6.7)
Adjustment to tax for the overseas subsidiaries	(5.3)	2.8
Other	0.4	(1.1)
Actual effective income tax rate	29.7%	33.3%

(3) New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 34.4% to 31.9%. This change had only a negligible impact on deferred tax assets in the consolidated balance sheet as of March 31, 2014.

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 of

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 a legal retained earnings (a component of retained earnings) or as a 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 a legal retained earnings and a legal capital surplus equals 25% of the amount of common stock. Under the Companies Act, the total amount of legal capital surplus and legal retained earnings may be reversed without limitation. The Companies Act also provides that common stock, legal retained earnings, legal capital surplus, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of 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 by resolution of 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, 2014, were as follows:

	Shares of common stock (Thousands)	Shares of treasury stock (Thousands)
At March 31, 2013	1,700,550	4,334
Increase in number of shares	—	140
Decrease in number of shares	—	12
At March 31, 2014	1,700,550	4,462

b. Matters concerning dividends

(1) Total dividend payments to be paid for the consolidated fiscal year ended March 31, 2014, are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Approved at the ordinary general meeting of shareholders on June 25, 2013	¥3,392	$32,962
Approved by the Board of Directors on October 31, 2013	3,392	32,961
Total	¥6,784	$65,924

(2) The effective date for dividends, including retained earnings, as of March 31, 2014, 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 24, 2014	¥5,088	$49,439
Total	¥5,088	$49,439

17. 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, 2014, the net selling price of idle assets fell below book value and the economic performance of operating assets is, or will be, worse, causing 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 ¥6,832 million ($66,383 thousand).

The breakdown is as follows:

Location	Application	Type	Millions of yen	Thousands of U.S. dollars (Note 2)
Japan	Mainly idle assets	Aircraft and others	¥6,741	$65,499
Others	Mainly assets for operations	Machinery, equipment and vehicles and others	90	884
Total			¥6,832	$66,383

Impairment loss by location

Location	Millions of yen	Thousands of U.S. dollars (Note 2)	
Japan	¥6,741	$65,499	(Aircraft ¥5,062 million ($49,185 thousand))
Others	90	531	(Machinery, equipment and vehicles ¥54 million ($531 thousand))

The recoverable amount for these asset groups will be the higher value 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 6.15%.

18. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 12,203	¥ 23,804	$ 118,577
Reclassification adjustments to profit or loss for the year	(13,885)	(10,978)	(134,914)
Amount before income tax effect	(1,681)	12,825	(16,337)
Income tax effect	759	(4,761)	7,375
Total	(922)	8,063	(8,961)
Deferred gain (loss) on hedges:			
Gains (losses) arising during the year	14,619	14,879	142,050
Reclassification adjustments to profit or loss for the year	4,891	2,431	47,531
Adjustment for the acquisition cost of assets	(13,491)	12,441	(131,090)
Amount before income tax effect	6,019	29,751	58,491
Income tax effect	824	(3,944)	8,010
Total	6,844	25,807	66,501
Foreign currency translation adjustments:			
Gains (losses) arising during the year	23,156	31,407	224,992
Reclassification adjustments to profit or loss for the year	1,277	67	12,409
Amount before income tax effect	24,433	31,474	237,401
Income tax effect	—	—	—
Total	24,433	31,474	237,401
Remeasurements of defined benefit plans:			
Gains (losses) arising during the year	(1,259)	(370)	(12,236)
Reclassification adjustments to profit or loss for the year	534	252	5,188
Amount before income tax effect	(725)	(117)	(7,047)
Income tax effect	(80)	59	(778)
Total	(805)	(58)	(7,826)
Share of other comprehensive income of associates accounted for using equity method:			
Gains (losses) arising during the year	14,377	479	139,694
Reclassification adjustments to profit or loss for the year	3,908	3,165	37,978
Adjustment for the acquisition cost of assets	6	—	58
Total	18,292	3,645	177,731
Gain or loss on change in equity:			
Gains (losses) arising during the year	—	(282)	—
Total other comprehensive income (loss)	¥ 47,841	¥ 68,649	$ 464,845

"Gain or loss on change in equity" is attributed to reorganization accompanying integration with the overseas subsidiaries of YUSEN LOGISTICS CO., LTD. ("YUSEN LOGISTICS").

19. Commitments and Contingent Liabilities

(1) Commitments made by the Company and its consolidated subsidiaries as of March 31, 2014, totaled ¥100,680 million ($978,240 thousand) for the construction of vessels and ¥215,365 million ($2,092,556 thousand) for the purchase of aircraft.

Contingent liabilities for notes receivable discounted and endorsed, loans guaranteed and debt assumption as of March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Notes receivable discounted and endorsed	¥ 15	$ 153
Guarantees of loans	102,635	997,233
Debt assumption:		
Unsecured Straight Bonds No. 22	20,000	194,325
Unsecured Straight Bonds No. 28	30,000	291,488

* Real guarantees for the debt of affiliates, etc., had been included in "Guarantees of loans" in previous fiscal years. Since the relation between pledged assets and real guarantees could be more clearly explained, real guarantees are disclosed in "13. Pledged Assets and Secured Liabilities" from the fiscal year ended March 31, 2014.
As a result of this change, guarantee of loans decreased by ¥33,943 million ($329,801 thousand) compared to the amount aggregated by the conventional method.

(2) Certain operating lease agreements that the consolidated subsidiaries concluded on their respective vessels incorporate a residual value guarantee clause. The maximum amount of potential future payment under the guarantee obligation is ¥53,560 million ($520,412 thousand). The guarantee may be paid if the subsidiaries choose to return the leased property rather than exercise an option to buy it. The operating lease agreement will expire by June 2021.

