NYK GROUP

Striding Forward with New Momentum

Nippon Yusen Kabushiki Kaisha

NYK Report 2015

Financial, Social, and Environmental Performance

2015

Glossary

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
Contract logistics	A business that concludes contracts with customers directly for the provision of comprehensive logistics services, including warehousing, logistics processing, and distribution management
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
Hub-and-spoke operations	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	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
Chartered vessels	Vessels chartered (leased) from other companies
3M	*Muda*: Non-value-adding activities *Mura*: Unevenness in production or work activities *Muri*: Excessive burdens
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.
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.
ISO9001	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.
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
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-on, **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.
SIMS	**S**hip **I**nformation **M**anagement **S**ystem
SOx (Sulphur oxide)	Toxic substance that has been identified as one of the causes of air pollution and acid rain
VPAS	**V**essel **P**erformance **A**nalysis **S**ystem VPAS analyses the performance of the entire fleet under NYK's operation.

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

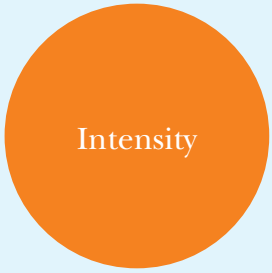
As a global enterprise that has the utmost respect for diversity in the workplace and the spirit of challenge, we emphasise the development of employee talents so that all staff members can take pride in their work and eventually fulfil their dreams.

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

The NYK Group Values were established in January 2007 to instill the outlook and approach that we need in order to achieve our NYK Group Mission Statement. The NYK Group Values are put into action through the day-to-day operations of each Group employee, and they, pass on the spirit of the NYK Group to the next generation.

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

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



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

Contents

Insights we are particularly keen to share

Having assumed the position of president from Yasumi Kudo, Tadaaki Naito explains his overriding strategies for the NYK Group going forward.

Here we outline day-to-day value creation processes that help us remain customers' first choice despite fierce competition.

The NYK Group's automotive logistics business has established unrivalled competitive superiority as a provider of comprehensive logistics services for finished automobiles. This section shows how the business will cater to customers' ever more diverse and complex needs.

Officers responsible for each business explain in their own words the strategies prepared based on the medium-term management plan and the progress businesses are making as a result.

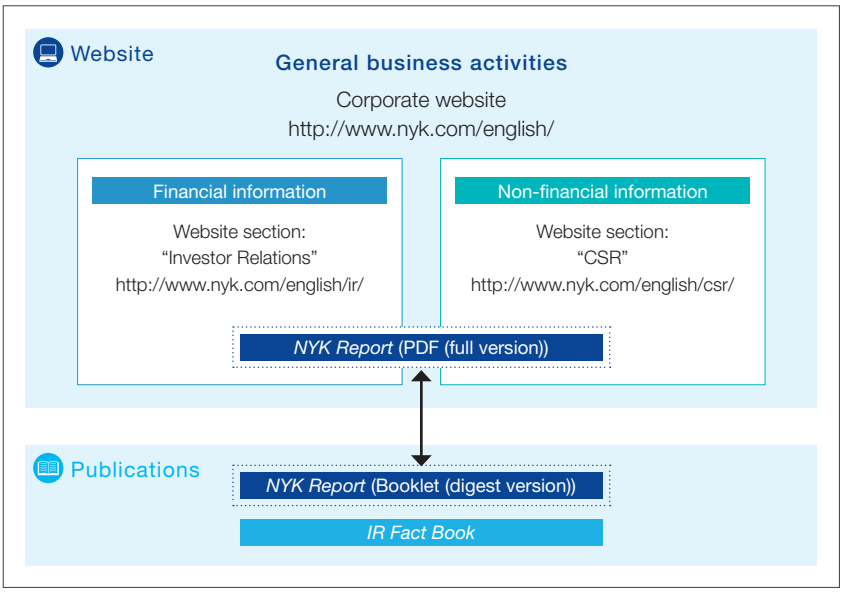
The NYK Group pursues CSR initiatives as an important facet of differentiation. Here, we feature one of our strengths—the disclosure of environment, society, and governance (ESG) data.

The two outside directors talk frankly about their expectations of the NYK Group as it strides forward with new momentum.

Editorial Policy for *NYK Report 2015*

The *NYK Report 2015* 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.



Message to Stakeholders
To Our Stakeholders

Our Value, Our Process
Corporate Value Enhancement Processes

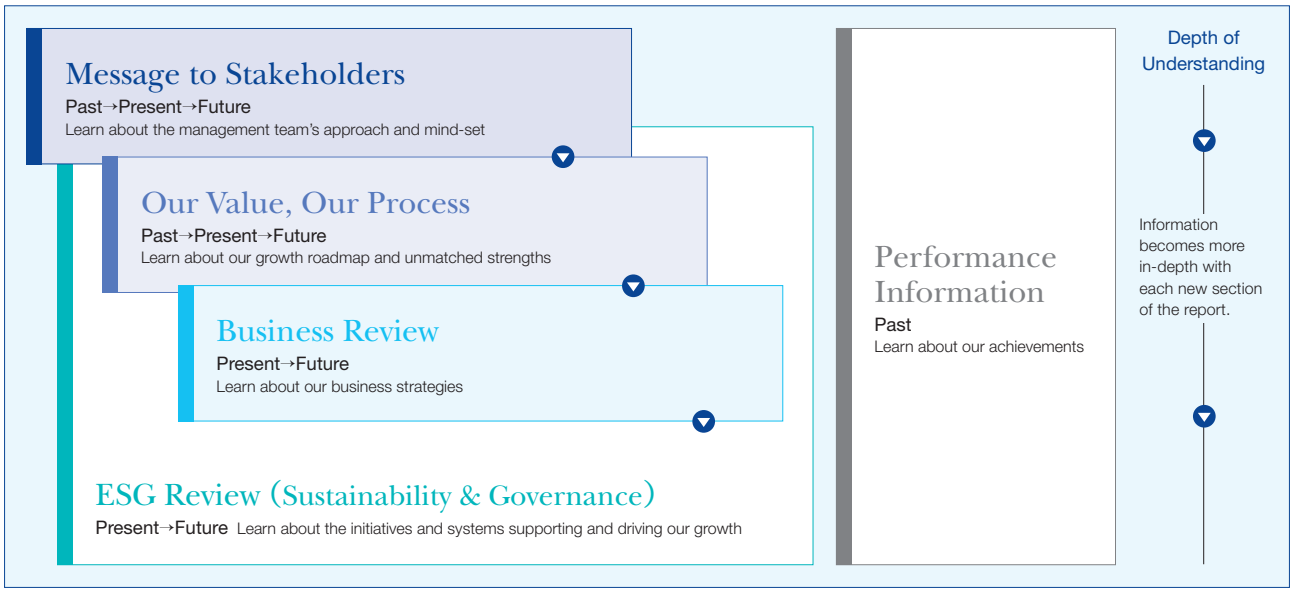
Business Review
Long-Term Strategies by Business

ESG Review (Sustainability & Governance)
Tireless Commitment and Evolution

Performance Information
Financial and Non-Financial Review

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.

This Report's Structure



Striding Forward with New Momentum

We have enhanced our corporate value through the 'More Than Shipping' strategy, which combines our traditional shipping business with value-added strategies. Inheriting this fundamental strategy, the new president of NYK, Tadaaki Naito, will direct the NYK Group as it advances growth strategies centred on technological capabilities.

Retrospect

I became president in April 2009. During my six-year term, we were constantly rebuilding earnings foundations in response to crises, including the collapse of Lehman Brothers, the Great East Japan Earthquake, flooding in Thailand, and Europe's economic crisis. Faced with such challenging conditions, we significantly improved profitability by eliminating the 3M *(Muda, Mura,* and *Muri*) from our daily operations. At the same time, we expanded the LNG transport, automotive logistics, and offshore businesses to optimise our business portfolio. Although return on equity (ROE) is still not high enough, the Group is now less susceptible to market fluctuations than it was when I became president. Moreover, I believe that we have established a firm basis for our next major leap forward.

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

Expectations

Traditionally, the NYK Group's management team discusses matters thoroughly, shares its strategies, and implements decisions quickly. While a president must have strong leadership, I would like Mr. Naito to also value teamwork. He combines insight with an ability to get things done, and I believe he is amply qualified to implement growth strategies focused on the key area of technological capabilities. By explaining the reasons for my past management decisions, I will unstintingly support our new president in reaching decisions that will drive our company forward.

Governance

In Japan, efforts aimed at strengthening corporate governance are gathering speed. I think that, rather than confining deliberation to the appropriateness of formal requirements, discussion should include how to sustain growth and thereby enhance our medium-to-long-term corporate value. With this in mind, in-depth discussion should focus on whether or not we can identify business risk in a timely and accurate manner.

Our two outside directors are contributing to risk management significantly by requiring us to be accountable. For example, when we explained reasons for an investment in a shale gas project at a meeting of the Board of Directors, our outside directors initially expressed misgivings. However, we spent time going over the details of the project so that they understood fully our line of reasoning, and ultimately they accepted the project. If outside directors cannot grasp a project, we have little chance of being able to explain it to shareholders and other investors. We have provided the outside directors with numerous materials and opportunities so that they can familiarise themselves with the shipping industry, which they are keen to understand. The outside directors are robustly fulfilling their roles with regard to strengthening corporate governance. I believe building such relationships with outside directors is an important facet of corporate governance.

Accountability

Risk often accompanies growth, which is indispensable to enhancing our medium-to-long-term corporate value. Projects sometimes fail, even though we analyse risk in a timely and accurate manner. We will not grow unless we are willing to take decisions with a bold mind-set and be unafraid to pursue a winning record—even if this means accepting four losses for every six wins. When making such decisions, thorough explanation of the type of risk expected and the risk tolerance levels is extremely important to gaining the approval of shareholders.

Yasumi Kudo
Chairman, Chairman Corporate Officer

Reaching the Medium-Term Management Plan's Goals through a Sound and Bold Approach

Recently, I assumed the position of the NYK Group's management leader. Amid the challenging business conditions during the global recession, my predecessor, Yasumi Kudo, was instrumental in stabilising business management and laying foundations. Thanks to his efforts, we can make strides forward. I would like to explain how I will steer the NYK Group and its wide-ranging, diverse businesses.

Basic Management Strategy as the New President

Meet Customers' Expectations and Social Responsibilities through Creative Solutions based on Strong Foundations

As president, my vision for the future has two main components. First, I want us to be customers' first choice because our creativity consistently generates new value. Being able to offer numerous Creative Solutions that impress customers and reinforce our reputation as an innovator contributes to our competitiveness.

The second component entails building strong foundations. Recently, vessel commodification has increased in the shipping industry, making it prone to price competition. However, to differentiate us as a shipping company, rigorous, steady efforts to improve the transport quality underpinning our shipping business are essential. For example, we must continue efforts in shipping technology, ship management, vessel construction supervision, and other fundamental areas. This will help us build strong business foundations that are less susceptible to market fluctuations.

Customers entrust us with diverse cargos because they have high expectations of the transport quality of not only our shipping business but of the Group as a whole. Further, given that we conduct our business amid nature and on a global scale, we must address environmental issues sincerely. In addition, the capabilities of each employee help us to provide safe, reliable transport. Developing as many personnel as possible to have advanced transport-related skills and expertise will directly boost our competitive strength. In other words, as well as the core area of transport quality improvement, environmental and human capital initiatives are part of the foundations that the NYK Group must enhance. Aiming to garner significant trust from customers and local communities, we will offer high-quality services at competitive prices by continuing to increase our creativity and fundamental strengths.

Three Missions

Diversify Businesses Soundly and Boldly

We have three missions. First, we have to stabilise business management further through diversification rooted in our mainstay businesses. Given freight rate volatility, concentrating management resources in one mode of transport is extremely dangerous. Diversification is an important method of heightening stability. In fact, the NYK Group survived the turmoil of the global recession because it had a diverse business portfolio.

The NYK Group traces its focus on diversification back to 1986. At this time, the Plaza Accord caused steep yen appreciation. Consequently, Japanese shipping companies became uncompetitive across the board. We were not an exception and really struggled during this period. Against this backdrop, we prepared a medium-to-long-term management vision, 'NYK 21', calling for business diversification through the combination of our

Tadaaki Naito

President, President Corporate Officer

Career

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

traditional shipping business with value-added strategies. The vision emphasised expanding such areas as logistics so that we would not be solely reliant on the liner trade segment, which was our mainstay business at that point. Under subsequent medium-term management plans, we pursued diversification steadily. The differentiation strategy set out in our current medium-term management plan, 'More Than Shipping 2018', basically adheres to the original vision. Going forward, I want to increase our efforts in diversification.

However, the way we should proceed in each business area differs. We will concentrate investment on areas promising stable earnings, including the LNG carrier business, the offshore business, and the automotive logistics business, while introducing an asset-light business model in highly volatile areas. We will cement the foundations of our businesses with stable freight rates and take on businesses with strong growth potential. Through this dual approach, we aim to reach the goals of the medium-term management plan. In addition, I want to transform the Global Logistics Business into a business with stable earnings by restructuring the Container Shipping Division and the air cargo transportation segment.

Globalise in a Well-Grounded Manner

Our second mission is globalisation. Shipping and logistics are certain to remain promising growth industries. Emerging economies in Asia and other non-OECD countries are expected to continue vigorous growth. Focusing on these regions, we need to accurately identify increasing transport demand.

Generally, many companies are concentrating efforts on globalisation; however, we want to globalise in a well-grounded manner. For example, we acquired an equity interest in Knutsen Offshore Tankers ASA, now Knutsen NYK Offshore Tankers AS (KNOT), which is engaged in the shuttle tanker business. This business has prospered because the management strategy, attitude to customers, and enthusiasm for operational expansion of KNOT's president match those of our own. Rather than simply using financial strength to dominate and expand other businesses, we prefer to develop globally by finding partners with whom we can grow in tandem.

" We will cement the foundations of our businesses with stable freight rates and take on businesses with strong growth potential ".

Foster Project Managers

The NYK Group's final mission is human capital development. Earlier, I stated my wish to provide customers with new value through Creative Solutions, but we cannot achieve this overnight. It is essential that we are steadfast in our commitment to develop human capital. Together with Creative Solutions, it will help us to generate new value for our business.

Logistics have become sophisticated. Therefore, surviving amid competition with only the knowledge and expertise of traditional transport is difficult. By fully understanding our customers' requests and remaining sensitive to their needs is becoming ever more important. For this reason, I want to effectively encourage Group employees who possess the talent as project managers to build up this awareness and incorporate it in our organisational hierarchy to respond to the needs of our customers by skilfully drawing on in-house and external resources, depending on the circumstances.

Progress under 'More Than Shipping 2018'

Business Results Recover in Favourable Conditions

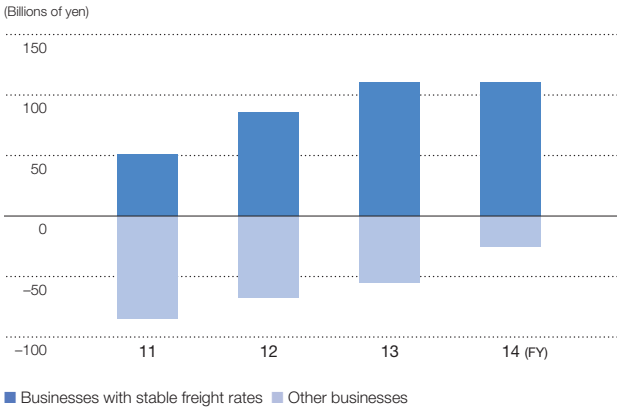
Looking back at business results in fiscal 2014, the year ended March 31, 2015, recurring profit rose significantly year on year, to ¥84.0 billion. This was due to the expansion of long-term stable businesses that leverage Creative Solutions—an area that we are focusing on—and the positive effects on business results of yen depreciation and lower bunker oil prices. I feel that our business results are finally getting back onto a stable growth track.

While focusing investment on the LNG carrier and offshore businesses, we revised our business portfolio. For example, we sold a minority share of a subsidiary that manages container terminal operations in North America; withdrew from the shipping of refrigerated cargo; and decided to sell Crystal Cruises, Inc., which mainly operates in the U.S. cruise market.

We made the decision to sell Crystal Cruises because the renewal periods of the company's two cruise ships and the renewal period of *Asuka II*, which belongs to NYK Cruises Co., Ltd., were about to coincide. Given the medium-term management plan's strategy of allocating investment to priority areas, finding the considerable amount of funds needed to renew all of the cruise ships would have been difficult. As a result, we could not help but decide to sell the company. Going forward, the cruises segment will concentrate management resources on the *Asuka II* brand.

Regarding financial indicators, as we pursued 1.0 as an ultimate target, the debt-to-equity ratio (DER) improved, decreasing to 1.36 at the end of fiscal 2014. Although improving, our financial position remains unsatisfactory. If our balance sheet became fragile during a surge in prospective investment projects, we would not be able to raise funds for investment, making sustained stable growth more difficult. Therefore, we will raise return on equity (ROE) and reduce interest-bearing debt by continuing to control total assets while focusing the reinvestment of stable earnings on businesses promising further earnings.

Recurring Profit and Loss



Accelerate Initiatives to Encourage Creativity

The subheading of the current medium-term management plan, 'Leveraged by Creative Solutions', means combining overall capabilities, which encompass our existing expertise and knowledge and our development of new technologies, to offer customers the solutions they need. For example, as well as referring to solutions that will improve transport quality, the phrase "Creative Solutions" refers to progressive initiatives in the environmental area and increased efforts to improve various frontline operational procedures. To put it another way, we aim to not only offer solutions that develop tangible hardware such as new systems but also provide solutions that impress customers and will reinforce our reputation as an innovator or which eliminate the 3M (*Muda, Mura,* and *Muri*).

In fiscal 2014, initiatives in various frontline operations brought significant benefits. These efforts included the EAGLE Project, tasked with optimising container management, and the Innovative Bunker and Idle-time Saving (IBIS) Project, which is enabling improvements in containership operations and reducing costs. Also, we further entrenched activities to reduce ship fuel consumption in the Dry Bulk Carrier and Car Carrier divisions.

Another initiative, led by NYK Group company and information systems specialist NYK Business Systems Co., Ltd., is exploring ways of exploiting IT to benefit Group companies' operational sites. This endeavour promises to support and enhance the NYK Group's infrastructure.