(3) Some operating lease agreements that the Company and NCA, a consolidated subsidiary of the Company, concluded on their aircraft incorporate a residual value guarantee clause. The maximum amount of potential future payment under the guarantee obligation is ¥54,817 million ($532,626 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 agreement will expire by February 2024.

(4) NCA has been filed a damage suit without a specific amount of damage (class action lawsuit) in the United States on the suspicion of forming a price cartel in air cargo transport service, etc.

Regarding the result of the class action lawsuit, there is a possibility of exerting an impact on NCA's operating results, but it is difficult to predict these results reasonably.

(5) YUSEN LOGISTICS and a consolidated subsidiary of the company have been filed a damage suit without a specific amount of damage (class action lawsuit) in the United States along with more than 60 international freight forwarders on the suspicion of violation of U.S. antitrust laws for international air freight service.

Regarding the result of the class action lawsuit, there is a possibility of exerting an impact on YUSEN LOGISTICS and its consolidated subsidiary's operating results, but it is difficult to predict these results reasonably.

(6) YUSEN LOGISTICS and a consolidated subsidiary of the company were investigated by the Competition Commission of Singapore on the suspicion of violation of the competition laws for international air freight service from Japan to Singapore. On April 1, 2014, they received a notification that states a provisional opinion in regard to the suspicion. YUSEN LOGISTICS and its consolidated subsidiary are preparing to contest the authorities on the propriety of their findings. There is a possibility that the development of this issue in the future will exert an impact on YUSEN LOGISTICS and its consolidated subsidiary's operating results, but it is difficult to predict these results reasonably.

(7) The Company and a consolidated subsidiary were suspected of violating the antitrust law concerning the shipping of cargo, including automobiles, from September 2012. Investigations were conducted by both Japanese and U.S. authorities, and they were served with an interrogatory from European authorities. Also, the Company and some subsidiaries have been filed class action lawsuits in the United States and other regions for damages and suspension of shipments, etc. without a specific amount of damage, for their conspiration 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 U.S. and European authorities and class action lawsuits at present.

20. 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, 2014 and 2013, 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 end of the year of leased assets as of March 31, 2014 and 2013, 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							
	2014				2013			
	Vessels	Equipment	Other	Total	Vessels	Equipment	Other	Total
Acquisition cost	¥15,703	¥22,721	¥364	¥38,788	¥15,215	¥38,578	¥708	¥54,501
Accumulated depreciation	14,186	20,621	330	35,138	12,682	33,061	612	46,356
Accumulated impairment loss	—	—	—	—	—	—	—	—
Net balance at end of the year	1,517	2,099	33	3,650	2,532	5,516	95	8,144

	Thousands of U.S. dollars (Note 2)			
	2014			
	Vessels	Equipment	Other	Total
Acquisition cost	$152,578	$220,766	$3,538	$376,883
Accumulated depreciation	137,835	200,366	3,214	341,416
Accumulated impairment loss	—	—	—	—
Net balance at end of the year	14,743	20,400	323	35,467

b. Future lease payments as of March 31, 2014, which included the portion of interest thereon, are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Within one year	¥2,568	$24,954
More than one year	649	6,307
Total	¥3,217	$31,261

c. Lease expenses, depreciation, interest expenses, and impairment loss for the years ended March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Lease expenses for the year	¥4,436	¥5,982	$43,110
Reversal of impairment loss on leased property	—	3,463	—
Depreciation	4,918	6,858	47,790
Interest expenses	152	303	1,482

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, 2014, are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Within one year	¥ 89,354	$ 868,195
More than one year	318,219	3,091,914
Total	¥407,574	$3,960,109

As lessors

Future lease income as of March 31, 2014, is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Within one year	¥ 5,285	$ 51,356
More than one year	52,324	508,403
Total	¥57,610	$559,760

21. 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 year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 2)
	2014	2014
Balance at beginning of year	¥80,262	$779,849
Service costs	3,084	29,968
Interest costs	1,393	13,537
Actuarial (gains) losses	(1,266)	(12,309)
Benefits paid	(3,721)	(36,163)
Prior service cost	11	114
Others	2,005	19,490
Balance at end of year	¥81,768	$794,487

(2) Changes in plan assets for the year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 2)
	2014	2014
Balance at beginning of year	¥ 98,837	$ 960,335
Expected return on plan assets	1,608	15,633
Actuarial gains (losses)	6,144	59,705
Contributions from the employer	2,818	27,384
Benefits paid	(2,926)	(28,431)
Others	1,807	17,560
Balance at end of year	¥108,291	$1,052,187

(3) Reconciliation between balance at beginning of year and balance at end of year in relation to net defined benefit liability for which the shortcut method was applied (as of March 31, 2014) for the year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 2)
	2014	2014
Balance at beginning of year	¥7,603	$73,875
Net periodic benefit costs	1,026	9,970
Benefits paid	(629)	(6,113)
Contributions from the employer	(633)	(6,154)
Other	(324)	(3,152)
Balance at end of year	¥7,042	$68,425

(4) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 2)
	2014	2014
Funded defined benefit obligation	¥ 83,600	$ 812,287
Plan assets	(115,126)	(1,118,599)
	(31,525)	(306,312)
Unfunded defined benefit obligation	12,045	117,037
Net liability (asset) arising from defined benefit obligation	(19,480)	(189,274)
Net defined benefit liability	17,433	169,391
Net defined benefit asset	(36,913)	(358,666)
Net liability (asset) arising from defined benefit obligation	¥ (19,480)	$ (189,274)

(5) Components of net periodic benefit costs for the year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 2)
	2014	2014
Service costs	¥ 3,084	$ 29,968
Interest costs	1,393	13,537
Expected return on plan assets	(1,608)	(15,633)
Recognized actuarial (gains) losses	(354)	(3,442)
Amortization of prior service cost	517	5,024
Net periodic benefit costs calculated using the shortcut method	1,026	9,970
Other	21	210
Net periodic benefit costs	¥ 4,079	$ 39,635

(6) Other comprehensive income on defined retirement benefit plans (before tax) as of March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 2)
	2014	2014
Prior service cost	¥ 42	$ 414
Actuarial gains (losses)	(768)	(7,462)
Transitional obligation	(0)	(0)
Total	¥(725)	$(7,047)

(7) Accumulated other comprehensive income on defined retirement benefit plans (before tax) as of March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 2)
	2014	2014
Unrecognized prior service cost	¥ (440)	$ (4,279)
Unrecognized actuarial gains (losses)	(5,459)	(53,049)
Unrecognized transitional obligation	(0)	(4)
Total	¥(5,900)	$(57,328)

(8) Components of plan assets

Plan assets consisted of the following as of March 31, 2014:

	2014
Debt investments	37%
Equity investments	47%
Cash and cash equivalents	6%
Others	10%
Total	100%

A retirement benefit trust established for a corporate pension plan accounts for 35% of plan assets.

(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%

3. Defined contribution plan

Certain consolidated subsidiaries had ¥2,284 million ($22,200 thousand) for the fiscal year ended March 31, 2014, 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 multi-employer plan as retirement benefit costs.

22. Segment Information

The Company and its consolidated subsidiaries operate in seven businesses: Liner Trade, Bulk Shipping, Logistics, Cruise, Air Cargo Transport, Real Estate, and Others.

The table below presents certain segment information for the years ended March 31, 2014 and 2013.

Year ended March 31, 2014:

	Millions of yen									
	Global Logistics				Others					
	Liner Trade	Air Cargo Transport	Logistics	Bulk Shipping	Cruise	Real Estate	Others	Total	Adjustments*	Consolidated Total
I Revenues:										
(1) Revenues from customers	¥ 600,691	¥82,364	¥428,545	¥ 987,664	¥45,206	¥ 8,334	¥ 84,433	¥2,237,239	¥ —	¥2,237,239
(2) Intersegment revenues	16,802	6,490	3,022	824	64	1,612	108,334	137,150	(137,150)	—
Total	617,494	88,854	431,567	988,489	45,270	9,946	192,767	2,374,390	(137,150)	2,237,239
Segment profit (loss)	(782)	(7,371)	6,534	54,884	717	3,824	672	58,479	(55)	58,424
Segment assets	¥ 452,479	¥78,845	¥237,998	¥1,502,207	¥33,786	¥53,841	¥552,979	¥2,912,139	¥(360,902)	¥2,551,236
II Other items:										
Depreciation and amortization	¥ 16,858	¥ 2,247	¥ 7,327	¥ 75,469	¥ 2,114	¥ 917	¥ 1,030	¥ 105,966	¥ (9)	¥ 105,956
Amortization of goodwill and negative goodwill	300	—	(69)	1,156	—	0	1	1,388	—	1,388
Interest income	388	29	246	1,592	23	4	5,789	8,074	(5,471)	2,603
Interest expenses	2,612	848	764	14,118	203	37	5,699	24,285	(5,300)	18,985
Equity in earnings of unconsolidated subsidiaries and affiliates	833	—	124	14,338	—	5	19	15,321	—	15,321
Investments in equity method affiliates	10,802	—	3,521	123,956	—	920	111	139,312	(40)	139,271
Increase in vessels, property, plant and equipment and intangible assets	14,756	49,627	7,907	156,351	16,168	649	2,769	248,230	—	248,230
III Information about impairment loss by reportable segments:										
Impairment loss	¥ 49	¥ 5,062	¥ 54	¥ 1,665	¥ —	¥ —	¥ —	¥ 6,832	¥ —	¥ 6,832
IV Information about balance of goodwill by reportable segments:										
Balance of goodwill (negative goodwill) at the end of current period	¥ 2,928	¥ —	¥ 2,591	¥ 18,655	¥ —	¥ —	¥ 3	¥ 24,179	¥ —	¥ 24,179

	Thousands of U.S. dollars (Note 2)									
	Global Logistics				Others					
	Liner Trade	Air Cargo Transport	Logistics	Bulk Shipping	Cruise	Real Estate	Others	Total	Adjustments*	Consolidated Total
I Revenues:										
(1) Revenues from customers	$5,836,491	$800,274	$4,163,866	$ 9,596,429	$439,234	$ 80,976	$ 820,382	$21,737,656	$ —	$21,737,656
(2) Intersegment revenues	163,257	63,059	29,366	8,014	625	15,666	1,052,604	1,332,594	(1,332,594)	—
Total	5,999,748	863,334	4,193,233	9,604,444	439,860	96,642	1,872,986	23,070,251	(1,332,594)	21,737,656
Segment profit (loss)	(7,606)	(71,626)	63,486	533,277	6,968	37,164	6,538	568,202	(537)	567,664
Segment assets	$4,396,417	$766,086	$2,312,465	$14,595,878	$328,280	$523,141	$5,372,903	$28,295,173	$ 3,506,630	$24,788,543
II Other items:										
Depreciation and amortization	$ 163,801	$ 21,840	$ 71,197	$ 733,286	$ 20,543	$ 8,915	$ 10,011	$ 1,029,597	$ (91)	$ 1,029,506
Amortization of goodwill and negative goodwill	2,915	—	(674)	11,241	—	0	13	13,495	—	13,495
Interest income	3,775	290	2,394	15,472	225	43	56,253	78,455	(53,159)	25,296
Interest expenses	25,388	8,244	7,428	137,181	1,975	364	55,382	235,966	(51,500)	184,465
Equity in earnings of unconsolidated subsidiaries and affiliates	8,101	—	1,206	139,318	—	54	184	148,865	—	148,865
Investments in equity method affiliates	104,957	—	34,214	1,204,397	—	8,948	1,083	1,353,600	(396)	1,353,204
Increase in vessels, property, plant and equipment and intangible assets	143,380	482,190	76,831	1,519,153	157,096	6,314	26,909	2,411,876	—	2,411,876
III Information about impairment loss by reportable segments:										
Impairment loss	$ 480	$ 49,185	$ 531	$ 16,186	$ —	$ —	$ —	$ 66,383	$ —	$ 66,383
IV Information about balance of goodwill by reportable segments:										
Balance of goodwill (negative goodwill) at the end of current period	$ 28,455	$ —	$ 25,177	$ 181,263	$ —	$ —	$ 38	$ 234,935	$ —	$ 234,935