We will foster in-house personnel able to provide Creative Solutions and advance differentiation strategies. As part of this activity, we will conduct special Creative Solutions Workshops. Furthermore, in order to support the commercialisation of Group companies' creative ideas, we have established the Creative Solutions Development Fund. The fund has already received more than 50 proposals, several of which have advanced to the next stage for in-depth analysis. As well as commercialising proposals in fiscal 2015, we plan to hold a second proposals drive.

While pursuing these initiatives, we are developing a big data project. By installing monitoring systems onboard approximately 130 owned and long-term chartered vessels, we aim to collect and analyse data to heighten ship-operation technology sophistication. In fiscal 2014, we established some of the infrastructure for data collection and analysis. Therefore, in fiscal 2015 we will advance the project to the next stage. This will entail focusing on concrete benefits by quantitatively verifying the effect of big data use.

In the shipping industry, big data use is spreading and is likely to become a de facto standard among shipping companies in the near future. Shipping companies in Europe are already showing strong interest in big data. Establishing a standard for Japan in conjunction with this trend will contribute significantly to the maritime industry as a whole. For this reason, I hope our big data project will pave the way for such a standard.

Fiscal 2015 Management Strategies

Strengthen the Competitiveness of the Global Logistics Business

In fiscal 2015, the year ending March 31, 2016, we will continue tackling the tasks set out in the medium-term management plan. As a priority task, I want to accelerate the differentiation of the containership business. At present, we have an approximately 3% share of the containership market. However, recklessly increasing market share is not necessary—I feel we can definitely compete if we steadily improve cost structures through such initiatives within divisions as the IBIS and EAGLE projects. We plan to upgrade the IT systems of the containership business in August 2015. This move will increase the efficiency of data input procedures, heighten the accuracy of booking forecasts, and enable timely access to cost information.

Another priority task is to move Nippon Cargo Airlines Co., Ltd. (NCA), into the black. At one period in my career, I was temporarily assigned to this company, so I am particularly eager to achieve this. As cargo movements rose in fiscal 2014, scheduled flights performed well. Moreover, by providing charter flights in a flexible, agile manner, the company moved into the black from the third quarter. If the company can dispose of surplus aircraft, I think its business results will become even more stable.

“ We aim to not only offer solutions that develop tangible hardware such as new systems but also provide solutions that impress customers and will reinforce our reputation as an innovator or which eliminate the 3M (*Muda*, *Mura*, and *Muri*)”.

Pursue Profitability in the Bulk Shipping Business by Combining Offense and Defence

Turning to the Bulk Shipping Business, the Dry Bulk Carrier Division struggled due to worse-than-expected market conditions. Nevertheless, our strategies are unchanged. We will offer the market added value and generate further earnings, and we will strengthen our ability to withstand fluctuation in market conditions by matching transport contracts—or in other words, revenues—with vessel ownership formats. Because developing businesses with our sights set on an upturn in market conditions is highly risky, we will focus on curbing losses when market conditions are lacklustre.

Meanwhile, the LNG carrier and offshore businesses are continuing to grow steadily. Although concerns have been voiced about falling crude oil prices affecting business results, long-term contracts underpin these businesses and are showing almost no sign of adverse effects at the moment. Nevertheless, falling crude oil prices have postponed certain crude oil and natural gas development projects. As a result, we may not be able to commence new projects as planned. From a long-term viewpoint, however, the LNG carrier and offshore businesses are certain to grow stably, and they remain priority business areas for us. Accordingly, we will continue honing in on high-quality projects that can generate stable earnings while pursuing the business goals of the medium-term management plan.

I have high hopes for the Car Carrier Division. In particular, we have one of world’s largest and most competitive automotive logistics businesses. I want to continue expanding this business area aggressively while incorporating IT and creativity to cater to customer expectations comprehensively. Meanwhile, finished automobile transport is changing. Finished automobiles—which until now have been mainly transported from Japan and other parts of Asia to the world’s consumption regions—are being transported dynamically from production bases in regions worldwide to an array of destinations. In response, we will build an integrated transport system for finished automobiles on a global scale that combines ocean transport and inland transport services. At the same time, we will stay alert to the needs of customers and always focus on optimising services for them.

Corporate Governance

Focus Strongly on Detailed Disclosure

As part of efforts to bolster corporate governance, we intend to disclose information about the NYK Group appropriately through such channels as the General Meeting of Shareholders and investor relations activities. Further, to enable outside directors to perform an even more useful role in our business management, we will exchange information with them in a wider variety of areas. Our goal is to benefit fully from their valuable external opinions and perspectives.

The establishment of Japan's Corporate Governance Code has fuelled lively debate about the role of the Board of Directors. However, rather than focussing on format, such as the number of outside directors, in my opinion, it is more important to find systems and cultures that enable the reflection of outside directors' opinions in decision making that is transparent, fair, and prompt. Although I am confident our governance systems, including the outside directors, function adequately in this regard, we are currently discussing the construction of an even more effective system.

On the other hand, we have to continue strengthening and expanding compliance systems. In response to an investigation that the Japan Fair Trade Commission began in September 2012, we established the Executive Committee Overseeing Thorough Antitrust Law Compliance. I have been directing all NYK Group personnel to adopt an uncompromising attitude to compliance so that we never repeat such behaviour. In the context of our long history and towards our future, this event has had a significant impact. Therefore, we aim to use it as a starting point from which we will embark upon sustained growth that will earn stakeholders' further trust.

Returns to Shareholders

Return Profits to Shareholders Steadily while Investing for Growth and Strengthening Financial Position

Returns to shareholders are one of our highest business management priorities and, accordingly, we are preparing to make significant growth investments over the next several years. In light of this, while keeping in mind efforts to strengthen our financial position, we intend to implement returns to shareholders with a dividend payout ratio of 25% as an approximate target for the time being. In future, when some flexibility emerges with respect to our growth investment and financial position, we will review the dividend payout ratio and consider realising returns to shareholders through the purchase of treasury stock and other measures. Further, as we have done until now, we are committed to maintaining dividends at a certain level regardless of business results.

June 2015

内藤忠顕

Tadaaki Naito
President, President Corporate Officer

Our Value, Our Process

Corporate Value Enhancement Processes

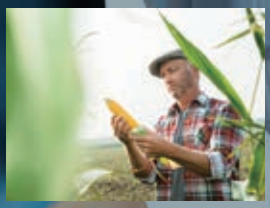
In the NYK Group, with a strong sense of the responsibility benefitting their engagement in operations that are part of society's infrastructure and support daily life, employees will continue innovating to create new value. This section explains the NYK Group's typical internal processes.

Business to Society

Helping society progress by delivering diverse commodities worldwide

Reliably delivering diverse commodities worldwide calls for a commitment to enhancing transport skills. Moreover, companies must be able to solve all types of problems and constantly offer new ideas. The NYK Group's value lies in helping society progress by providing transport that meets its current needs.

Containers　Construction machinery　Railcars　Finished automobiles



Food　Everyday goods　Consumer electronics

Iron ore　Coal　Wood　Wood chips / Grain

Crude oil　Chemicals and petroleum products　LNG　LPG　Naphtha　Gas oil

Semiconductors Precision equipment

Passenger cars Trucks Industrial vehicles

Crude oil Chemicals and petroleum products

Food Everyday goods Consumer electronics

Containers Construction machinery Railcars

Containerships

Main Cargoes
Food / Everyday goods / Consumer electronics

Trucks

Main Cargoes
Food / Everyday goods / Consumer electronics

Terminals

Main Cargoes
Containers / Construction machinery / Railcars / Finished automobiles

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

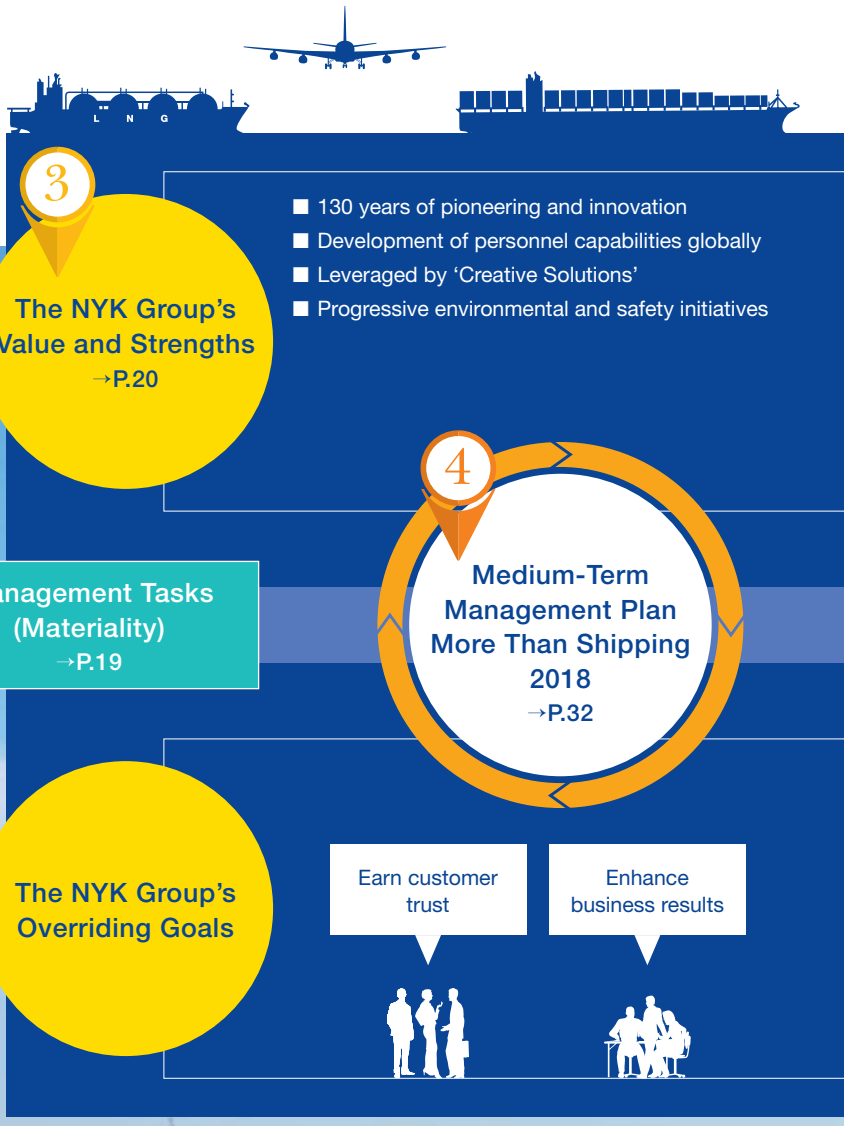
Cruise ships

Main Business
World-class cruises

Value Enhancement Processes in Frontline Operations

Amid fierce competition, customers choose us because of the way we act and think.
For our employees, their conduct is a matter of course, but for an outsider these attributes can be difficult to see.
Accordingly, this section explains the NYK Group's typical internal processes.

The following pages explain in detail the points below.



The NYK Group's business activities face various risks ❶. However, by responding to these risks actively, we establish competitive superiority. We identify management tasks ❷ from the perspectives of business management and stakeholders, incorporating identified tasks into business strategies and day-to-day operations. Based on this approach, we will maximise the diverse value and strengths ❸ we have accumulated during our 130-year history to pursue the numerical targets set out in the medium-term management plan ❹. Further, with a strong sense of the responsibility befitting their engagement in operations that are part of society's infrastructure and support daily life, employees will continue innovating to create new value.

- Global network
- Ability to progress in step with customers while meeting and exceeding expectations
- Frontline capabilities that accumulate results through unflagging effort
- Business strategies focused on differentiation

Establishment of stable earnings foundations and continuous earnings growth

Ability to meet society's current needs and create value that exceeds expectations

Enrichment of everyday life

Corporate culture of taking on initiatives from scratch

Value we create for stakeholders and society

For Consumers

- Delivery of various essentials for everyday life
- Enrichment of daily life

For Customers

- Satisfaction exceeding cost
- Construction of stable supply chains

For Employees

- Better business results→Improved compensation
- Rewarding work, pride in accomplishments→Improved motivation

For Shareholders and Investors

- Stable return of profits through sustained growth in business results

For Local Communities

- Development of local economies through reliable transport
- Global employment
- Solutions to environmental problems

1

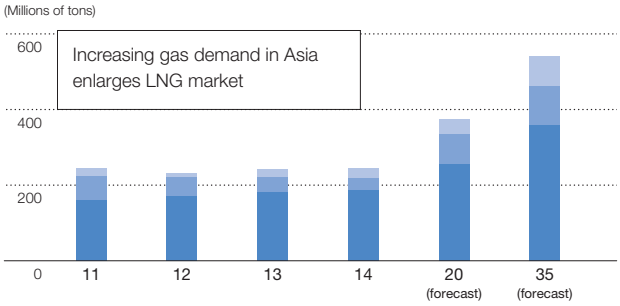
Business Conditions and Megatrends

Business Activities Exposed to Various Risks

The NYK Group's business activities, in its mainstay of shipping and in comprehensive logistics operations, cruises, air transportation, and the others segment, have a global scope and as such entail various risks.

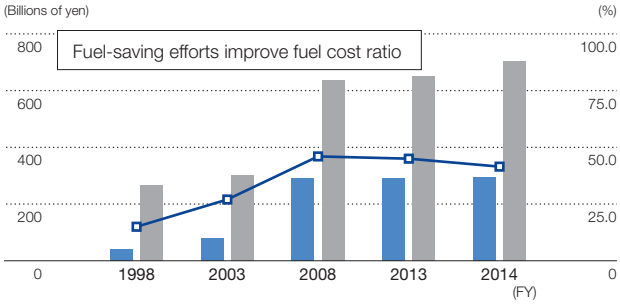
Business Conditions

Outlook for Global LNG Demand

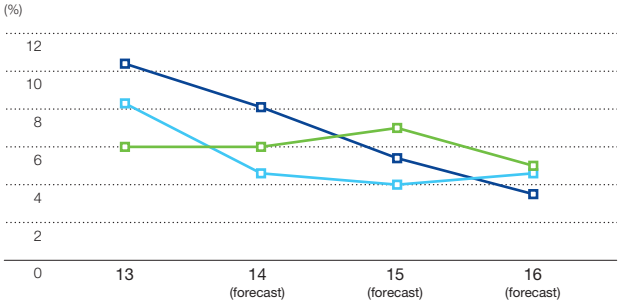


Source: IHS-CERA report

Fuel Costs as Percentage of Operating Expenses (NYK only)



Outlook for Global Shipping Capacity Supply (Year on Year)



Source: Prepared by the NYK Group based on MDS, HIS-Fairplay, and Clarkson World Shipyard Monitor

Environmental Regulations

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

* International Maritime Organization

Megatrends

Economy	Demographics	Environment
• Changing global and regional economic conditions • Increasing geopolitical risk • Changing energy-demand structure • Energy security • Diversifying needs of consumers and society	• Growing population in particular countries • Aging population and decreasing birthrate • Decreasing workforce	• Preventing global warming (climate change) and atmospheric pollution • Preserving biodiversity

2

Management Tasks (Materiality)

Viewing Risk as a Driver of Sustained Growth

From among the diverse risks it faces, the NYK Group identifies priority themes that affect corporate value significantly from the perspectives of business management and respective stakeholders and reflects these major themes in business strategies and routine operations.

Safe, stable business management promises new possibilities

Risks

Environment

If response to regulations is delayed

- Suspension of business activities
- Cost of responding rises
- Loss of trust

Safety

If accidents occur

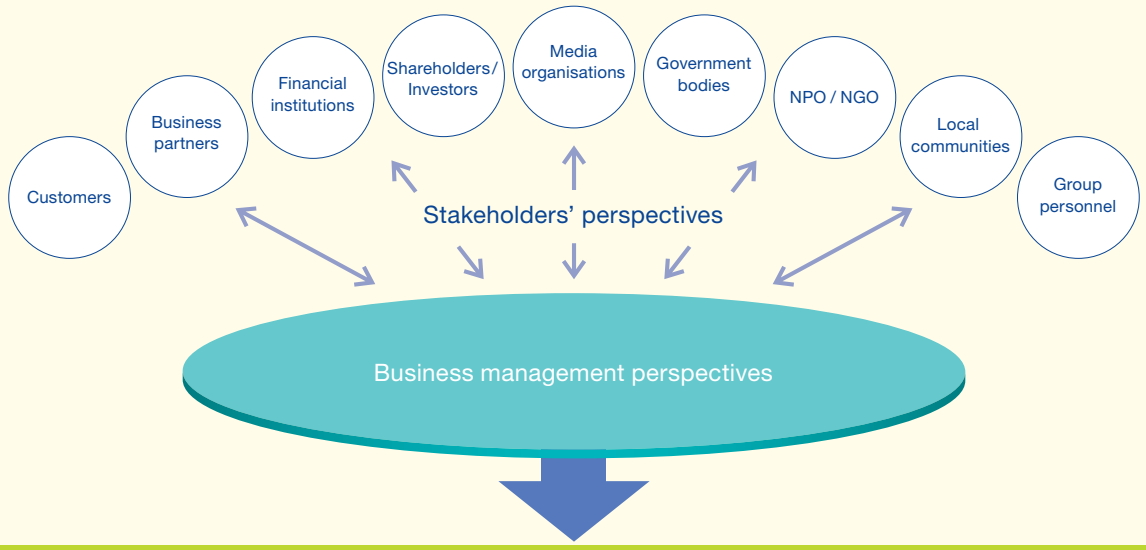
- Loss of trust
- Obstruction of economic activities due to distribution paralysis
- Environmental contamination
- Loss of vessels

Human Capital Development

If we cannot secure enough personnel

(due to worldwide shortage of crew members)

- Decline in competitiveness
- Loss of business opportunities



Three Significant Themes

Environment ▸▸P.66

- Curbing cost increases by reducing fuel consumption
- Entrenching progressive image and increasing customer loyalty
- Ingraining innovation

Safety ▸▸P.71

- Leveraging in business discussions as added value
- Establishing reputation and creating new business opportunities (LNG carrier and offshore businesses in energy value chain)

Human Capital Development ▸▸P.74

- Increasing orders for transport of difficult-to-handle cargos, such as crude oil and LNG
- Fostering crew members with skills that enable safe transport
- Differentiating the Group from competitors through human capabilities
- Combining diverse capabilities to create new value

3

The NYK Group's Value and Strengths

Pioneering and Innovating for 130 years

Customers' transport needs are becoming ever more diverse and complex. However, by continuing to innovate as a comprehensive global-logistics enterprise with a global reach and provide safe, reliable *monohakobi* (transport), we will keep supporting everyday life.