* Adjustments of segment profit or loss are internal exchanges or transfers among segments.
Adjustments of segment assets are –¥457,923 million (–$4,449,315 thousand) of receivable or asset relating to internal exchange among segments and ¥97,021 million ($942,685 thousand) of corporate assets.
Major corporate assets are excess of operating funds (cash and deposits).

Year ended March 31, 2013:

	Millions of yen									
	Global Logistics				Others					
	Liner Trade	Air Cargo Transport	Logistics	Bulk Shipping	Cruise	Real Estate	Others	Total	Adjustments*	Consolidated Total
I Revenues:										
(1) Revenues from customers	¥520,639	¥71,266	¥363,657	¥ 823,884	¥35,026	¥ 8,623	¥ 74,002	¥1,897,101	¥ —	¥1,897,101
(2) Intersegment revenues	15,387	6,598	3,172	689	16	1,799	99,632	127,295	(127,295)	—
Total	536,027	77,864	366,829	824,573	35,042	10,423	173,635	2,024,396	(127,295)	1,897,101
Segment profit (loss)	(1,649)	(4,862)	4,773	17,791	(3,744)	3,940	1,475	17,724	11	17,736
Segment assets	¥407,859	¥90,311	¥217,229	¥1,450,036	¥28,659	¥57,372	¥607,828	¥2,859,297	¥(429,159)	¥2,430,138
II Other items:										
Depreciation and amortization	¥ 15,166	¥ 2,320	¥ 6,376	¥ 69,618	¥ 2,044	¥ 909	¥ 1,094	¥ 97,531	¥ (8)	¥ 97,522
Amortization of goodwill and negative goodwill	98	—	(246)	1,028	—	0	(0)	879	—	879
Interest income	401	4	208	1,313	1	5	6,675	8,610	(6,481)	2,128
Interest expenses	2,838	798	633	12,800	268	43	6,426	23,809	(6,351)	17,457
Equity in earnings of unconsolidated subsidiaries and affiliates	(151)	—	268	1,618	—	8	—	1,745	—	1,745
Investments in equity method affiliates	11,314	—	3,340	71,346	—	926	95	87,024	(40)	86,983
Increase in vessels, property, plant and equipment and intangible assets	14,516	52,845	9,480	223,271	1,180	1,209	1,303	303,806	(1,480)	302,326
III Information about impairment loss by reportable segments:										
Impairment loss	¥ 1,369	¥ —	¥ 17	¥ 33	¥ —	¥ —	¥ —	¥ 1,420	¥ —	¥ 1,420
IV Information about balance of goodwill by reportable segments:										
Balance of goodwill (negative goodwill) at the end of current period	¥ 2,956	¥ —	¥ 2,216	¥ 17,994	¥ —	¥ 0	¥ 5	¥ 23,173	¥ —	¥ 23,173

* Adjustments of segment profit or loss are internal exchanges or transfers among segments.
Adjustments of segment asset are –¥504,963 million (–$4,906,366 thousand) of receivable or asset relating to internal exchange among segments and ¥75,804 million ($736,534 thousand) of corporate assets.
Major corporate assets are excess of operating funds (cash and deposits).

23. 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, 2014:

	Millions of yen					
	Japan	North America	Europe	Asia	Others	Total
I Revenues	¥1,673,035	¥169,675	¥186,364	¥194,762	¥13,401	¥2,237,239
II Tangible fixed assets	922,077	41,938	192,114	71,665	769	1,228,565

	Thousands of U.S. dollars (Note 2)					
	Japan	North America	Europe	Asia	Others	Total
I Revenues	$16,255,689	$1,648,614	$1,810,774	$1,892,364	$130,213	$21,737,656
II Tangible fixed assets	8,959,170	407,489	1,866,634	696,319	7,478	11,937,093

Year ended March 31, 2013:

	Millions of yen					
	Japan	North America	Europe	Asia	Others	Total
I Revenues	¥1,441,067	¥137,040	¥150,005	¥160,210	¥8,777	¥1,897,101
II Tangible fixed assets	995,484	37,330	184,257	68,733	619	1,286,426

24. Related Party Transactions

The Company was contingently liable as guarantor of indebtedness of related parties at March 31, 2014 and 2013, as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Guarantee amount	¥ —	¥32,585	$ —

The guarantee amount as of March 31, 2014, is not stated because it is immaterial.

25. Subsequent Events

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2014, was approved at the Company's shareholders' meeting held on June 24, 2014:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Year-end cash dividends, ¥3.00 ($0.03) per share	¥5,088	$49,439

Management's Report on Internal Control Over Financial Reporting

1. Matters relating to the basic framework of internal control over financial reporting

Yasumi Kudo, President, President Corporate Officer, and Kenji Mizushima, Representative Director, Senior 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, 2014, 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.

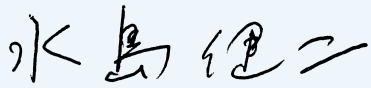
We determined the required scope of assessment of internal control over financial reporting for the Company, as well as its consolidated subsidiaries and equity-method affiliated companies, from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality 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 reaches 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.