Extending Business Areas in Step with Society

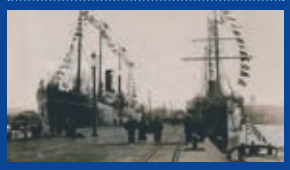
Even as it has extended business areas and handled new cargos, the NYK Group has maintained an unwavering commitment to contributing to the betterment of societies throughout the world by providing safe and dependable *monohakobi* (transport). Because we have always had a pioneering spirit, our 130-year history is a list of bold initiatives in new areas. With consideration for the environment, we will continue creating new businesses as we accumulate knowledge and insight, as well as expertise and practical experience.

1885 | 1960 | 1970

1885
Established Nippon Yusen Kaisha

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

1896
Tosa Maru



In 1893, we begin our first long-distance liner service between Japan and Bombay (Mumbai) and go on to establish services to Europe, North America, and Australia.

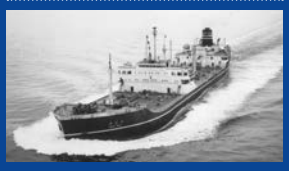
1929
Asama Maru

We introduce a luxury passenger liner to the Pacific route and provide lavish hospitality to celebrities from around the world.

1951 – 1957
Akagi Maru II

After World War II, we reopen routes. In the subsequent eight years, we reopen almost all pre-war routes. The photograph shows crew members onboard *Akagi Maru II*.

1959
Crude oil tankers



Tanba Maru

1964
Iron ore carriers and wood-chip carriers

World's first wood-chip carrier, *Kure Maru*

1968
Containerships

Japan's first fully containership, *Hakone Maru II*

1970
Car carriers

The NYK Group's first pure car carrier, *Jintsu Maru*

1978
Air freighters

Establishment of Nippon Cargo Airlines Co., Ltd. (NCA)

Changes over 130 years

	1935 50th Anniversary	1985 Centennial Anniversary	2015 (Forecast) 130th Anniversary
Recurring profit	¥99.0 million	¥13.3 billion	¥90.0 billion
Shareholders' capital	¥136.0 million	¥179.0 billion	¥764.9 billion
Number of vessels	88	290	782
Number of employees	1,989	3,875	33,520

* Data is based on the following respective accounting periods. 50th anniversary = fiscal year ended September 30, 1935 (non-consolidated), centennial anniversary = fiscal year ended March 31, 1986 (consolidated), 130th anniversary = fiscal year ended March 31, 2016 (consolidated).
The figure for the number of employees at the 130th anniversary is the number of employees as of March 31, 2014.

1980 | 1990 | 2000 | 2010~

1985
Celebrates centennial
Begins comprehensive global logistics business (ocean, land, air) in earnest

1990~
Begins CSR activities (environment, safety) in earnest

Expands business domains in which the Company has a proven track record and accumulated expertise and technological capabilities

1990
Establishes Global Environment Committee

1983
LNG carriers

The NYK Group's first LNG carrier, *Echigo Maru*

1985
Intermodal

Becomes first Japanese shipping company to establish railway operating company, Centennial Express Company, in the United States

1986 – 1989
Logistics centres

Establishes logistics centres in Canada, the United States, China, Thailand, Australia, and Japan (Oi, Rokko)

Early 1990s
Automotive logistics

Participates in domestic component procurement for automotive plant in the United Kingdom

1991 – 1994
Container terminals

Establishes independently managed container terminal in the United States and establishes terminals in Thailand, Taiwan, and Japan (Kobe, Yokohama)

1991
Cruise ships

Achieves round-the-world voyage for largest Japan-registered cruise ship, *Asuka*, in 1996

2003
RORO terminals

Participates in RORO terminal business in China

2007
Maritime Academy in the Philippines

Establishes NYK-TDG Maritime Academy (NTMA)

2009
Drillships

Participates in business chartering drillships off Brazil

2010
Shuttle tankers

Takes stake in Knutsen Offshore Tankers and becomes first Japanese shipping company to participate in shuttle tanker business

2011
FPSO units

Participates in floating production, storage, and offloading (FPSO) unit business off Brazil

2012 – 2015
Extends LNG value chain

- Participates jointly in Wheatstone LNG Project in Australia
- Participates jointly in Cameron LNG Project in the United States (scheduled to begin in 2018)

3

The NYK Group's Value and Strengths

Driving 130 Years of Pioneering and Innovation

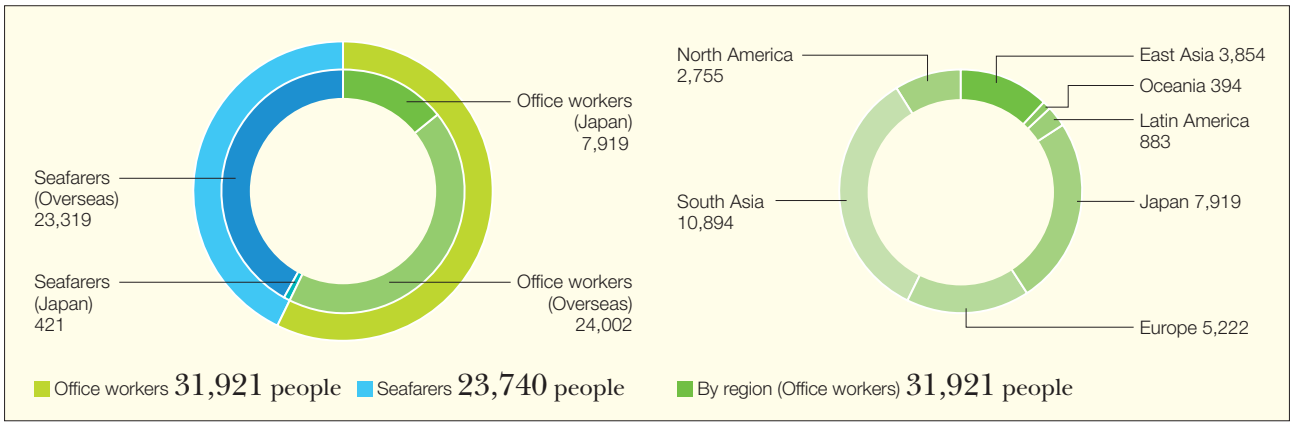
Making Personnel Diversity a Competitive Strength

Across many different regions, more than 50,000 employees work as a team to advance the NYK Group's businesses on a global scale. This section focuses on some of our initiatives in a broad range of areas to realise employees' capabilities fully and foster a new generation of leaders.

Supporting Growth through Job Rotation

Through job rotation, we aim to nurture personnel whose combined knowledge, experience, specialisation, and advanced professional skills enable us to work with customers to solve problems.

Composition of the NYK Group's Human Capital NYK Group personnel (55,661)



Heightening the Group's competitiveness while catering to the diverse needs of society and customers as a comprehensive global-logistics enterprise requires more than specialist knowledge of shipping. It calls for a wide-ranging human network and extensive capabilities and experience in advancing businesses through the utilisation of such management resources as human capital, infrastructure, funds, and information.

With this in mind, we use a job rotation system transcending divisional and national boundaries. Experiencing new operations gives employees a deeper understanding of a broad range of business areas, affords them a wider view of the Group's business, and increases their specialisation. Because all employees* participate in job rotation, approximately one in five of our employees is working overseas at any given time. Thus, employees work with colleagues of various nationalities (notional staffs) at workplaces worldwide. Meanwhile, while sharing the value of the NYK Group worldwide, each member of national staff plays an active role everyday as the driving force for the NYK Group's growth.

In an era when the value companies create soon becomes obsolete, our ability to provide new solutions helps us prevail against competitors. Through job rotation, we aim to nurture personnel whose combined knowledge, experience, specialisation, and advanced professional skills enable us to work with customers to solve problems.

* NYK employees (non-consolidated)

Establishing New Competitive Strengths through Technical Personnel

The role of technical personnel is becoming more extensive in terms of their duties as well as the business and geographical areas in which they work. Consequently, demand for proactive technical personnel who can contribute in any business division or region is increasing.

For example, the offshore business, which we began in earnest in 2012, requires extremely advanced transport quality and a range of technical capabilities that go beyond the limits of shipping's traditional business formats and systems. For the FSO (Floating Storage and Offloading) unit projects of Knutsen NYK Offshore Tankers AS (KNOT)*, we have dispatched technical personnel to participate in plant EPC (Engineering, Procurement, and Construction).

To foster personnel with advanced professional skills, soon after new employees join us, we use job rotation to ensure they experience different workplaces, such as construction sites and vessel maintenance sites, and a variety of divisions, including sales divisions and ship-management companies. By having personnel rigorously acquire basic professional skills needed for shipping, we aim to develop personnel who are able to make multifaceted contributions as project managers and, in future, as 'creators'.

* The NYK Group participates in the business management of this company. The NYK Group took a 50% stake in Knutsen Offshore Tankers ASA in December 2010 and changed the company's name to Knutsen NYK Offshore Tankers AS.

Advancing Women's Careers

In fiscal 2013, the Human Resources Group established the Staff Development and Employment Initiating Chamber, which is taking a range of measures to enable female employees, disabled employees, and reemployed retirees to contribute even more.

We have been focusing particular efforts on advancing 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 work or return to work in accordance with their career plans, without worrying about finding a nursery for their children. Also, we have a range of other systems that enable employees to balance work and family commitments while fully realising their capabilities. These systems include a child rearing and nursing care leave system that surpasses legal requirements, a flexitime system, and a short-time work system.

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. Within the head office organisation, women accounted for 29, or 15%, of the members of management and employees* in management positions as of April 30, 2015. Furthermore, we have two female executives.

In April 2014, we launched an initiative for the advancement of women's careers, Project W. Through this project, we aim to create an employee-friendly and flexible organisation that can adapt to challenging situations and in which all employees work as an effective team, regardless of gender. We are implementing various initiatives, including the expansion and improvement of career advice, establishment of helpdesks, and the facilitation of career development irrespective of whether an employee is in Japan or overseas. As part of these efforts, we concluded a contract with an education company in Singapore securing us a number of priority places in a nursery school in May 2014. Based on this arrangement, for the first time we were able to send a female employee with her child to Singapore.

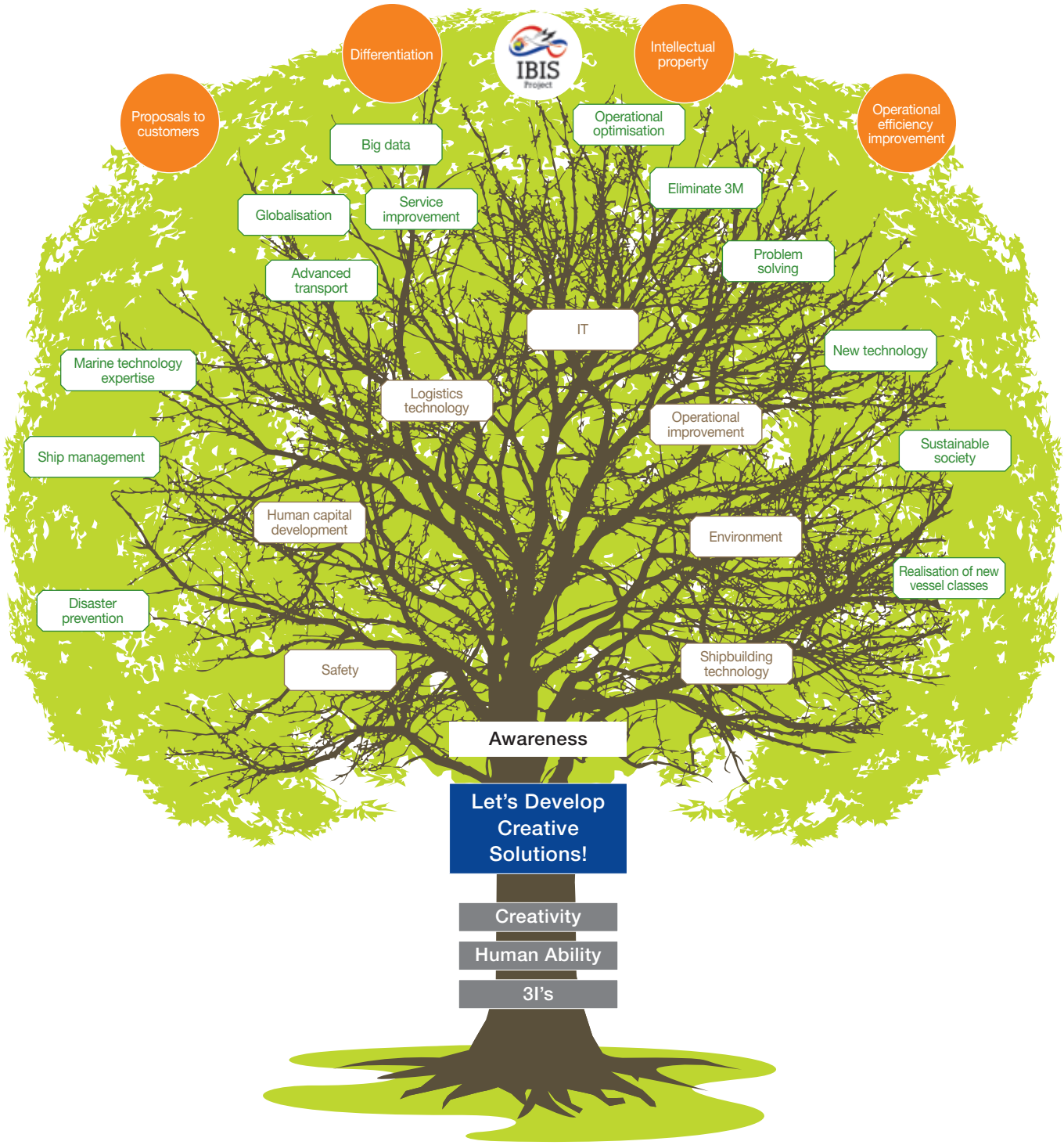
* NYK employees (non-consolidated)

3

The NYK Group's Value and Strengths

Leveraging Creative Solutions as a Source of Differentiation

The overriding theme of the medium-term management plan 'More Than Shipping 2018' is 'Leveraged by Creative Solutions'. What are the NYK Group's Creative Solutions? How do we realise them? Aiming to become a corporate group that transcends traditional shipping, the NYK Group will combine Creative Solutions from the whole Group to achieve further differentiation and create additional value.



Realising Creative Solutions

In today's market, even when our brand and trustworthiness attract business, if we cannot meet the particular needs of customers, they will select competitors. To continue surviving and growing, the NYK Group must pursue operations with an even stronger awareness of differentiation.

The source of this differentiation is Creative Solutions, which refers not only to the pursuit of new technology but also the development of innovative ideas. Accordingly, the meaning of Creative Solutions encompasses infrastructural and organisational initiatives that, for example, provide safe, high-quality services, create progressive value in the environmental area, and eliminate 3M (*Muda, Mura*, and *Muri*). Through Creative Solutions, we will win out against competitors.

Example of a Successful Creative Solution: Innovative Bunker and Idle-time Saving (IBIS) Project

IBIS

Awareness

Reviewing present situation and cultivating awareness of customer feedback

We developed this project during a period of high fuel prices and low freight levels in the container market. The period instilled a strong sense of crisis in each employee and led us to scrutinise details we had previously overlooked, no matter how small.

Visualisation

Visualising diverse data rather than relying on past experience and instinct

With the Monohakobi Technology Institute (MTI), we developed ship information management systems (SIMSs), which use offshore broadband to enable real-time monitoring of vessels' navigation and engine data. The development of broadband infrastructure integrated the Group's internal and external technology.

Optimisation

Optimising by dovetailing in-house technology with the latest external technology

For operations in which we had relied on experience and instinct, we are qualifying and quantifying them with gathering data which we analysed in offshore and onshore operations. We reduced fuel costs significantly through extremely precise vessel operations.

Improvement and Reform

Applying successful projects laterally to realise improvements and reforms in diverse frontline operations

We applied the knowledge and know-how acquired through the IBIS Project to other vessel types. We launched the IBIS TWO Project to optimise operations according to the characteristics and requirements of each vessel type.

Encouraging Innovation through a New Fund

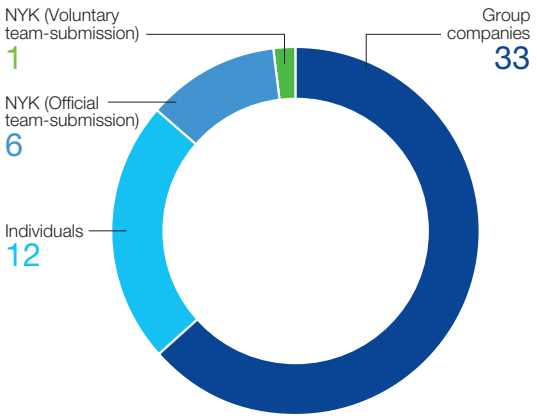
To realise further Groupwide advancement of the medium-term management plan 'More Than Shipping 2018', which was launched in April 2014, we set up the Creative Solutions Development Fund.

Aiming to discover and foster Creative Solutions among Group companies and establish an in-house environment conducive to taking on the challenge of creating new businesses, we are providing wide-ranging support. As well as funding, we offer support through the Technical Headquarters and a range of Group companies, including NYK Business Systems Co., Ltd., MTI, and Japan Marine Science Inc. Moreover, we support the preparation of business plans through market surveys, the development of required technology, and the securing of personnel and sales channels.

The first drive for applications to the Creative Solutions Development Fund, held from December 2014 to January 2015, resulted in 52 submissions. Through a secretariat, we interviewed all applicants and evaluated their submissions based on certain criteria: value as a Creative Solution (contribution to differentiation), the existence of a structure for its advancement, potential, and so on. As a result, we are working with applicants to prepare for the commercialisation of roughly 10% of the submissions.

Meanwhile, to all applicants whose submissions we did not pursue, we gave feedback that included opinions from related parties and experts inside and outside the Group.

Breakdown of Submissions to the Creative Solutions Development Fund



3

The NYK Group's Value and Strengths

Heightening Competitiveness through Progressive Environmental Initiatives

After advancing the Innovative Bunker and Idle-time Saving (IBIS) Project for containerships, we launched the IBIS TWO Project to intensify fuel-saving efforts for other vessel types. By focusing on lowering engine loads and standardising vessel operations, we have saved fuel and reduced CO_2 emissions.

IBIS TWO Project in Each Division

The following explains our fuel-saving efforts for each type of vessel.

Car Carrier Division

1. Pursuing additional benefits through measures other than slow-steaming operations

We have realised fuel-saving benefits of several percent through various initiatives. For example, we are installing energy-saving fluorescent lighting—cold cathode fluorescent lamps (CCFLs)—to replace the vast numbers of the fluorescent lighting systems that are used in the interiors of car carriers, which resemble multistory carparks. Also, we are applying to vessels' bottoms a coating that saves energy by lowering friction between the hull and seawater.

2. Changing awareness of fuel-saving efforts through information sharing

Within the Group, we compile a list of each vessel's fuel consumption and share the list with related employees daily.

Vessels that have consumed more fuel than normal are shown at the top of the list, and the reason for the increase is given. Sharing information in this way daily has encouraged us to check the day-to-day status of vessels in more detail than before and heightened our awareness of fuel-saving efforts.

Dry Bulk Carrier Division

In October 2013, we established the Save Bunker Promotion Team, which changed its name to the Vessel Operation Optimisation Team in April 2015. This team provides comprehensive support to departments promoting fuel saving activities, shares information, and introduces standardised measures.

Our efforts focus on optimum navigation, engine performance, and information distribution. To realise optimum navigation, we are using a variety of tools that includes optimum ship routing (OSR) and encouraging communication among relevant parties. As for information distribution, we are currently establishing places and methods for sharing information.

Tanker Division

Since beginning the IBIS TWO Project, members of the Tanker Division's marine technology and sales departments have worked as a single team to advance fuel-saving efforts.

Respective managers are monitoring the performance of vessels and searching for ways to achieve further improvements, mainly through technological measures. Specifically, having considered the technological impact, we are stepping up slow-steaming operations (operating at 30% of maximum power), implementing laterally a fuel-saving mode for vessels in port, and adding appendages to existing vessels.

Although falling fuel prices mean the need for slow-steaming operations has become less pressing, we will continue pursuing technological initiatives and operational optimisation.

2012~

Fuel-saving efforts in the Container Shipping Division under the IBIS Project

NYK Group South Asia Pte. Ltd. (Singapore)

Cumulative cost reduction benefits in the Container Shipping Division over the three years from fiscal 2012 to fiscal 2014

¥60 billion

Use of big data

Fuel consumption

Entire NYK Group: 5 million tons per year
Assuming 1 ton is US$600: US$3 billion per year

Assuming a 1% consumption reduction

US$ 30 million cost reduction

For a more detailed analysis based on big data, please see page 63 of the *NYK Report* (full-version pdf document) on the NYK Group's website.

Standardising vessel operations

Reducing engine loads

Representatives of respective divisions training at the Container Shipping Division in Singapore

2013~
IBIS TWO

Dry Bulk Carrier Division

Car Carrier Division

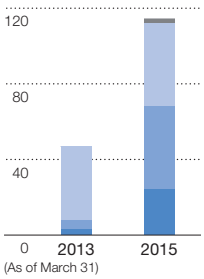
Tanker Division

Developing Equipment Needed for 'Visualisation'

The IBIS Project uses a range of data to 'visualise', and thereby further fuel-saving efforts, which previously tended to rely on experience and instinct. Having initially introduced the SIMS monitoring system to containerships to enable 'visualisation', we steadily installed this system in car carriers, dry bulk carriers, and other vessel types. It has allowed us to gather increasingly large amounts of diverse data.

Further, we use Vessel Performance Analysis System (VPAS) software to create graphs showing the relationship between speed and fuel consumption for each vessel. Generally, extraneous matter steadily adheres to vessels as they operate, which increases friction between the hull and seawater and reduces fuel efficiency. Using VPAS enables the rapid identification of small changes in vessels' fuel efficiency and performance. Consequently, we are able to choose the best time to clean vessels' bottoms and polish propellers. The NYK Group has been using VPAS to analyse vessel performance for 20 years. Moreover, we have upgraded this software so that we can incorporate data acquired through SIMS. This has significantly increased the accuracy of and shortened the time needed for analysis. In addition, onshore operators directing vessel operations can now check details of performance of vessels on seeing such data, a task that previously only navigation officers and engineers could do. Easier performance checking and greater accuracy has enabled us to prepare efficient voyage schedules.

Number of Vessels with SIMS



(As of March 31)	2013	2015
Car carriers	3	24
Dry bulk carriers	5	44
Containerships	39	44
Tankers	0	2
LNG carriers	0	1

3

The NYK Group's Value and Strengths

Using Inventiveness and Developmental Capabilities to Realise Our Vision

Aiming to achieve zero emissions by 2050, we have set out the target profile of a vessel in 2030 and prepared a roadmap of the environmental technology we need to focus on to realise the vessel. Accordingly, the NYK Group is making a concerted effort to develop energy-saving technology, introduce next-generation vessels and LNG-fuelled vessels, and use renewable energy.

Following an Environmental Technology Roadmap

If seaborne cargo increases 3% per year, in 40 years it will have grown 3.3 times. Therefore, halving CO_2 emissions by 2050 will require an 85% reduction in CO_2 per ton-mile. The NYK Group will tackle the required technological innovation and continue to provide society and customers with new value.

2008 — 2015

Vessel operation improvement and optimisation of shipping operation
- Utilises weather data and monitoring of vessel operations
- SIMS
- IBIS Project
- Big data

Development and installation of energy-saving apparatuses
- Develops twin-screw vessels
- Improves propulsion efficiency
- Uses proprietary technology to realise energy-saving containership operations

Air-lubrication system

- Introduces air-lubrication system to large vessels
  Develops energy-saving technology that reduces friction between hull and seawater by supplying air bubbles to vessel bottom
- Uses air-lubrication system with scavenging air bypass
- Next-generation air-lubrication system

New generation hulls

2008~
Auriga Leader

Launches world's first car carrier with solar power generation capabilities

2014~
Aries Leader

Installs latest energy-saving technologies in Japan's first post-Panamax car carrier and reduces CO_2 emissions significantly

Optimises hulls and main engines for a wide range of shipping operations

2008~
Solar power generation

Uses renewable energy + Improves efficiency
- Uses new generation batteries
- Recovers exhaust heat at low temperatures
  Uses wind generated energy

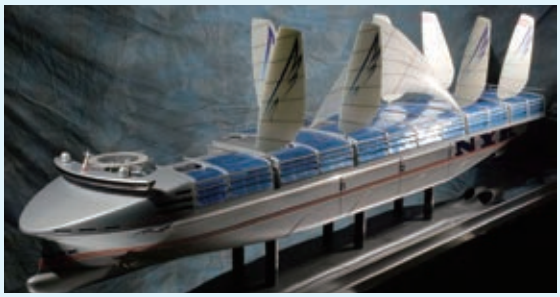
Introduces new fuel

Introduces LNG-fuelled vessels

Introduces LNG bunkering vessels

Advancing towards *NYK Super Eco Ship 2030*

By 2050, we aim to develop zero emissions vessels. As a midpoint 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.



Realising Energy-Saving Containership Operations through Original Technology

To reduce energy consumption, containerships often sail at a speed that is much slower than the average speed anticipated when the ship was designed and built. To make existing ships more energy efficient at these slower speeds, the NYK Group has been conducting research since the summer of 2013.

Big data analyses using actual voyage data gathered over half a year after the implementation of improvements in June 2014 were conducted by the NYK Group, and a 23% reduction in CO_2 emissions was subsequently certified by the ship classification society ClassNK. The conversion was also verified not to affect the safe operation of the vessel or the operating condition of the engine.

The NYK Group will also aim for further energy savings for containerships by proceeding with construction based on this new approach now that effective methods (patent pending) for these operating conditions have been established.

Before remodelling After remodelling

2050
Towards zero emissions ships

Moving from Fossil Fuels to Clean Energy

Currently, vessels are propelled by engines that use diesel, a fossil fuel. To develop a sustainable society, we not only have to economise on fuel consumption but also switch to clean energy sources. Fuel cells are attracting attention as one such energy source.

3

The NYK Group's Value and Strengths

Managing Safety to Create Win-Win-Win Relationships

The NYK Group requires all vessels, regardless of whether they are owned or chartered, to comply rigorously with its original unified safety standards. Through day-to-day safety activities, we aim to build win-win-win relationships with all stakeholders, including customers, shipowners, and seafarers.

Taking Measures to Transport Customers' Cargo Safely

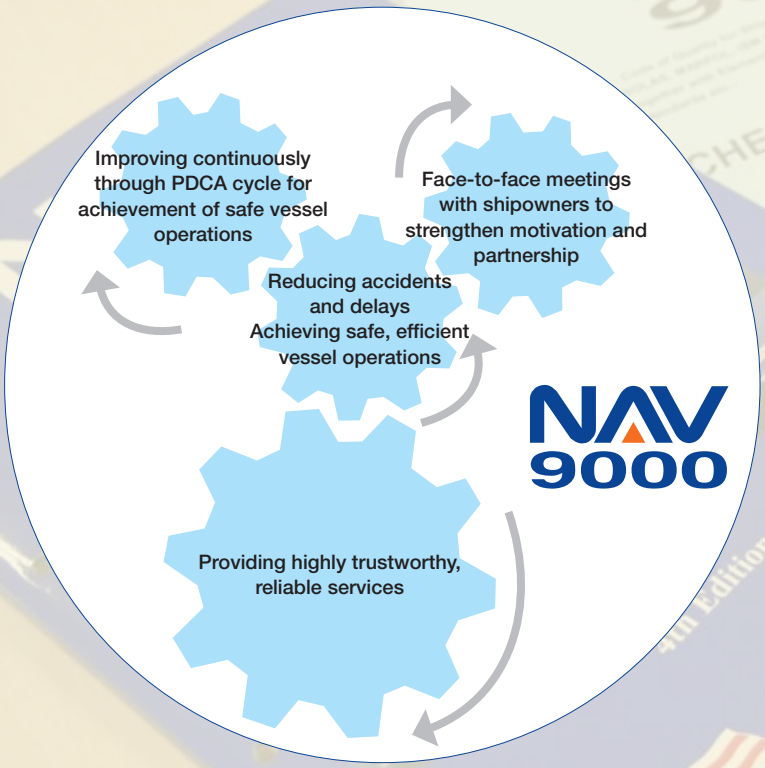
The NYK Group has been operating its original safety promotion system, NAV9000, since 1998. Through this system, we aim to achieve safe, efficient operations of all vessels that transport our customers' cargo—regardless of whether they are owned or chartered vessels—including their seafarers, shipowners, and ship-management companies, by requiring compliance with our unified safety standards for safe vessel operations.

Based on regulations set out in international agreements, these standards comprehensively cover customers' requirements, as well as measures to prevent the recurrence of accidents.

Thorough safety management takes time and effort. However, if a marine accident occurred that led to delays in customers' supply chains, the effect on the economic activities of customers and supply chains' stakeholders could be immeasurable. Moreover, rectifying this effect could take even more time and effort than thorough safety management.

To support the economic activities of customers, we will rigorously remove the 'seeds' of potential problems that could impede safe, efficient vessel operations. We view this as our corporate mission.

NAV9000 Concept



Fiscal 2014 Results

Number of vessels audited:	303
Number of companies audited:	31
Number of incidents identified:	4,014
Number of corrections requested:	1,059

Cultivating Partnerships with Seafarers, Shipowners, and Ship-Management Companies

Strong partnerships with crew members, shipowners, and ship-management companies underpin NAV9000 activities. Vessels represent the frontline operations that actually transport customers' cargos, which we could not transport safely and efficiently without the understanding and cooperation of crew members, who operate vessels, as well as shipowners and shipping companies.

Every year, our auditors visit approximately 300 vessels and 30 shipowners and ship-management companies to confirm that they are conducting safety management in compliance with standards. If there are any shortcomings, the auditor asks for the submission of a corrective plan and checks the progress in implementing it. However, a striking feature of our auditing is that it is not a one-way process. In-depth mutual communication between auditors and the companies they audit encourages continuous improvements for safe vessel operations. Moreover, in this process, we provide advice as needed.

Building Relationships of Trust in Frontline Operations

The most important element when conducting NAV9000 audits is the relationships of trust between auditors and the crew members and ship-management companies entrusted with implementing frontline operations.

Our auditors currently are, or have been, crew members, so they fully understand frontline operations and crew members' viewpoints. Drawing on their own experiences, auditors carefully explain the necessity of the NAV9000 requirements, motivate crew members and shipping companies to realise improvements, and encourage them to enhance their safety awareness.

We believe having face-to-face discussions with those in frontline operations enables us to heighten crew members' existing safety awareness and make them even more intolerant of accidents.

Encouraging Awareness

To prevent the recurrence of accidents that the Group has experienced, we distribute various information and urge caution. However, distributing documents alone does not necessarily raise crew members' safety awareness.

One initiative to ensure that the repeated detailed explanations of auditors and the lessons learnt from accidents are not forgotten is our preparation of the *NYK Seamanship Calendar*. Issued since 2008, the calendar includes illustrations of activities that must and must not be done. Offering readily understandable advice on how crew members can independently identify the 'seeds' of problems, the calendar has a favourable reputation among all concerned. Furthermore, because not reusing the carefully selected ideas and creative illustrations would be a waste, every three years we compile the illustrations to create a booklet: *Into the Safety Zone*.

Focusing on Safety for the Benefit of All Stakeholders

About 20 years have passed since we introduced the NAV9000 system. However, improvement efforts never end. Through NAV9000 activities, we aim to build win-win-win relationships that benefit all stakeholders, including customers, shipowners, ship-management companies, manning offices, crew members, and their families.

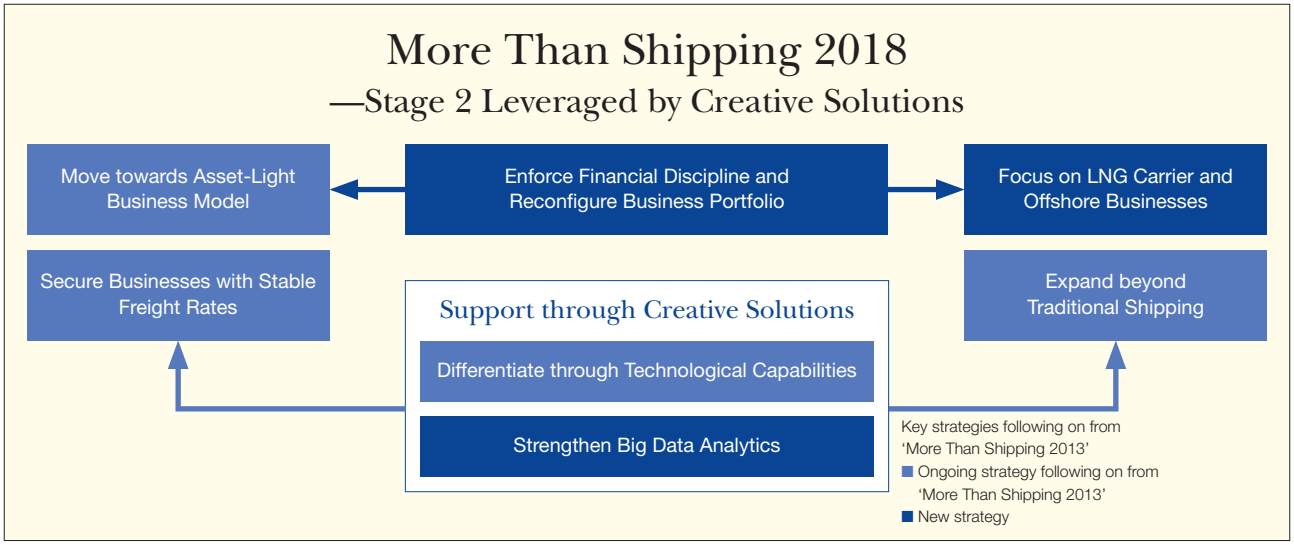
4

Medium-Term Management Plan 'More Than Shipping 2018'

Achieving Steady Results in Accordance with Management Strategies

Continuing the 'More Than Shipping' strategy of the previous medium-term management plan, we aim to leverage Creative Solutions to realise further growth. In fiscal 2014, the new medium-term management plan's first year, we steadily achieved results in accordance with management strategies.

Basic Strategy



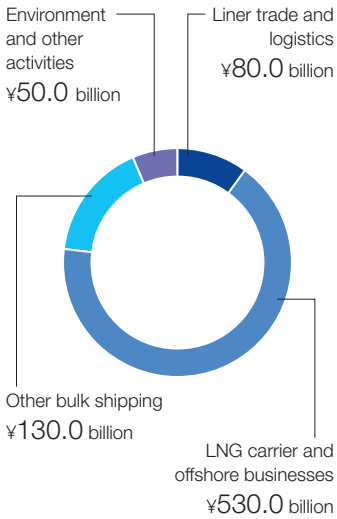
Management Strategies

1 Asset Strategy Focus 1	Reconfigure business portfolio • Focus on LNG carrier and offshore businesses • Reinforce asset-light business model for containerships and dry bulk carriers Maximise asset efficiency
2 Differentiation Strategy	Achieve differentiation through technological capabilities in such segments as LNG carrier and offshore businesses Further eliminate 3M (*Muda, Mura, and Muri*) at frontline operations (*genba*) • Fuel-saving efforts, yield management, and other initiatives
3 Debt and Equity Strategy Focus 2	Review asset-intensive business model Control financial leverage • DER target of 1.0 time • BBB or higher rating
4 Dividend Policy	Balance growth opportunities and stable dividends • Payout ratio of 25% or more
5 Thorough Compliance	Ensure legal compliance (antitrust law, etc.) Establish global compliance structure

Investment Plans

FY2014—FY2018 Total Investment:

¥790.0 billion



Focus 1 Fleet in Operation: Five-Year Projection (Vessels)

	① When preparing MTS*1 2018	March 31, 2015	March 31, 2016 (plan)	March 31, 2017*5	② March 31, 2019*5	Change ① vs ②
Containerships	99	104	90	85	85	–14
Of which are owned and long-term chartered vessels	(74)	(68)	(70)	(65)	(65)	(–9)
Car carriers	119	123	125	125	125	6
Dry bulk carriers:						
Capesize*2	126	123	117	110	100	–26
Post-Panamax, Panamax*3	97	113	97	90	85	–12
Handysize*4 (including box shape)	164	172	165	165	165	1
Wood-chip carriers	48	48	45	45	45	–3
Liquid:						
Tankers	77	68	70	70	70	–7
LNG carriers (including co-owned vessels)	67	69	70	70	100+	33+
Other (conventional ships, reefers, etc.)	79	51	43	41	36	–43
Total	876	871	822	801	811+	–65+
Vessels operated by KNOT						
Shuttle tankers	27	27	27	30	34	7
Containership capacity						
Space provision (Millions of TEUs)	3.68	3.76	3.95	4.00	4.25	0.57

■ Asset-light business model ■ Priority investment *1. More Than Shipping *2. DWT (deadweight tonnage) of 120,000 tons or more
*3. DWT of 60,000 tons or more but less than 120,000 tons *4. DWT of less than 60,000 tons *5. Operating vessels at the end of fiscal 2016 and fiscal 2018 reflect the decrease in vessels due to the sales of a business engaged in the shipping of refrigerated cargo and a U.S. cruises business. However, other data has not been revised.