Yasumi Kudo
President, President Corporate Officer
June 24, 2014



Kenji Mizushima
Representative Director, Senior 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, 2014, 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, 2014, 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, 2014.

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, 2014 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 24, 2014

Major Consolidated Subsidiaries

(As of March 31, 2014)

(Millions of yen)

		Company	Voting rights held (%)	Paid-in capital
Domestic	Liner	UNI-X CORPORATION	83.44	¥934
		NIPPON CONTAINER TERMINALS CO., LTD.	51.00	250
		ASAHI UNYU KAISHA, LTD.	95.00	100
		YUSEN KOUN CO., LTD.	81.00	100
		GENEQ CORPORATION*1	55.14	242
		NIPPON CONTAINER YUSO CO., LTD.	51.00	250
		ASIA PACIFIC MARINE CORPORATION	100.00	35
		KAIYO KOGYO CORP.	100.00	90
	Air Cargo Transportation	NIPPON CARGO AIRLINES CO., LTD.	100.00	¥50,574
	Logistics	YUSEN LOGISTICS CO., LTD.	59.77	¥4,301
		KINKAI YUSEN KAISHA LTD.*2	100.00	465
		CAMELLIA LINE CO., LTD.	51.00	400
	Bulk Shipping	NYK BULK & PROJECTS CARRIERS LTD.*3	100.00	¥2,100
		HACHIUMA STEAMSHIP CO., LTD.	74.86	500
		ASAHI SHIPPING CO., LTD.	69.67	495
	Cruise	NYK CRUISES CO., LTD.	100.00	¥2,000
	Real Estate	YUSEN REAL ESTATE CORPORATION	100.00	¥450
	Others	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 INC.	100.00	US$2
		NYK LINE (NORTH AMERICA) INC.	100.00	US$4
		ASTARTE CARRIERS, LTD.	100.00	US$0.6
	Logistics	YUSEN LOGISTICS (AMERICAS) INC.	100.00	US$70
		YUSEN LOGISTICS (HONG KONG) LTD.	100.00	HK$55
		YUSEN LOGISTICS (UK) LTD.	100.00	£44
		YUSEN LOGISTICS (CHINA) CO., LTD.	100.00	CHY158
		YUSEN LOGISTICS (THAILAND) CO., LTD.	84.48	B70
	Bulk Shipping	NYK BULKSHIP (ASIA) PTE. LTD.	100.00	US$7
		NYK BULKSHIP (ATLANTIC) N.V.	100.00	US$146
		NYK AUTOMOTIVE LOGISTICS (CHINA) CO., LTD.	100.00	CHY195
		ADAGIO MARITIMA S.A.	100.00	¥0.1
	Cruise	CRYSTAL CRUISES, INC.	100.00	US$0.04

*1. The Company's operations span multiple divisions.
*2. Former name: KINKAI YUSEN LOGISTICS CO., LTD. New name effective from April 1, 2013.
*3. NYK BULK & PROJECTS CARRIERS LTD. was established through the merger of NYK GLOBAL BULK CORPORATION and NYK-HINODE LINE, LTD., as of October 1, 2013.

Currencies: B Thai Baht CHY Chinese yuan HK$ Hong Kong dollar US$ U.S. dollar £ Pound sterling

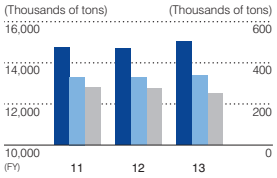
Environmental Performance Data

Fleet

NYK

INPUT	2011	2012	2013
Heavy oil C	4,671.5	4,649.3	4,752.7
Heavy oil A	7.7	6.4	7.1
Diesel	54.7	60.5	61.4
			(Thousands of tons)

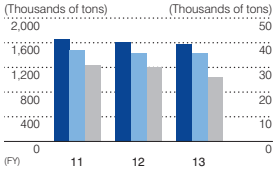
OUTPUT	2011	2012	2013
CO_2	14,749	14,695	15,022
NOx	331	330	337
SOx	280	275	251
			(Thousands of tons)



Domestic and International Group Companies

INPUT	2011	2012	2013
Heavy oil C	523.8	506.4	496.5
Heavy oil A	2.2	2.5	1.4
Diesel	8.1	8.9	9.8
			(Thousands of tons)

OUTPUT	2011	2012	2013
CO_2	1,662	1,614	1,582
NOx	37	36	36
SOx	31	30	26
			(Thousands of tons)

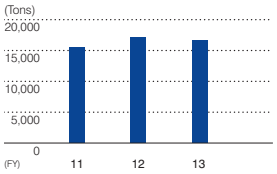


This data was calculated using coefficients in IMO guidelines and based on the volumes of fuel purchased by NYK Line and Group company ships.

Three NYK-Owned Container Terminals in Japan

INPUT	2011	2012	2013
Electric power	22,750	22,419	21,389
			(1,000kWh)
Fuel	2,861	2,654	2,620
			(kl)

OUTPUT	2011	2012	2013
CO_2	15,481	17,158	16,600
			(Tons)



CO_2 emissions from electric power 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. Due to changes in handling volume (external factors) and energy-saving initiatives at terminals (internal factors), CO_2 emissions in fiscal 2013 decreased year on year.

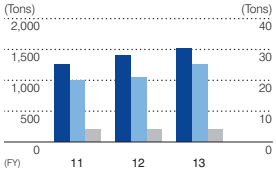
Offices

Input indicates resources and energies we have used.

NYK Headquarters

INPUT	2011	2012	2013
Electricity	2,471	2,410	2,345
			(1,000kWh)
Gasoline	28	21	20
			(kl)
City gas	21	18	17
			(1,000m³)
Steam	1,469	1,303	1,307
			(Tons)
Water	18	18	17
			(1,000m³)
Paper	28	28	28
			(Tons)

OUTPUT	2011	2012	2013
CO_2 emissions	1,263	1,407	1,516
Ordinary waste	20	21	25
Industrial waste	4	4	4
Recycling	164	138	126
			(Tons)

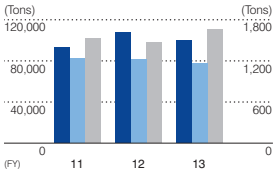


Power consumption declined because of the NYK Group's ongoing energy-conservation activities, reduction in LED lighting fixtures, and lower usage volume for electric sockets.
* Actual values for Nippon Yusen's head office in fiscal 2013 have been used.
* CO_2 emissions volumes are calculated from electric power consumption. CO_2 emissions in fiscal 2013 have been calculated using the coefficient of 0.525kg-CO_2/kWh provided by Tokyo Electric Power Co. Inc. (fiscal 2012 result).
* The waste volume recycling rate was 82%.
* From August 2012, recycling was added as a category for data collection.

Japan-Based Group Companies

INPUT	2011	2012	2013
Electricity	63,084	61,720	60,746
			(1,000kWh)
Heavy oil A	18,245	18,462	18,100
Diesel	5,547	5,293	5,187
Kerosene	92	81	58
Gasoline	804	816	885
			(kl)
LPG	77	70	64
City gas	806	775	737
			(1,000m³)
Steam	231	185	154
			(Tons)
Cold water	42,935	168,349	161,735
			(Megajoules)
Water	330	294	306
			(1,000m³)
Paper	478	470	483
			(Tons)

OUTPUT	2011	2012	2013
CO_2 emissions	92,899	107,498	99,809
Ordinary waste	1,232	1,223	1,164
Industrial waste	1,524	1,468	1,661
Recycling	—	376	511
			(Tons)

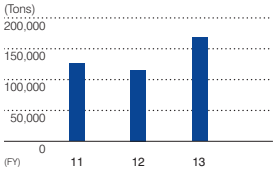


* Forecasts for Japan-based Group companies in fiscal 2013 have been used.
* CO_2 emissions volumes are calculated from electric power consumption. CO_2 emissions in fiscal 2013 have been calculated using the coefficient of 0.550kg-CO_2/kWh (fiscal 2012 result).
* Figures are for consolidated subsidiaries.
* From August 2012, recycling was added as a category for data collection.

International Group Companies

INPUT	2011	2012	2013
Electricity	71,796	63,523	65,502
			(1,000kWh)
Gasoline	5,432	3,084	23,201
Diesel	24,657	23,182	24,489
			(kl)
LPG	498	604	572
			(Tons)
City gas	8,034	8,229	9,273
			(1,000m³)

OUTPUT	2011	2012	2013
CO_2 emissions	126,011	115,361	168,410
			(Tons)



* Forecasts for international Group companies in fiscal 2013 have been used.
* CO_2 emissions volumes are calculated from electric power consumption. CO_2 emissions for fiscal 2011 have been calculated using the coefficient of 0.555kg-CO_2/kWh (fiscal 2006 default value).
* CO_2 emissions volumes are calculated from electric power consumption. CO_2 emissions for fiscal 2012 and fiscal 2013 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 2013 Overview

In fiscal 2013, we continued to concentrate on efforts to preserve the global environment, including the development of innovative technologies. These efforts resulted in a year-on-year increase in environmental protection cost related to environmental technology initiatives, such as the increased installation of electronically controlled engines. Further, the value for the reduction of accidents through safety promotion activities increased year on year.

Comparison of All Costs and Resultant Savings Related to Environmental Activities

(Millions of yen)

	FY2012		FY2013	
	Environmental protection cost	Year-on-year savings	Environmental protection cost	Year-on-year savings
Reduction of accidents through safety promotion activities*	397	–362	365	512
Prevention of global warming and air pollution, conservation of marine environments, conservation of resources, and deployment of environmental technologies	4,951	12,870	6,601	13,216
Total	5,348	12,508	6,966	13,728

* 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 ¥3,300 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)	158
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)	207
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 consumption; propeller polishing, etc.	810
	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; adoption of a ship design that reduces wind resistance; low-sulphur bunker oil measures, etc.	4,150
	Preventing destruction of the ozone layer	Ship air-conditioners, refrigerators/freezers, etc.	0
	Preventing marine pollution	NYK bilge treatment system, etc.	1,159
	R&D expenses	Smart fleet operations; verification of CO_2 and NOx reduction technology based on EGR equipment for large diesel engines for vessels	471
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 CSR report, sponsorship of environmental organisations, etc.	11
Total			6,967

* 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	2,803	0
b. Global environmental protection cost	2,528	787
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	365
b. Environmental information disclosure, environmental advertising	0	6
c. Environmental education and training	0	1
d. Expenses for environmental improvement	0	0
(4) R&D cost:		
Environmental-burden reduction	0	471
(5) Social contribution activities cost:		
Social contribution activities	0	4
(6) Environmental damage response cost	0	0
Total	5,331	1,635

Calculation methodology:

1. The period is from April 1, 2013, to March 31, 2014. (The calculation period for activities to reduce ship fuel consumption is from January 1, 2013, to December 31, 2013.)
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 (NYK)

This data is for NYK Line employees hired through NYK's headquarters in Tokyo (office workers and seafarers).
Seafarers include those who currently work in the office. Figures are for the full year or as at the end of the fiscal year.
(As of March 31, 2014)

Employee Demographics

Long-term employees

	Male	Female	Total
Office workers	747	268	1,015
Seafarers currently working at the office	250	4	254
Seafarers	313	8	321
Total	1,310	280	1,590