Focus 2 Earnings and Financial Targets (Billions of yen)

	2014 (result)	2015 (forecast) Announced on April 30, 2015	YoY change	2016 (plan)	2018 (plan)
				Announced on March 31, 2014, in the medium-term management plan	
	1st year of medium-term management plan	2nd year of medium-term management plan		3rd year of medium-term management plan	5th (final) year of medium-term management plan
Revenues	2,401.8	2,420.0	18.2	2,500.0	2,500.0
Operating income	66.1	88.0	21.9	100.0	120.0
Recurring profit	84.0	90.0	6.0	120.0	160.0
Net income	47.5	55.0	7.5	80.0	120.0
Cash flow: Operating activities	136.4	140.0	3.6	170.0	220.0
Cash flow: Investing activities	26.7	–120.0	–146.7	–160.0	–130.0
Interest-bearing debt	1,098.3	1,000.0	–98.3	1,200.0	1000.0
Shareholders' equity	810.3	840.0	29.7	860.0	1000.0
Total assets	2,569.8	2,550.0	–19.8	2,600.0	2,650.0
Debt-to-equity ratio (DER) (Times)	1.36	1.19		1.4	1.0
Shareholders' equity ratio	31.5%	33.0%		33.0%	38.0%
Return on equity	6.2%	6.7%		9.0%	12.0%
Dividend payout ratio	25.0%	25.0%		25.0%	25.0%

Debt and Equity Strategy
- Review asset-intensive business model
- Control financial leverage

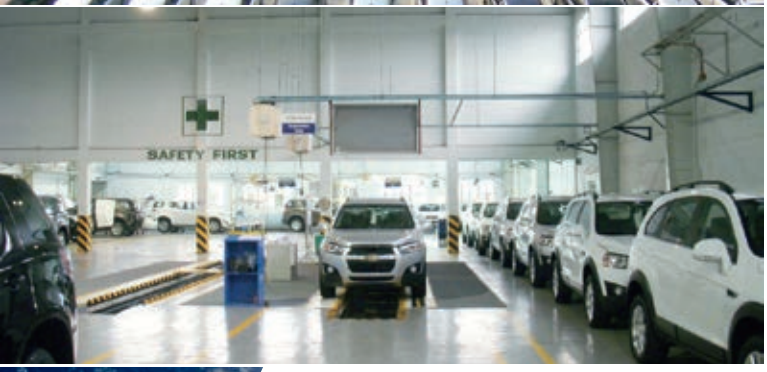
Dividend Policy
- Balance growth opportunities and stable dividends

Creating Shared Value in the Automotive Logistics Business

We view the reliable delivery of vehicles to purchasers in regions worldwide as a weighty responsibility. Therefore, we are expanding and improving services while honing transport technology with highly competent local partners. Further, we are developing sustainable operations by rigorously reducing CO_2 emissions per vehicle transported.

Unrivalled Competitiveness beyond Traditional Ocean Transport

Automotive Logistics Outshining Competi



PROLOGUE

The NYK Group's automotive logistics business has established unrivalled competitiveness in comprehensive finished automobile logistics services that transcend traditional ocean transport. At an early stage, we anticipated steady growth in global demand for finished automobiles centred on China, India, and other emerging countries. Accordingly, in mainstay ocean transport, as well as transporting finished automobiles from Japan to other countries, we have increasingly transported finished automobiles between countries outside Japan to cater to automotive manufacturers' local production at overseas plants. We have created strong differentiation by expanding our network of bases worldwide, building and operating RORO terminals, establishing networks for inland and coastal transport, providing a diverse range of services that includes pre-delivery inspection, and offering one-stop services that encompass transport from plants to automobile dealers and warehousing. As a result, our car carrier fleet has become the world's largest at 123 vessels, and we maintain the leading share of the finished automobile transport market.

Currently, logistics needs are becoming ever more diverse and complex. Demand for efficient transport among multiple bases is growing as automotive manufacturers extend production and sales networks globally. In the context of our differentiation strategies that go beyond traditional shipping's boundaries, this special feature examines how the NYK Group intends to cater to diversifying demand, whether it has the capabilities to do so, and the growth stages it has completed to date.

Business — tors Worldwide

SPECIAL FEATURE

Initiating and Evolving the Automotive Logistics Business

1st STAGE

Group Begins Comprehensive Logistics Services

For about 45 years, the NYK Group's Car Carrier Division has been mainly transporting finished automobiles exported from Japan. However, in the 1990s the division evolved dramatically. Spurring this change was new logistics needs accompanying Japanese automotive manufacturers' forays into Thailand, China, and other parts of Asia.

At the time, Japanese automotive manufacturers were building numerous plants in Thailand, which they saw as a future export base. However, the country lacked a suitable RORO terminal, which is essential for the mass export of finished automobiles. The absence of such a terminal was a pressing problem for manufacturers because it would hamper efforts to increase operational efficiency. To address this problem, we decided to establish a RORO terminal independently and provide infrastructural support for the export of finished automobiles from Thailand.

As in Thailand, our participation in China began with the construction of a RORO terminal. However, rather than customer needs our involvement stemmed from a favourable relationship with the port authority where we had already built a containership port. Anticipating a rising need for finished automobile transport in China, we provided the port authority with our expertise in the design and construction of RORO terminals.

RORO terminal: Roll-on, Roll-off terminal
Specialised terminals where automobiles, trucks, forklift trucks, and other vehicles are loaded onto or unloaded from car carriers by being driven directly into or out of car carriers

Evolution of the Automotive Logistics Business

1970s

Enters automotive logistics business

Car carrier *Jintsu Maru*

1990s

Launches first overseas business for finished automobile transport in Thailand

A car carrier in Thailand

2000s

- Takes stake in RORO terminal
- Participates in inland transport business
- Begins pre-delivery inspection and other value-added services

Car carrier

Pre-delivery inspection
Final inspections and repairs of attachment of parts to finished automobiles before delivery to automobile dealers

Car Carrier Fleet Size (as of January 2015)

- 123 vessels
- Market share: 16.5%
- World's largest

2nd STAGE

Transshipment Improves Ocean Transport's Overall Efficiency

The next task we faced was catering to customers' need for higher-frequency ocean transport services with shorter lead times while minimising the effect on service quality. Grappling with this task led us to build a new hub-and-spoke structure based on transshipment at our terminals.

Unlike refrigerators or televisions, which are packaged in wooden or cardboard boxes and transported by container, finished automobiles are transported 'naked'. Transporting automobiles unblemished and on time calls for advanced technology and quality control. Our customers, automotive manufacturers, are generally reluctant to add processes that incur damage risk. Therefore, they rejected transshipment initially. However, globalisation led to the establishment of hub-and-spoke structures, which was a major paradigm shift. Specifically, globalisation increased demand for services that efficiently transport finished automobiles from multiple production areas and countries, concentrate them at a single point, and then transport them onward in larger lots to consumption areas. In response, we introduced an approach that collects finished automobiles at hub ports—which act as relay points—for transport to final destinations. This approach differs significantly from the traditional approach to transport whereby automotive logistics businesses provide 'single line' services directly linking producing countries and final destinations. A significant advance enabling hub-and-spoke structures was our development of loading methods that do not damage finished automobiles during transport or transshipment. This initiative epitomises our provision of new value through expertise.

In January 2009, with partners, we constructed a RORO terminal at the port of Singapore. We established a system that collects finished automobiles from Japan, Australia, Southeast Asian countries, and other Asian countries and transships them to car carriers for transport to regions worldwide. Combining this system with the NYK Group's shipping-route network—the largest in the world—enabled efficient, competitive transport.

This initiative led us to consider establishing a similar system in Europe. Because Europe has multiple final destinations, demand for transshipment to enable the efficient transport of large numbers of finished automobiles was increasing in the region. In response, we acquired a terminal company in Belgium and, taking advantage of experience gained in Singapore, set up another hub port. Establishing hub ports in Asia and Europe allowed the efficient transport of finished automobiles produced in Asia or Europe to multiple consumption areas in Europe, the Middle East, and Africa.

RORO terminal at the port of Singapore:
A joint venture established by PSA Singapore Terminals, Kawasaki Kisen Kaisha, Ltd., and the NYK Group

"We established a system that collects finished automobiles from Asian countries and transships them to car carriers for transport to regions worldwide. Combining this system with the NYK Group's shipping-route network—the largest in the world—enabled efficient, competitive transport".

SPECIAL FEATURE

"Although we still do not have many personnel who are automotive logistics experts, Group companies have numerous personnel with expertise in such individual areas as terminals and logistics".

3rd STAGE

Transport Services Expand and Improve

While starting up RORO terminals and establishing a hub-and-spoke structure, we expanded and improved inland transport networks. In Thailand, which had become an important export base for Japanese automotive manufacturers, we followed up our independent establishment of the RORO terminal mentioned in the '1st STAGE' section by beginning inland transport using car carrier trailers (trucks). This move entailed acquiring as a wholly owned subsidiary a car carrier trailer (truck) company, which an automotive manufacturer had originally set up to transport its automobiles. We acquired this company to cater to demand for the transport of automobiles from plants to automobile dealers throughout Thailand and from plants to export ports. In China, aiming to cater to demand for the transport of domestically manufactured and imported finished automobiles to automobile dealers across the country, we established inland transport from ports and a coastal transport network linking northern and southern China.

Other initiatives included providing such value-added services as pre-delivery inspection at mainstay RORO terminals. At our terminal in Belgium, pre-delivery inspection services had already been established. However, we began providing these services in Asia when a U.S. automotive manufacturer contracted us to provide them in the Philippines. This involved inspecting and attaching parts to imported vehicles before transporting them to automobile dealers. Applying know-how gained in the Philippines, in India we inspect vehicles and wash off dust before exporting them. We are rolling out such high-value-added services laterally in China and in countries worldwide.

Drawing on Our Expertise to Heighten Competitiveness

Automotive Logistics Business Has the Key to Success

The timing of our entry into each automotive logistics area was different. From a big-picture viewpoint, however, we proceeded by connecting ocean transport services through terminals, or 'points', with inland transport or coastal transport services to establish 'lines'. Then, by providing value-added services at these connection 'points', we spread finished automobiles transport services laterally throughout diverse regions to establish 'planes'. As a result of this expansion process, we now operate 18 finished automobile terminals in 11 countries, and these terminals are generating stable cash flows. How has the NYK Group's automotive logistics business established a leading position? Here, we will explain the reasons.

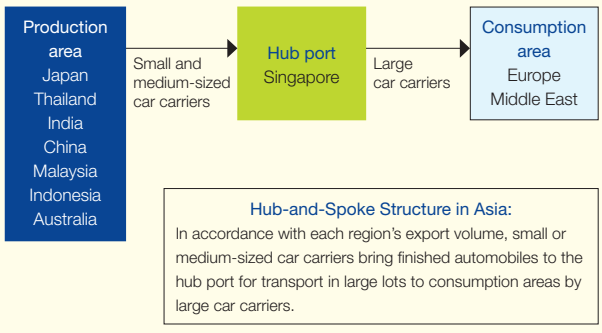
First, we leverage Creative Solutions and practical skills to construct terminals. As an experienced operator of car carriers and a user of terminals, we already had an ideal terminal in mind. We know where to park finished automobiles and what type of guide track is most efficient and safest for loading and unloading vessels. Accordingly, we focus on optimising each site with a view to making our ideal terminal a reality. This approach results in highly convenient terminals, which motivate customers to make additional business inquiries.

Next, we have personnel with advanced skills. In terminals and inland transport, we take advantage of our experience and knowledge acquired from operating car carriers and finished automobile loading operations, which handle the same products. Although we still do not have many personnel who are automotive logistics experts, Group companies have numerous personnel with expertise in such individual areas as terminals and logistics. Therefore, we will

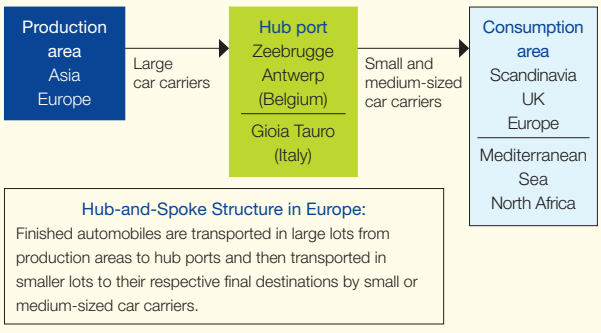
Business Model

* VPC: Vehicle Processing Center, VDC: Vehicle Distribution Center

Hub-and-Spoke Structure in Asia



Hub-and-Spoke Structure in Europe



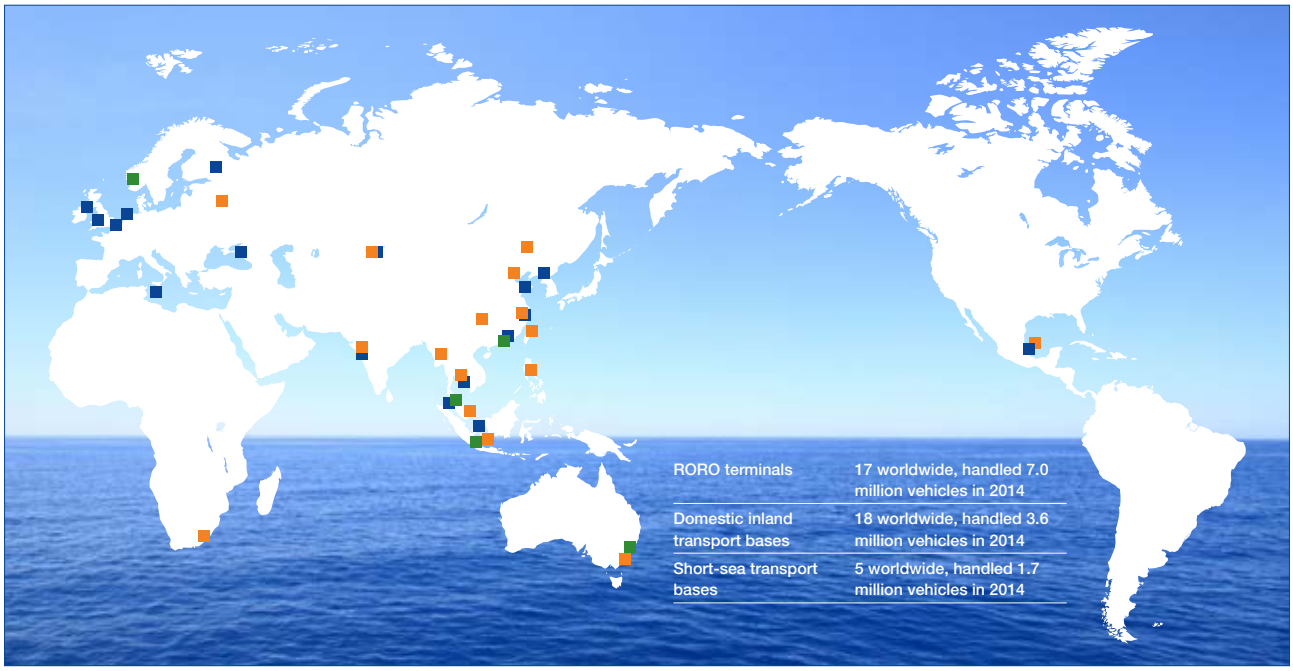
SPECIAL FEATURE

promote such professionals from Group companies so that they have the time to impart their know-how fully to local personnel at our finished automobile logistics bases in regions worldwide. While we have to continue such training efforts patiently, the most important point is to establish an understanding between Group company personnel and local personnel and maintain a shared commitment to growing the business. The same is true, for example, when training car carrier trailer (truck) drivers. After Group company personnel have passed on their know-how, we redeploy them so that they can contribute to operations in other regions or have them return to their Group company to make full use of the insights they have gained. Such efforts raise the overall level of the Group's personnel capabilities.

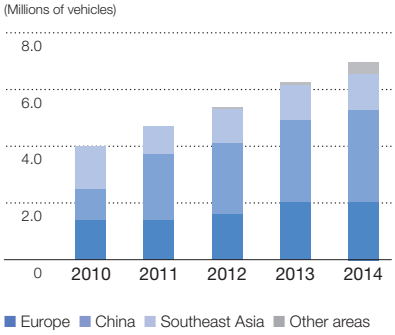
Another key to success is selecting competent partners. Each country or region has different laws and regulations with which operations for terminals, car carrier trailer (truck) transport, and pre-delivery inspection have to comply. Therefore, we sometimes establish joint ventures with local partners when entering a new region. Because there is a limit to the extent to which we can develop businesses independently, it is no exaggeration to say that partner selection determines about 80% of subsequent projects.