Newly hired employees

* Includes recent graduates and mid-career hires

	Male	Female	Total
Office workers	31	4	35
Seafarers	17	1	18
Total	48	5	53

Definite-term employees

	Male	Female	Total
Office workers	47	35	82
Seafarers	7	0	7
Total	54	35	89

Employees under age 30 that left the Company

	Male	Female
Office workers	0	0
Seafarers	3	2

Average period of employment in the Company

* Seafarers include those who currently work in the office

(Years)	Male	Female
Office workers	17.1	20.2
Seafarers	15.4	5.0

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

	2011		2012		2013	
	Male	Female	Male	Female	Male	Female
Directors, Corporate Officers	32	2	32	2	29	2
General Managers	39	0	40	2	35	2
Managers or higher	120	24	120	21	126	23
Total employees	454	184	461	187	494	192

Occupational Accidents

Number of occupational accidents

* Excludes accidents that occurred while commuting to work

	2011	2012	2013
Office workers	0	0	0
Seafarers	3	3	0

Lost time caused by occupational accidents

* Lost time of one day or longer

	2011	2012	2013
Office workers	0	0	0
Seafarers	64	0	0

Number of work-related deaths

	2011	2012	2013
Office workers	0	0	0
Seafarers	0	0	0

Employee Support System

Average amount of paid leave taken

* Excludes seafarers and employees currently seconded to other companies
* Includes paid summer holidays

2011	2012	2013
14.1	13.0	12.4

Number of employees that have utilised the maternity leave programme

* Total users, excluding those who have left the Company

2011	2012	2013
11	15	11

Number of employees that have utilised the parental leave programme

* Total users, excluding those who have left the Company

2011		2012		2013	
Male	Female	Male	Female	Male	Female
2	24	2	31	3	28

Percentage of eligible female employees that have utilised the parental leave programme

2011	2012	2013
100%	100%	100%

Employees making use of shorter working hours for parents

* Total users, excluding those who have left the Company

2011		2012		2013	
Male	Female	Male	Female	Male	Female
0	15	0	20	0	23

Number of working mothers

* Mothers with children in compulsory education or younger
* Excludes mothers on maternity or parental leave

2011	2012	2013
28	39	39

Number of employees that have utilised the family-care leave programme

* Total users, excluding those who have left the Company

2011		2012		2013	
Male	Female	Male	Female	Male	Female
0	0	0	0	0	1

Percentage of employees with disabilities

2011	2012	2013
2.30%	2.22%	2.11%

Education

Average number of days participating in training programmes

(Days)	2011	2012	2013
Office workers	5.27	5.10	4.82
Seafarers	40.5	37.0	40.5

Average expenditure on education and training programmes

(Yen)	2011	2012	2013
Office workers	222,803	208,805	142,888
Seafarers	532,517	499,341	492,387

● Long-term study; training abroad (examples)
- MBA programme abroad (two years; one person selected every two years)
- Short-term study-abroad programme (four weeks; five to 10 people selected each year)

Human Resources Data
(employees hired through Group companies (including Nippon Yusen))

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 March 31, 2014)

Breakdown of Group Company Employees (including Nippon Yusen)

Number of employees of consolidated companies (long-term employees, employees with limited employment terms of at least 6 months)

	Male	Female	Total
Office workers	21,258	10,663	31,921
Seafarers	411	10	421
Total	21,669	10,673	32,342

*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

Region	Japan	Europe	South Asia	North America	East Asia	Oceania	Latin America	Seafarers	Total
Number of companies	67	25	33	10	22	4	4	—	165
Number of employees	7,919	5,222	10,894	2,755	3,854	394	883	421	32,342

Number of non-Japanese employees on NYK-operated vessels

260 vessels under NYK management	9,745
617 chartered vessels	13,574

Number of employees of Group companies	55,661

Newly hired employees

	Male	Female	Total
Office workers, seafarers	3,371	1,589	4,960

Occupational accidents

Number of work-related deaths	1

Percentage of female employees
(presence of female employees in the workplace)

	Female employees	Total employees	Percentage
Directors	32	931	3%
Manager or above	788	4,091	19%
Employees	10,775	32,342	33%

Number of employees
(office workers) / contracts less than 6 months

Number of employees	386

Existence of childcare and family-care leave systems and number of employees using systems

	Companies with programme	Establishment percentage	Employees utilising programme		
			Male	Female	Total
Parental leave	139	99%	260	643	903
Family-care leave	104	74%	292	227	519

* Establishment percentage: Percentage of companies that have established a programme (Total: 141 companies)

Corporate Data

(As of March 31, 2014)

Established
September 29, 1885

Paid-in Capital
¥144,319,833,730

Employees
Consolidated: 32,342 (NYK and consolidated subsidiaries)
Non-consolidated: 1,590 (Land: 1,269; Sea: 321)

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:
1,700,550,988 shares (including treasury stock: 4,462,742)