Automotive Logistics Business

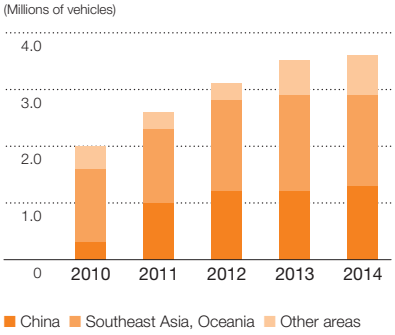
■ RORO terminal ■ Domestic inland transport base ■ Short-sea transport base



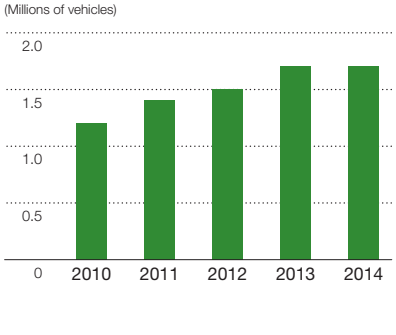
Vehicles Handled by RORO Terminals



Vehicles Handled by Domestic Inland Transport Bases



Vehicles Handled by Short-Sea Transport Bases



Aiming to Raise Business Value Even Higher

Group Strengthens Logistics in India and Mexico

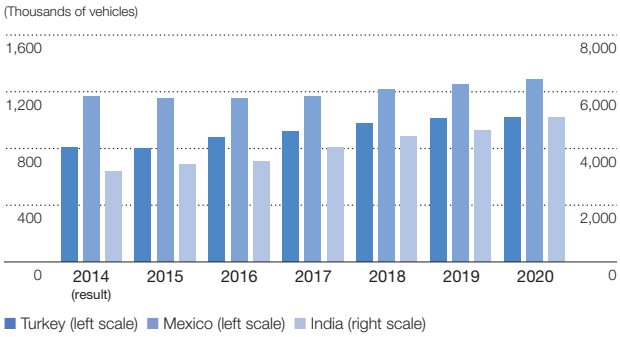
The NYK Group is expanding and improving its network of bases strategically to provide logistics support to the global manufacturing and sales businesses of automotive manufacturers. We plan to increase the number of overseas bases from the current 37 to 42 in 2016. Furthermore, we will capitalise on this network in efforts focused on strengthening logistics services in economic blocs centred on India and Mexico, which are steadily amassing automotive manufacturing capabilities.

In India, which has a population second only to that of China, we established operations for the transport of finished automobiles by car carrier trailers (trucks) in advance. The problem is that the development of ports, the country's gateways, is lagging throughout India. With automotive manufacturers planning to expand exports from India's western coast, we established and began operating a RORO terminal in northwestern India, at the port of Pipavav, in the state of Gujarat. Rather than building a completely new terminal, we leased the idle land of an existing container terminal and converted it into a RORO terminal, thereby reducing initial investment. We are establishing a specialised yard that will be capable of handling 250,000 vehicles per year and provide pre-delivery inspection and radio frequency identification (RFID) enabled vehicle tracking services. Further, establishing finished automobile transport by train is a task in India going forward.

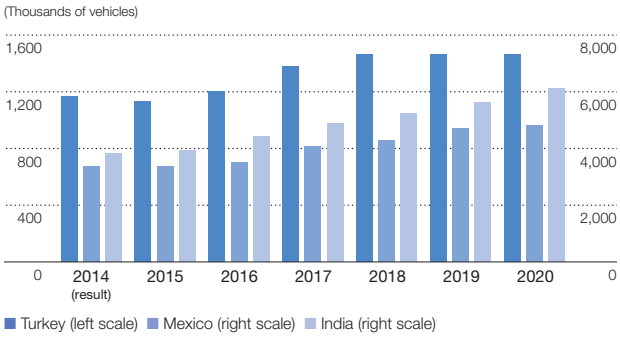
Adjacent to the United States, Mexico is attracting attention as a base for exports to Latin America. Automotive manufacturers plan to build new plants or expand existing ones in the country, which is seeing finished automobile exports rise yearly. In June 2014, we took a 30% stake in a finished automobile logistics company, which operates nationwide centred on the largest terminal on Mexico's eastern coast. Through this company, we are offering finished automobile transport services, operating terminals, and providing such value-added services as pre-delivery inspection.

Other initiatives include developing logistics businesses mainly in emerging countries. In the medium-to-long term, we have set our sights on developing businesses in South America, countries along Africa's Mediterranean coast, and countries in central Asia.

Vehicle Unit Sales in Priority Countries



Vehicle Unit Production in Priority Countries



"We will focus on strengthening logistics services in economic blocs centred on India and Mexico, which are steadily amassing automotive manufacturing capabilities".

SPECIAL FEATURE

Focusing on the Governance and Localisation of the Automotive Logistics Business

Regardless of the extent of our stake in companies, we always urge partners to adhere to NYK's standards, including those relating to legal compliance. In particular, we are taking measures to ensure rigorous quality control in frontline operations, which is needed to deliver finished automobiles to customers in a safe and timely manner. Although the automotive logistics business has fixed procedures and rules, many aspects of operations are a matter of feeling, or not necessarily quantifiable, such as loading and unloading skills and techniques. The NYK Group has established and enforces rigorously a Groupwide Standard Operation Procedure (SOP) to ensure that in regions worldwide it provides the same quality of finished automobile transport, which calls for advanced loading skills and management. Further, through the rigorous training provided by Japanese navigation officers and engineers, who are dispatched to frontline operations as skills instructors, as well as the efforts of local personnel, we raise quality levels markedly.

Meanwhile, Japanese personnel in senior positions aim to reflect local conditions in the business management of local subsidiaries and joint ventures with local partners. In all regions, however, we work to ensure local personnel take pride in their company. In addition, promoting local personnel to senior managerial positions will become increasingly important from the perspective of maintaining and heightening motivation. The NYK Group's automotive logistics business is highly competitive thanks to diverse personnel throughout the Group. Yet the level of personnel diversity is insufficient if we are to develop the business even further going forward. True globalisation that encourages greater contributions from local personnel is an urgent issue. Already, we have entrusted local personnel with senior positions in Belgium, Russia, China, and the Philippines. We plan to introduce similar initiatives steadily in other countries.

Automotive Logistics Business Continues to Grow

Worldwide automotive unit production is forecast to reach approximately 100 million in 2017. As their economies continue growing, China, India, and other emerging countries are expected to support a medium-to-long-term rise in demand for finished automobiles. Nevertheless, while unit production is trending upward at a rate of between 5% and 6% per year, shipping cargo movements are only expected to grow 2% or 3%. This disparity is attributable to the acceleration of local production for local consumption strategies by automotive manufacturers as they globalise. Without a doubt, ocean transport will rise as unit production increases. However, while the proportion of intraregional transport and inland transport goes up, ocean transport distances are likely to shorten.

Given these business conditions, we will cater accurately to structural change in the global automotive industry and capture growing demand for automotive logistics boldly by coordinating car carrier ocean transport with inland automotive logistics services. Because the terminals business area of the automotive logistics business promises particularly stable earnings, we will continue developing new projects in this area with a focus on emerging countries. Similar to traditional

> "The NYK Group has established and enforces rigorously a Groupwide Standard Operation Procedure (SOP) to ensure that in regions worldwide it provides the same quality of finished automobile transport, which calls for advanced loading skills and management".

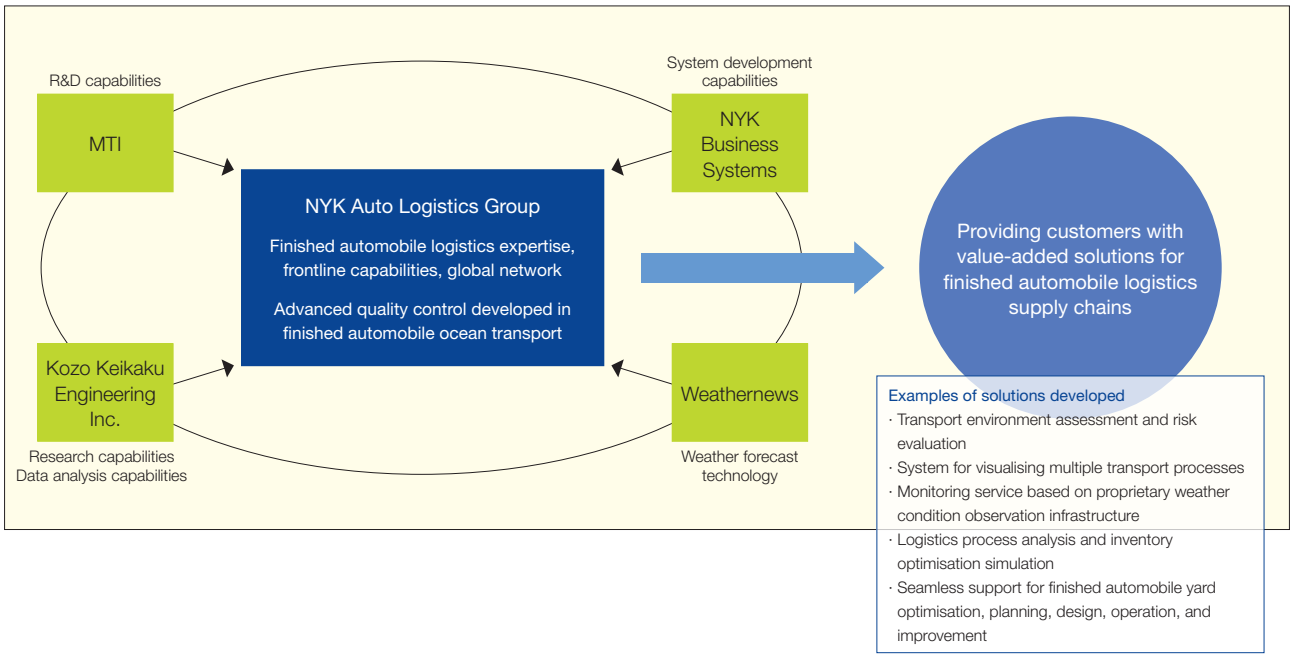
deep-sea shipping, short-sea transport is susceptible to market conditions. However, inland transport has strong growth potential. Therefore, while taking into consideration price competition with other companies and quality issues, we will further strengthen this business area.

In addition, to step up the pace of differentiation, we will begin developing new business areas. Specifically, we are developing an IT-enabled system that allows users to manage the status of individual finished automobiles. Our aim is to lower costs and lessen environmental burden by reducing the number of processes in and enhancing the efficiency of logistics through the application of mathematical and statistical methods to analyse big data.

Traditionally, the automotive logistics industry has had a strong tendency to take lot-based approaches to operations. We have earned customer trust by continuing to build and offer progressive services that anticipate the customer's viewpoint and needs.

Furthermore, we aim to exploit the latest IT to enhance services and achieve even greater differentiation. To this end, we will incorporate into logistics processes concepts that extend our field of vision beyond delivery to automobile dealers to encompass ensuring reliable delivery of each finished automobile to individual purchasers.

Symphony Project



EPILOGUE

The automotive logistics business has evolved significantly by increasing the scope and sophistication of its services to meet the needs of the times. Currently, the NYK Group's automotive logistics business handles about 12 million vehicles annually. Approximately 80 million automobiles are sold every year. In a few years, sales are expected to reach 100 million units, and we want to handle more than 20 million units.

Through uncompromising quality control in finished automobile transport, we have realised transshipment that minimises the damage risk once associated with this process. In a similar way, bringing our expertise to bear in diverse situations is sure to generate a host of new services and earnings sources. Keeping firmly in mind that delivering valuable finished automobiles to each individual customer is an important mission and responsibility, we will continue providing services in which customers discover new added value.

An Interview with the Chief Financial Officer

Kenji Mizushima
Representative Director, Senior Managing Corporate Officer
Chief Financial Officer
Oversees Cruise Enterprise Group

Fiscal 2014 Overview

Q Could you share your thoughts on fiscal 2014's recurring profit of ¥84.0 billion?

Recurring profit surpassed the initial forecast of ¥70.0 billion and increased ¥25.5 billion year on year. A combination of such external factors as yen depreciation and falling bunker oil prices and continued cost reduction efforts produced figures consistent with those envisaged for the first fiscal year of the medium-term management plan, 'More Than Shipping 2018'. Given external factors, business results may seem inadequate. However, taking into account tougher-than-expected market conditions, I view it as a very commendable performance.

Furthermore, in fiscal 2014 ROE improved significantly, up from the previous fiscal year's 4.8%, to 6.2%. This reflects the success of measures to heighten ROE by avoiding an increase in total assets.

Q What were the main reasons for the Group's financial position improving more than initially forecast?

Interest-bearing debt at the end of fiscal 2014 was ¥1,098.3 billion, below the ¥1,110.0 billion forecast at the beginning of the fiscal year. Similarly, the debt-to-equity ratio was 1.36, lower than the 1.50 we projected. This improvement mainly resulted from repaying debt with a portion of the cash generated by selling a minority share of a subsidiary that manages container terminal operations in North America, implementing off-balance-sheet allocations of vessels, and delaying planned investments.

We will continue a strategy of growing each business segment's operating cash flows and using accumulated earnings to boost shareholders' equity and reduce interest-bearing debt. By the end of the medium-term management plan's second fiscal year, fiscal 2015, we want to reduce interest-bearing debt to ¥1,000.0 billion and the debt-to-equity ratio to 1.19. Furthermore, by the end of the plan's final fiscal year, fiscal 2018, we aim to reach a debt-to-equity ratio of 1.00. Also, we see our current credit rating as being at a minimum level that we should not go below. We hope to improve it steadily one rank at time while meeting financial benchmarks.

Fiscal 2015 Business Results Outlook and Overall Strategy Going Forward

Q What is the business results outlook for fiscal 2015?

In fiscal 2015, we project year-on-year increases of ¥18.2 billion in revenues, to ¥2,420.0 billion; ¥6.0 billion in recurring profit, to ¥90.0 billion; and ¥7.5 billion in net income, to ¥55.0 billion. This forecast assumes an average exchange rate of ¥115 to the U.S. dollar and an average bunker oil price of US$370 per metric ton. We expect the liner trade, air cargo transportation, and logistics segments each to grow recurring profit. On the other hand, we anticipate a negative impact on earnings of approximately ¥10.0 billion, mainly because of lower revenues from the Bulk Shipping Business due to lacklustre dry bulk market conditions and an effective decrease in fuel surcharges.

Financial Position

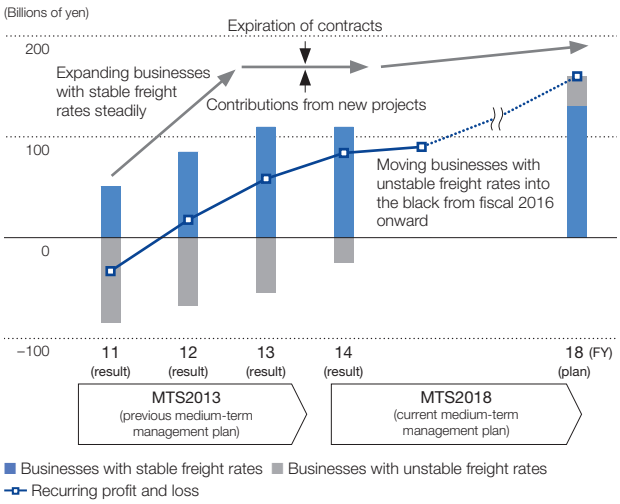
(FY)	2012 (result)	2013 (result)	2014 (result)	2015 (forecast) (As of April 30, 2015)	2018 (plan)
Interest-bearing debt (billions of yen)	1,292.1	1,241.9	1,098.3	1,000.0	1,000.0
Shareholders' equity (billions of yen)	650.4	720.2	810.3	840.0	1,000.0
Shareholders' equity ratio (%)	26.8	28.2	31.5	33.0	38.0
Debt-to-equity ratio (DER) (Times)	1.99	1.72	1.36	1.19	1.0
Return on equity (ROE) (%)	3.1	4.8	6.2	6.7	12.0

Q Are businesses with stable freight rates progressing?

In fiscal 2013, the final fiscal year of the previous medium-term management plan, 'More Than Shipping 2013', we posted recurring profit of ¥55.0 billion, because recurring profit of ¥110.0 billion from businesses with stable freight rates more than compensated for recurring loss of ¥55.0 billion businesses with unstable freight rates incurred. Our most important task under 'More Than Shipping 2018' is to expand businesses with stable freight rates while increasing the ability of businesses with unstable freight rates to withstand risk. After investment, businesses with stable freight rates require time to generate earnings. Therefore, I do not expect a dramatic accumulation of earnings during the five years of 'More Than Shipping 2018'. However, efforts to curb the downturns of businesses with unstable freight rates will contribute significantly to earnings. In the blueprint set out in 'More Than Shipping 2018', we envisage the effect of investment in businesses with stable freight rates contributing to overall earnings growth.

In fiscal 2014, recurring profit from businesses with stable freight rates was roughly unchanged year on year. However, we expect it to grow to between ¥120.0 billion and ¥130.0 billion by the medium-term management plan's final year. Meanwhile, in fiscal 2014 businesses with unstable freight rates improved recurring loss to ¥25.0 billion, thanks to efforts to introduce an asset-light business model that enables flexible responses when market conditions deteriorate significantly. We will continue this improvement from fiscal 2015 onward. Further, we intend to restructure businesses actively and take appropriate measures, even if they necessitate incurring costs.

Transition of Recurring Profit and Loss



Q How sensitive are business results to external factors?

We disclose figures showing the effect of exchange rates and bunker oil prices on recurring profit. In fiscal 2015, these factors are having less effect than they did in the fiscal year under review. This is attributable to the benefit of steady cost reduction initiatives, including Groupwide efforts to reduce fuel consumption. We should continue such important tasks based on 'More Than Shipping 2018'.

Exchange Rates / Bunker Oil Prices

(FY)	2012 (result)	2013 (result)	2014 (result)	2015 (forecast) (As of April 30, 2015)
Exchange rates (US$1)	¥82.33	¥99.75	¥109.19	¥115.00
Bunker oil prices (1TEU)	$673.27	$624.11	$557.28	$370.00
Effect on recurring profit				
Change due to yen depreciating ¥1 (¥ billion)	1.1	1.4	1.6	1.4
Change due to bunker oil price decreasing US$10/MT (¥ billion)	1.4	1.7	1.4	1.0

Q What is the cash flow outlook?

In fiscal 2014, we recorded net cash provided by investing activities and higher-than-expected positive free cash flow because, as I mentioned earlier, we sold a minority share of a subsidiary that manages container terminal operations in North America, implemented off-balance-sheet allocations of vessels, and delayed some planned investments. In fiscal 2015, we will maintain positive free cash flow and implement necessary investments.

In addition, we will continue concentrating investment on businesses with stable freight rates, such as the LNG carrier and offshore businesses, even if current business conditions diverge slightly from expectations. In other words, we intend to proceed with the investments set out in 'More Than Shipping 2018'.

Cash Flows

(FY)	2012 (result)	2013 (result)	2014 (result)	2015 (forecast) (As of April 30, 2015)
Operating activities (billions of yen)	93.9	136.5	136.4	140.0
Investing activities (billions of yen)	–135.5	6.4	26.7	–120.0
Free cash flow (billions of yen)	–41.6	142.9	163.1	20.0

“Efforts to curb the downturns of businesses with unstable freight rates will contribute significantly to earnings. In the blueprint set out in ‘More Than Shipping 2018’, we envisage the effect of investment in businesses with stable freight rates contributing to overall earnings growth”.

Q How do you manage exchange rate risk in mainstay businesses?

The majority of revenues from shipping are in U.S. dollars. The NYK Group remains exposed to an intrinsic exchange rate risk because, on a consolidated basis, nearly 90% of revenues but only about 80% of costs are foreign currency denominated. Predicting exchange rate trends is extremely difficult. Moreover, of the business risks to which the Group is exposed, the effect of exchange rates is substantial. Therefore, even if it means we are no longer able to benefit fully from yen depreciation, we intend to denominate more costs in U.S. dollars so that yen appreciation does not become a downside factor.

Similarly, foreign currency denominated fundraising has created an imbalance that, without overstretching ourselves, we want to correct. Such instruments as net investment hedges for foreign currency denominated investments are likely to become increasingly important.

Q What measures are you taking for interest-rate risk accompanying fundraising?

Because the Group has emphasized the long-term stability of businesses and fundraising, fixed interest rates account for a larger portion of fundraising than they generally do in other companies. This relatively high proportion of fixed interest rates helps us analyse and project interest-rate costs. Nevertheless, given that interest-rate risk is a less significant factor than exchange rate fluctuation risk in our business portfolio, I want to consider increasing the proportion of variable interest rate fundraising a little more to mitigate the interest-rate burden.

The revenues of businesses with unstable freight rates fluctuate in accordance with the business climate and market conditions. Therefore, in these businesses I think using variable interest rates that trend in conjunction with such fluctuation is reasonable. However, we do not intend to increase the proportion of fundraising with variable interest rates haphazardly. As we proceed, we will give first priority to stabilising business management while closely monitoring the balance between businesses and fundraising composition.

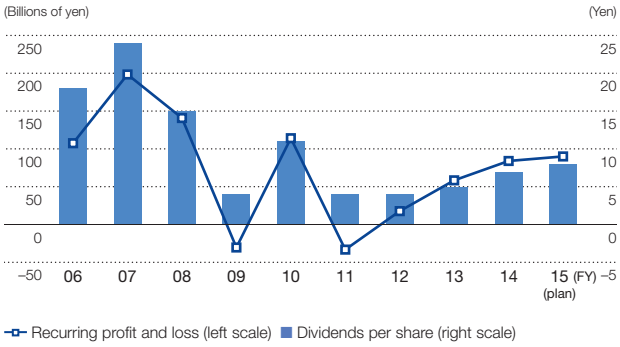
Q What is the NYK Group’s capital policy?

For returns to shareholders, our basic policy is to achieve a dividend payout ratio of 25% and stable dividends. At the same time, we aim to meet shareholders’ expectations by actively investing capital in the high-quality projects currently available to heighten corporate value further.

Even in years when we incurred recurring loss, we have continued paying dividends. We cannot promise to pay dividends every year going forward. However, as long as we anticipate a recovery in business results, in principle, we intend to continue realising a dividend payout ratio of 25% and stable dividends—regardless of business results. Because the Group’s investment plans require a medium-to-long-term perspective, I would like shareholders, as far as possible, to take a long-term viewpoint.

Happily, there are numerous investments worth considering at the present. In these conditions, I ask for understanding of our intention to invest cash from mainstay businesses actively to enhance shareholder value going forward.

Recurring Profit and Loss / Dividends



Business Review

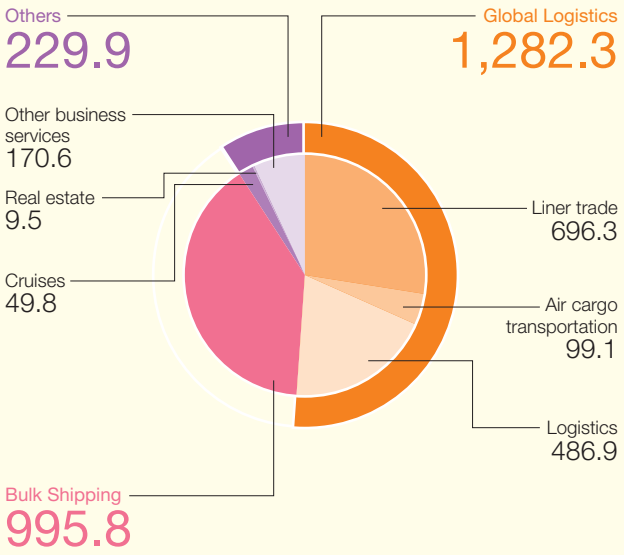
Long-Term Strategies by Business

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 2014, please see page 76.

At a Glance

Revenues by Segment (Fiscal 2014)

(Billions of yen)



Global Logistics Business

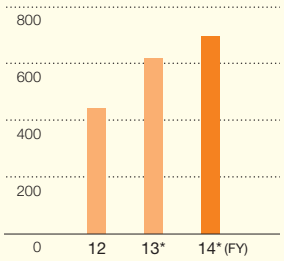
Liner Trade

Overview of Business and Strategies

In the liner trade segment, we strive to build an optimal business portfolio for container transport in the midst of the strong supply crunch resulting from the completion and delivery of large vessels. In fiscal 2014, we rationalised shipping routes and revised service networks by redelivering uneconomical vessels, modifying vessels to improve fuel efficiency, and deploying ships that are highly fuel efficient with the aim of reducing ship operation and navigation costs. As a result, the liner trade segment saw a year-on-year increase in sales and was able to turn a profit.

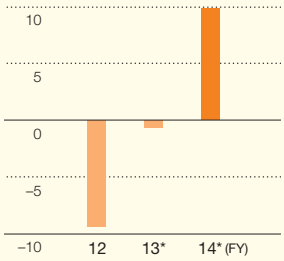
Revenues

(Billions of yen)



Recurring Profit and Loss

(Billions of yen)



* Beginning with the fiscal period ended March 31, 2014, the terminal and the harbor transport segment is included in the Liner Trade segment.

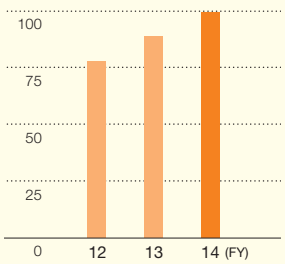
Air Cargo Transportation

Overview of Business and Strategies

As air cargo transportation increases, we are optimising our fleet size and working to move away from our current business model, which is overdependent on regular services. In fiscal 2014, the air cargo transport segment achieved a position of profitability during the third quarter due to the benefits of a drop in fuel prices. At the same time, we stepped up initiatives geared toward realising a business that is resistant to market volatility, including providing cargo bookings specifically for freight aircraft and offering airline charters.

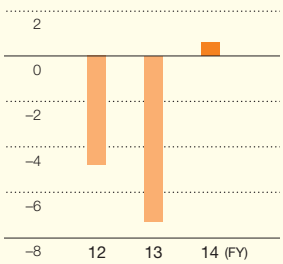
Revenues

(Billions of yen)



Recurring Profit and Loss

(Billions of yen)



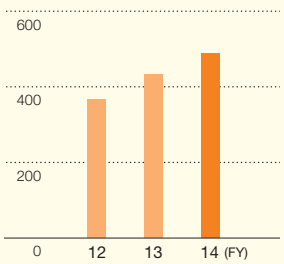
Logistics

Overview of Business and Strategies

Through M&A activities and other strategic investments, we are expanding comprehensive logistics service operations centered on growth industries and emerging markets. Both revenues and income were up in fiscal 2014, and airfreight forwarding handling volume increased, while ocean freight forwarding suffered from poor results for shipments out of Asia. In the logistics business, we are focusing on expanding operations through such means as opening new warehouses in South Asia.

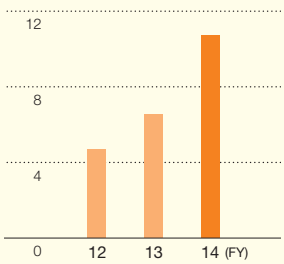
Revenues

(Billions of yen)



Recurring Profit and Loss

(Billions of yen)



Bulk Shipping Business

Dry Bulk Carrier Division

Liquid Division

Offshore Business

Car Carrier Division

Overview of Business and Strategies

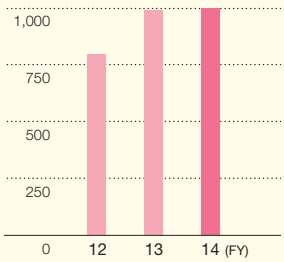
Dry Bulk Carrier Division: While we expect freight movement to show a modest increase going forward, speculative orders remain numerous, and market conditions are weak. To strengthen tolerance to fluctuating market conditions, we aim to alleviate disparities between the timing of transportation contracts and charter contract periods. In fiscal 2014, we took steps to increase the number of contracts that are less susceptible to short-term market volatility while at the same time cutting costs and instituting innovative measures related to freight combinations and vessel allocation to reduce ballast passage. In this way, we worked to improve earnings.

Liquid Division: We aim to expand fleet size to match the scale of operations in the Liquid Division. Participating in all stages of the value chain, we will pursue stable earnings increases over the long term while also entering into new fields. The falling crude oil prices during fiscal 2014 resulted in higher demand for oil. The LNG carrier business performed well, supported by long-term contracts capable of generating stable earnings, and we launched shuttle tankers; floating production, storage, and offloading (FPSO) facilities; and drill ships in the offshore business.

Car Carrier Division: We will respond to the shift toward local production and local consumption and steadily allocate vessels to regions with strong shipment demand. Four new ships using the latest energy-efficient technologies were completed in fiscal 2014. In the automotive logistics business, meanwhile, finished automobile logistics businesses were commenced in partnership with local companies in Mexico and Myanmar.

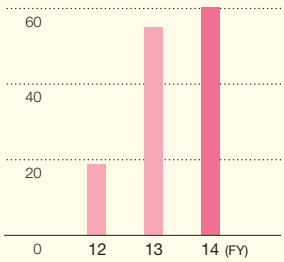
Revenues

(Billions of yen)



Recurring Profit and Loss

(Billions of yen)



Others

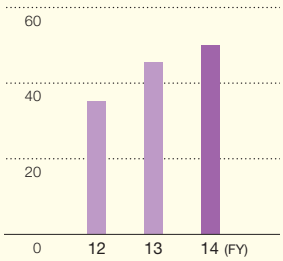
Cruises

Overview of Business and Strategies

In fiscal 2014, revenues and profit increased due to strong sales of world cruises and cruises to European destinations as well as sales of Asuka Cruises in Japan. With the objective of revising our cruises business, we have concluded an agreement to sell Crystal Cruises, Inc., our cruise subsidiary in the North American market, to Genting Hong Kong Limited, and that sale was completed in May 2015.

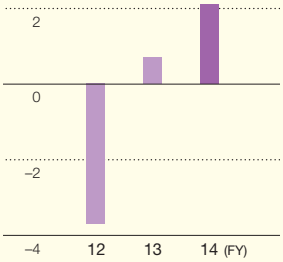
Revenues

(Billions of yen)



Recurring Profit and Loss

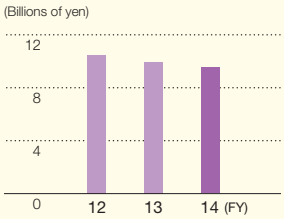
(Billions of yen)



Real Estate

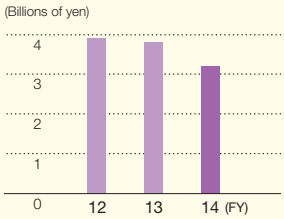
Revenues

(Billions of yen)



Recurring Profit and Loss

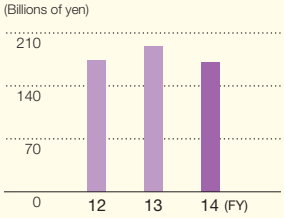
(Billions of yen)



Other Business Services

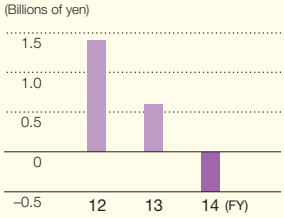
Revenues

(Billions of yen)



Recurring Profit and Loss

(Billions of yen)



Global Logistics Business

A dramatic improvement in freight rates is not anticipated. In response to this condition, we will focus efforts on continuing to restructure costs, developing the fleet appropriately, and taking multifaceted measures to increase lifting volume.

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

Liner Trade Segment

Fiscal 2014 Overview

Freight Rates Slump as Shipping Capacity Grows

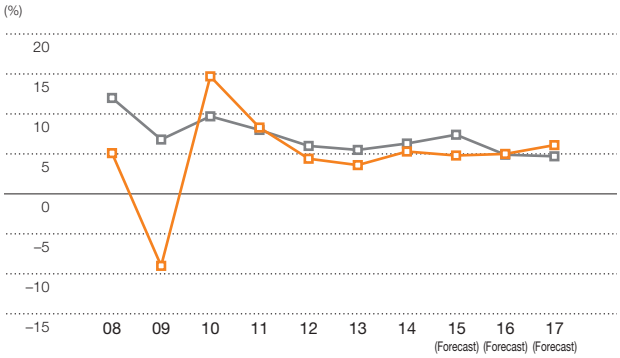
In 2014, freight rates did not reach expected levels because a 6.3% year-on-year increase in shipping capacity counteracted a 5.3% year-on-year rise in container cargo movements, which caused the supply-demand situation to remain challenging. Amid these conditions, we moved into the black for the full fiscal year by improving the profitability of each container through yield management under the EAGLE Project, rather than by simply increasing lifting volume on North American routes and European routes. While falling bunker oil prices were a positive factor, we believe our performance reflected the benefits of advancing a light-asset business model for the fleet, restructuring costs in front-line operations, and making concerted efforts to develop new customers.

Steady Progress with a Light-Asset Business Model for the Fleet

Traditionally, fleets in the shipping industry have tended to comprise owned or long-term chartered vessels, and this has created problems for the industry. As cargo movements decline, surplus shipping capacity emerges, which leads to lower freight rates and increased losses. The NYK Group's containership fleet had this type of structural problem. However, we have been advancing a light-asset business model since 2011. Presently, short-term chartered vessels with charters of less than a year account for about 30% of the containership fleet.

By advancing a light-asset business model, we aim not only to rationalise our fleet but to firmly establish as part of our business portfolio the NVOCC (Non-Vessel-Operating Common Carrier) business, which uses other companies' transport space. Therefore, to add to our direct cargo collection as a shipping company, we have strengthened cargo collection through in-house forwarding operations. In fiscal 2014, the NYK Group transported approximately 4.5 million TEUs using in-house transport space and 0.5 million TEUs using other companies' transport space, bringing the Group's overall transport volume to the medium-term management plan's target of 5.0 million TEUs ahead of schedule. The plan set targets of 4.0 million TEUs for in-house transport space and 1.0 million TEUs for other companies' transport space. However, we adjusted our trajectory so that we could focus our ocean forwarding operations on profitability rather than volume. As a result, ocean forwarding operations handled lower volumes, for which in-house transport space compensated.

Containership supply-demand gap



Percentage change in container cargo movement
Percentage change in vessel capacity
Source: Compiled by NYK Line referencing *Drewry Maritime Research 2014*

Additional Aim of the Light-asset Business Model

By having short-term chartered vessels account for a certain proportion of the fleet, we are able to keep the fleet at an appropriate size by rapidly redelivering vessels when cargo movements decline. A further benefit is that these vessels act as a "regulating valve" as containerships become bigger.

Shipping companies' focus on lowering transport costs per TEU is likely to accelerate the trend towards larger containerships. At present, 18,000 TEU containerships are the largest vessels. However, 22,000 TEU containerships are expected to enter into service in 2018. The introduction of such ultra-large containerships to European routes may very well trigger a redeployment chain

reaction. In this scenario, European routes' large containerships would redeploy to North American routes, causing North American routes' medium-sized containerships to redeploy to intra-Asia routes.

The NYK Group is advancing a light-asset business model for its fleet of small containerships, which it mainly deploys to intra-Asia routes. Consequently, even if we have to deploy owned vessels from North American routes to intra-Asia routes, we can redeliver the short-term chartered vessels operating on intra-Asia routes. Immediately after such redeployment, owned or long-term chartered vessels as a percentage of the fleet would rise, but we believe this would be an acceptable profile at that point.

In this way, a light-asset business model will enable shipping capacity adjustment to reflect cargo movements while increasingly acting as a "regulating valve" as larger containerships enter into service.

Fiscal 2015 Strategy

Continue to Increase Revenues and Earnings

We expect worldwide container shipping capacity to rise 6% year on year in 2014. Year-on-year capacity growth is likely to peak at 7% in 2015 and stabilise around 5% from 2016 onward.

Meanwhile, we anticipate that cargo movements will grow at a slightly faster pace than shipping capacity, closing the supply-demand gap steadily. Despite this trend, shipping capacity over-supply will persist, making a dramatic improvement in freight rates unlikely. In response to these conditions, we will focus efforts on continuing to restructure costs, developing the fleet appropriately, and taking multifaceted measures to increase lifting volume.

As for ocean forwarding, we aim to reach 1.0 million TEUs per year as soon as possible and continue growing revenues and earnings from fiscal 2015 onward.

Fleet Development for 2016 Onward

The introduction of large containerships is inevitable.
The NYK Group reached time-charter agreements for 10 new 14,000 TEU containerships, which it will introduce to European routes steadily from 2016 onward. Around that time, because the expanded Panama Canal will accommodate 12,000 to 13,000 TEU containerships, we expect to mainly redeploy to North American routes large containerships currently operating on European routes. As for intra-Asia routes, we will increase transport volume mainly through short-term chartered vessels introduced in response to current market conditions. Also, we will prepare for the redeployment of Panamax containerships to intra-Asia routes after the widening of the Panama Canal.

Terminal Division

Fiscal 2014 Overview

Synergies with the Liner Trade Segment Boost Handling Volume

For business result disclosures, we have been including the Terminal Division's business results in those of the liner trade segment since fiscal 2013. Partly due to synergies with the Container Shipping Division, the handling volume of container terminals that the NYK Group operates had been rising steadily each year. In 2014, handling volume grew 6% year on year to roughly 8 million TEUs.

Further, to rebuild our business portfolio, we sold a minority share of a subsidiary that manages container terminal operations in North America to infrastructure investment fund Macquarie Infrastructure Partners III, L.P.