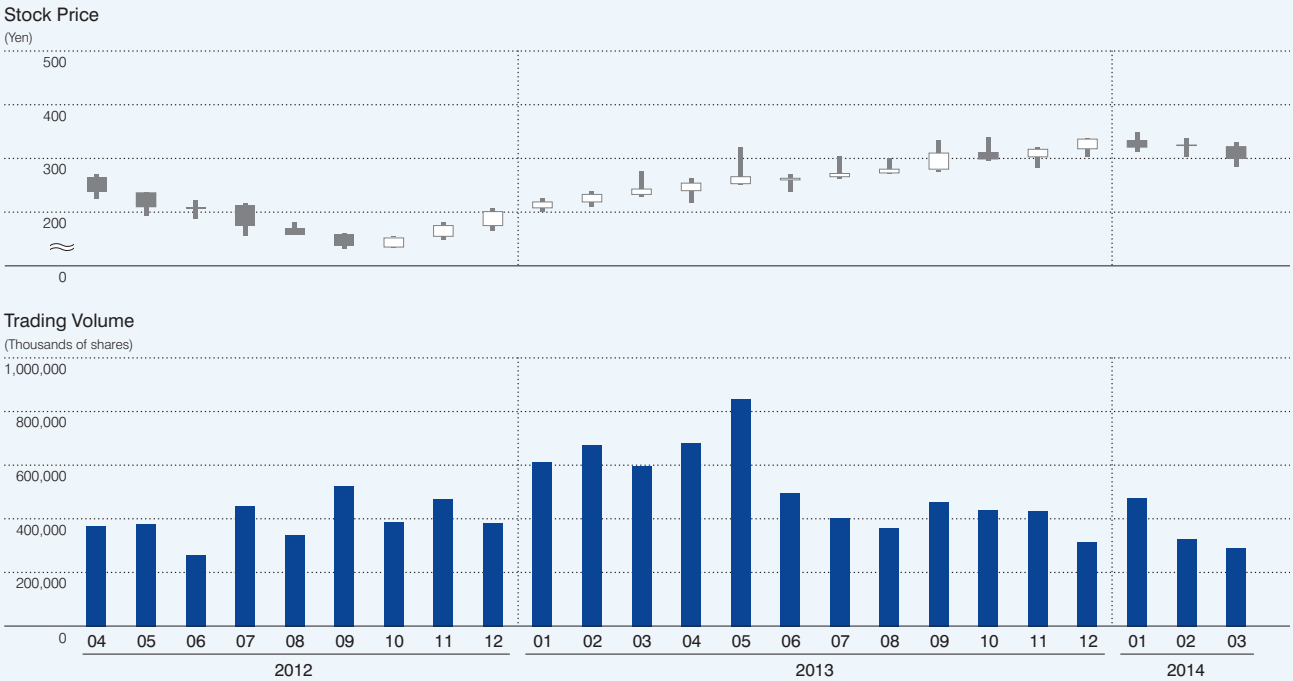
Stock Exchange Listings
First Section of the Tokyo Stock Exchange
and the Nagoya Stock Exchange

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

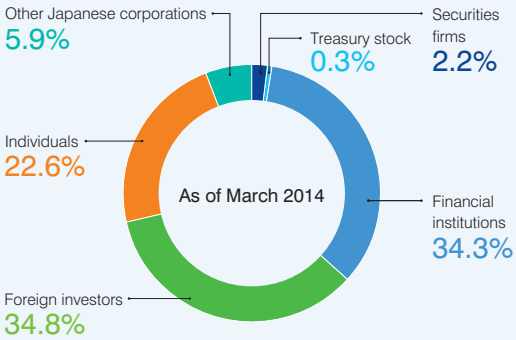
Method of Public Notice
The Company's public notices are available through electronic distribution.
Website: http://www.nyk.com/koukoku/
However, in the event that electronic distribution is impossible, due to an accident or other unavoidable circumstances, the Company's public notices will appear in 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, U.S.A.
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



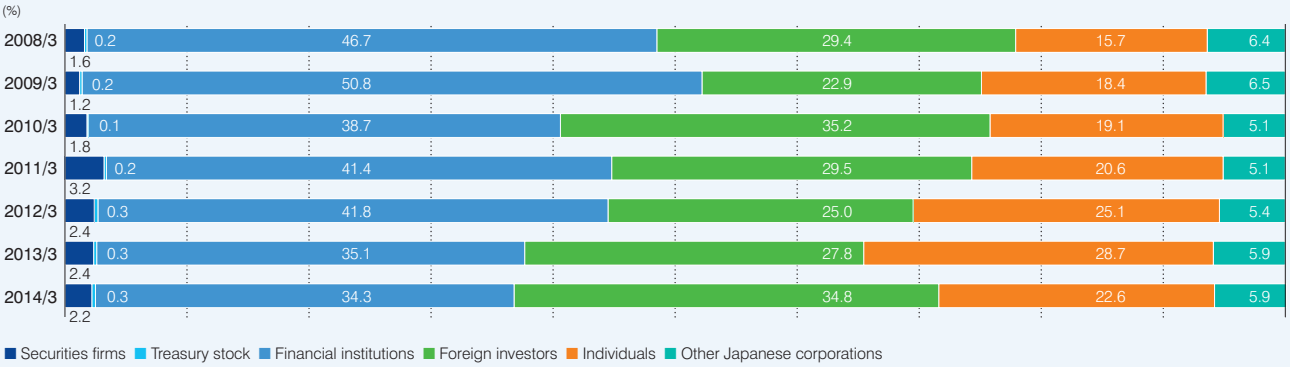
Shareholder Composition



Principal Shareholders

Name	Number of shares held (Thousands)
The Master Trust Bank of Japan, Ltd. (Trust Account)	119,492
Japan Trustee Services Bank, Ltd. (Trust Account)	86,639
The Master Trust Bank of Japan, Ltd. (Mitsubishi Heavy Industries, Ltd. Account, (Retirement Allowance Trustee Account))	41,038
Tokio Marine & Nichido Fire Insurance Co., Ltd.	35,941
Meiji Yasuda Life Insurance Co.	34,473
Mizuho Bank, Ltd.	22,867
Japan Trustee Services Bank, Ltd. (Trust Account 1)	18,660
Japan Trustee Services Bank, Ltd. (Trust Account 9)	18,504
STATE STREET BANK WEST CLIENT-TREATY	18,317
Japan Trustee Services Bank, Ltd. (Trust Account 6)	17,614

Shareholder Composition



About This Report

Scope of Report

▶ Reporting period

April 2013 to March 2014

(In some cases, information from April 2014 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 2014

[Previous publication: August 2013; Next publication: August 2015 (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
- ▶ Sustainable Reporting Guidelines 3.1, 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

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Printed in Japan