Fiscal 2015 Strategy

Consider Investment Carefully from the Viewpoint of Users

Our strategy of pursuing synergies with the Container Shipping Division will remain unchanged. Also, we will firmly maintain a stance of making investment decisions carefully based on the terminal users' viewpoint and demand analysis and steadily cementing the foundations of the Terminal Division as a stable business.

Given that hub ports will become more important than ever as larger vessels are introduced and more efficient vessel deployment is needed, we want to actively explore the approach the Terminal Division should adopt as a business that belongs to a shipping company.

In addition, we intend to focus on terminals that require development, mainly in Vietnam, Indonesia, and other parts of Asia.

Logistics Segment

Fiscal 2014 Overview

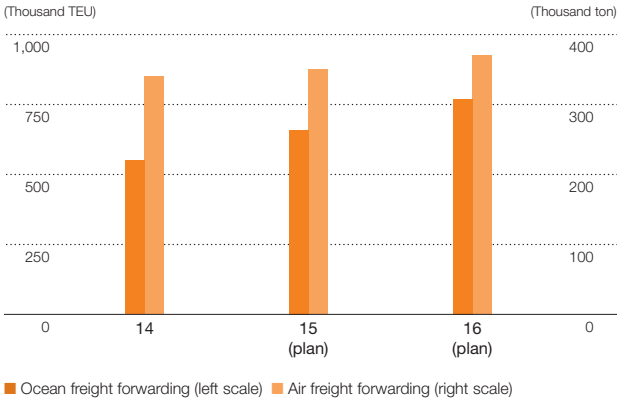
Higher Handling Volume Grows Revenues and Earnings

While the ocean cargo handling volume of the ocean forwarding business remained at approximately 550,000 TEUs, the air cargo handling volume of the air forwarding business grew to 340,000 tons, surpassing that of the previous fiscal year. As a result, in fiscal 2014, the logistics segment grew revenues and earnings for the second consecutive year.

The air forwarding business typically has a higher profit margin than contract logistics and the ocean forwarding business. Therefore, an approach that focuses management resources on the air forwarding business may seem reasonable. However, the development of a viable business that provides global logistics services catering to customers' diverse needs would not be possible if the logistics segment's foundations were skewed towards air forwarding. Similarly, if we only developed in specific regions or countries, we could not be a provider of global services. The ability to cater to diverse needs in customers' supply chains and offer multiple services is critical.

Accordingly, the overriding goal of Yusen Logistics Co. Ltd., one of the NYK Group's core companies, is to extend and balance its business lines and geographical coverage. A breakdown of sales by type and region testifies to the logistics segment's balanced operations. Contract logistics represents 40%, ocean forwarding 30%, and air forwarding 30% of sales, while Japan, eastern Asia, southern Asia, North America, and Europe each account for sales of ¥100 billion. Rather than existing separately, ocean forwarding, air forwarding, and contract logistics generate mutual synergies, which are extending the scope of the segment's business.

Ocean and Air Forwarding: Numerical Targets



Fiscal 2015 Strategy

Focus on Increasing Seaborne Cargo

Yusen Logistics Co., Ltd., is following a three-year medium-term management plan ending in fiscal 2016. This plan calls for 770,000 TEUs of seaborne cargo, 370,000 tons of air cargo, operating revenue of ¥530.0 billion, and operating income of ¥12.0 billion. While the air cargo target is reachable, measures are needed to boost seaborne cargo handling volume.

Until now, we have grown handling volume by winning long-term contracts from major customers. Recently, however, profitability has been a problem. In response, we are adopting a more flexible, multifaceted approach to customer groups and contract types, including contract periods. Although this approach is very time consuming, we will adhere to it steadfastly to increase handling volume. At the same time, we will redouble efforts to become a forwarding business with even more influence on shipping companies.

Air Cargo Transportation Segment

Maintaining operations based on 13 aircraft, we intend to entrench profitability by continuing efficient deployment centred on the latest B747-8F aircraft. We will gradually widen the scope and increase the speed of coordination among sales, operations, and maintenance divisions. At the same time, we will pursue the flexibility and agility that will allow us to expand and improve a menu of services tailored to customer needs. In all of these efforts, operational safety will be paramount.

Hitoshi Oshika
In charge of Air Freighter Business Group
Director, Corporate Officer

Fiscal 2014 Overview

Captures Gradually Recovering Cargo Movements, Moves into the Black

In the third quarter of fiscal 2014, the air cargo transportation segment moved into the black, and it posted profit for the full fiscal year. Full-year air cargo exports from Japan, which slumped to 800,000 tons following the global recession, neared 1 million tons. This turnaround was attributable to a rapid recovery in cargo movements centred on the United States from around autumn 2014, reflecting the solidness of the U.S. economy and emergency transport demand stemming from disruption at port facilities on the west coast of the United States. Amid these conditions, Nippon Cargo Airlines Co., Ltd. (NCA), catered effectively to customer needs while reducing costs vigorously.

Also, we renewed aircraft steadily. In fiscal 2014, we took delivery of three of the latest B747-8F aircraft, giving us eight of these aircraft in total. Meanwhile, we leased out five of our 10 aged B747-400F aircraft. As a result, we currently operate a total of 13 aircraft.

As well as renewing aircraft, we captured new cargo through creative deployment that enabled us to provide additional flights and charter flights, which catered flexibly to customer needs. One example of such initiatives was the introduction of a service calling at Dallas, to cater to temporary transport needs for material and equipment related to the construction of shale oil and gas infrastructure.

In addition, we increased aircraft operating round-the-world services, which go from Japan to the United States and then to Europe before returning to Japan. The operation of separate services from Japan to Europe and from Japan to the United States causes imbalances between cargo volumes on outward and return legs, leading unavoidably to large amounts of unused transport space. Round-the-world services enable us to reduce unused transport space. Nevertheless, we always have unused transport space on the leg from North America to Europe. Therefore, we sell this transport space to airlines as well as forwarders.

Also, to reduce unused transport space on services from North America to Japan, we added calls at intermediate airports, enabling us to reduce costs per unit of transport space. A sense of crisis spurred a local sales office's personnel to propose this initiative after they had conducted independent marketing. This initiative is very encouraging because it shows that an innovative mindset has reached front-line operations.

Fiscal 2015 Strategy

Continue Capturing Demand in a Steady Market

Given the lack of causes for pessimism in the U.S. economy, we expect demand for air cargo exports from Japan—not including emergency transport demand stemming from disruption at port facilities—to remain at least at the previous fiscal year's level.

Maintaining operations based on 13 aircraft, we intend to entrench profitability by continuing efficient deployment centred on the latest B747-8F aircraft. We will gradually widen the scope and increase the speed of coordination among sales, operations, and maintenance divisions. At the same time, we will pursue the flexibility and agility that will allow us to expand and improve a menu of services tailored to customer needs. In all of these efforts, operational safety will be paramount.

A new area of interest is the emergency transport of aircraft engines. Because the cargo holds of passenger aircraft are unable to accommodate large engines, this is an area in which we can capitalise on the advantages of our air freighters. Also, Nippon Cargo Airlines Co., Ltd. (NCA), currently operates its own warehouse at Narita Airport. However, because management of in-house cargo requires only a limited number of operating hours, we want to explore the possibility of collaborating with the operators of other free warehouses at the airport to attract cargo from other companies. In such initiatives, NCA would not seek increased efficiency independently but would work to raise efficiency in conjunction with airport companies.

Dry Bulk Carrier Division

In the current fiscal year, we will be patient because business conditions discourage unbridled optimism. For the time being, even if it means losing an opportunity to benefit from an unexpected improvement, for the time being we will reinforce our ability to withstand market fluctuations to avoid significant losses if conditions deteriorate further.

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

Fiscal 2014 Overview

Business Conditions

With regard to demand, China's iron ore imports rose approximately 14%, or 150 million tons, year on year, to 930 million tons in 2014, while coal imports decreased 15% year on year, or 40 million tons, to 230 million tons. Because iron ore transport volume is higher than that of coal, overall dry bulk transport volume increased year on year. Meanwhile, shipping-capacity supply grew only about 5% year on year because the NYK Group and other major operators gave priority to correcting oversupply and curbed orders for delivery of newbuilt tonnage. Consequently, signs emerged of improvement in the supply-demand gap, which has been a concern for the past several years.

Contrary to expectations, however, market conditions deteriorated. This decrease reflects bearishness resulting from clear indications that China's economic growth is softening and a significant increase in the number of vessels that will be delivered from 2015 onward.

Fiscal 2014 confirmed to us that a modest improvement in the supply-demand gap is insufficient to support an upturn in the market.

Progress under the Medium-Term Management Plan

The medium-term management plan calls on us to build a business model able to withstand market fluctuations by resolving the mismatch between revenues, which correspond to cargo contract periods, and costs, which correspond to charter contract periods. Specifically, we aim to use owned and long-term chartered vessels for long-term cargo contracts and short-term chartered vessels for short-term cargo contracts.

In fiscal 2014, most customers favoured short-term cargo contracts, which allowed them to benefit from the prevailing cheap freight rates market. In response, we sought to resolve the mismatch between cargo contracts and charter contracts by reducing owned and long-term chartered vessels through restructuring. This measure entailed selling or scrapping vessels and redelivering long-term chartered vessels before the end of charter periods. Despite these efforts, the level of owned and long-term chartered Panamax and Capesize bulk carriers remained high relative to long-term cargo contracts. As a result, we fell victim to the deteriorating market conditions, and revenues were lacklustre again. On the other hand, thanks to the balance between their cargo contracts and charter contracts, Handymax and Handysize bulk carriers were able to generate steady earnings even as freight rates fell.

Market Projection Model

From fiscal 2014, we began enhancing the precision of market projections by gathering and analysing a wide range of information. Through these efforts, we are preparing short-term and long-term projections.

Our short-term projections indicate whether the market will trend upward or downward by forecasting cargo movements (demand) and vessel numbers (supply) for the coming week or month based on market records and satellite data. We used these projections to realise effective vessel deployment and profitability that is above the market average. As their accuracy increases, short-term projections are helping us to steadily raise profitability.

Differing from short-term projections, long-term projections provide a guide for ordering new vessels and acquiring long-term cargo contracts. To calculate a leading indicator of market conditions, we combine data on vessel numbers and cargo movements with data on past supply-demand balance, which then enables us to analyse the correlation between shipping-capacity supply and demand and market conditions. Moreover, through a process of trial and error, we are factoring in other variables, such as financial market trends and commodity prices.

Fiscal 2015 Strategy

Market Outlook

Trends in China remain the decisive factor determining the supply-demand situation. We expect China's crude steel production to peak in 2015. Nevertheless, China's iron ore imports will probably grow as imported iron ore continues to replace domestic iron ore due to quality and price considerations. However, iron ore imports are unlikely to revisit past year-on-year growth levels of 10% or more.

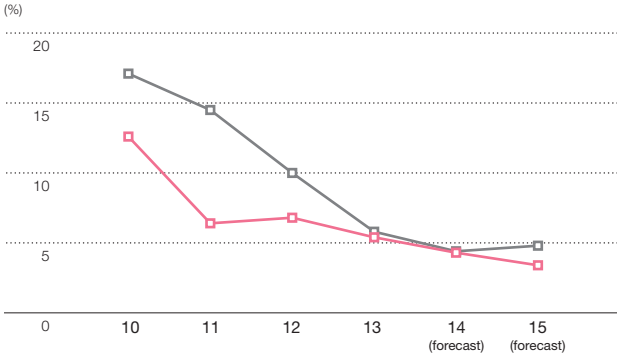
As for supply, a considerable number of speculative orders remain for new vessels scheduled to be delivered in 2015 and 2016. However, the delivery of newbuilt tonnage is likely to be lower than initially anticipated because, in light of current market conditions, shipping companies are converting vessel types to tankers for which markets are stable and postponing vessel completion. Furthermore, shipping companies seem to be stepping up the pace of vessel scrapping. As of March 2015, more vessels were scrapped than the total for 2014, which saw 25 vessels scrapped. Also, a trend towards temporarily suspending the operation of vessels by laying them up is emerging.

As a result, even though we cannot expect demand growth, the supply-demand gap is closing. Nevertheless, the situation remains unpredictable.

Tasks and Strategies

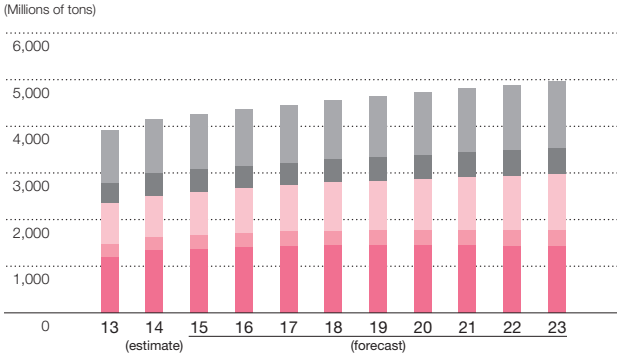
In the current fiscal year, we will be patient because business conditions discourage unbridled optimism. Conditions are particularly tough for shipping companies specialising in dry bulk, some of which are likely to be competing for survival. Amid these conditions, the NYK Group has a better ability to last in a test of endurance because it has a diverse business portfolio, enabling divisions to complement each other's earnings. However, to further strengthen our ability to withstand market fluctuations, we aim to optimise the size of the dry bulk carrier fleet by continuing to sell and scrap surplus vessels and redelivering long-term chartered vessels before the end of charter periods. These measures will align the contract periods of cargos and vessels. Other measures to win against fierce competition will include using highly accurate market projections to realise profitability that is above the market average and stepping up the pace of efforts to reduce costs through fuel saving. At this point, expanding business lines with our sights set on a freight rate hike would incur significant risk. Even if it means losing an opportunity to benefit from an unexpected improvement, for the time being we will reinforce our ability to withstand market fluctuations to avoid significant losses if conditions deteriorate further.

Increase in Seaborne Trade and Fleet Tonnage



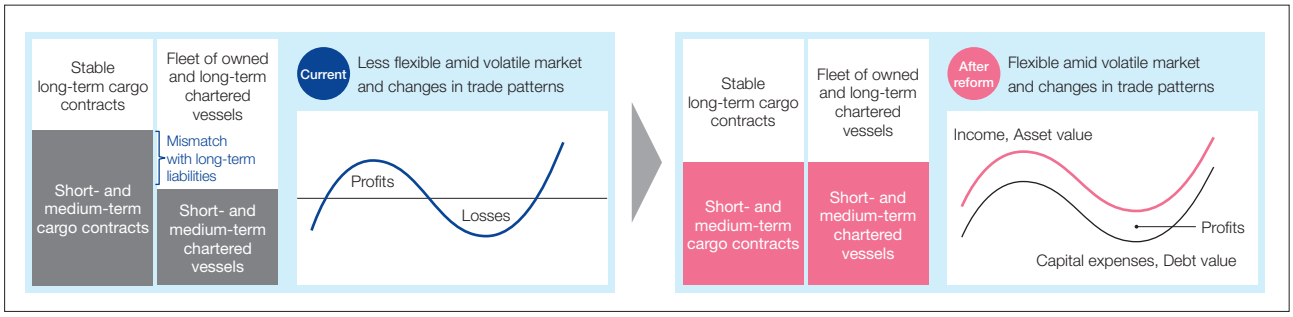
Source: Compiled by NYK Line referring Clarkson's *Dry Bulk Trade Outlook* (February, 2015)

Volume and Forecast of Dry Bulk Seaborne Trade



Source: After 2013: NYK Research Group

Towards a Business Model Less Susceptible to Market Fluctuation



Liquid Division

Vessels engaged in the transport of energy resources involve extremely high risk because they carry dangerous substances. The development of relationships of strong trust with customers based on rigorously safe operations has enabled us to accumulate earnings steadily. Going forward, we will continue painstaking efforts to ensure safe operations.

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

Fiscal 2014 Overview

Crude Oil Transport

Business conditions for crude oil carriers changed dramatically due to a large drop in crude oil prices.

After reaching US$110 per barrel at one stage, the WTI crude oil price fell sharply from autumn 2014 to less than half of this price. Speculators who thought the price would soon rebound rushed to spot buy crude oil while its price was dropping. As a result, demand for crude oil carriers rose suddenly due to stockpiling, which supported a solid increase in market conditions for crude oil carriers. Because we had transport contracts concluded when markets were sluggish, business results did not completely reflect the benefit of the freight rate rise. However, we expect the effect will become apparent in fiscal 2015 profitability. Nevertheless, we will continue to pursue the medium-term management plan's target of downsizing from 77 crude oil carriers at the end of fiscal 2013 to 70 crude carriers by fiscal 2018. Although we concluded long-term charter contracts for two VLCCs, this was part of fleet renewal investment.

LPG Transport and Product Transport

Until now, the LPG market has mainly comprised LPG produced in the Middle East. The addition of LPG produced in North America through the extraction of shale gas has led to price elasticity. Lower prices increased purchases and the scale of the market rapidly. Consequently, LPG carrier freight rates more than doubled. Further, the resulting ripple effect lifted product tanker freight rates as cheaper energy and raw material procurement made petrochemical products more cost-competitive.

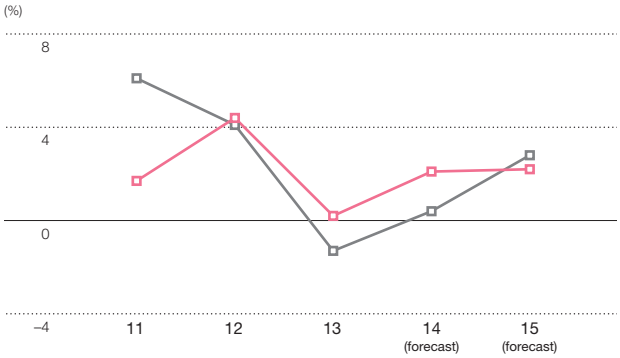
For many years, the NYK Group has been developing an LPG carrier fleet and strengthening LPG transport capabilities with Astomos Energy Corporation, one of the world's foremost LPG operating companies and one of the few companies that supplies LPG not only to Japan but worldwide. We ordered a new very large gas carrier (VLGC) in February 2015 and concluded a five-year time-charter contract beginning from May 2017.

Meanwhile, we sold one LPG carrier that Astomos Energy had been chartering. Generally, it is difficult to accept vessel sales when the market is booming. However, Astomos Energy appreciated that we wanted to use the capital from the sale to order a more competitive new vessel and provide an even better service. This is a good example of the strong trust between the NYK Group and its customers.

LNG Transport

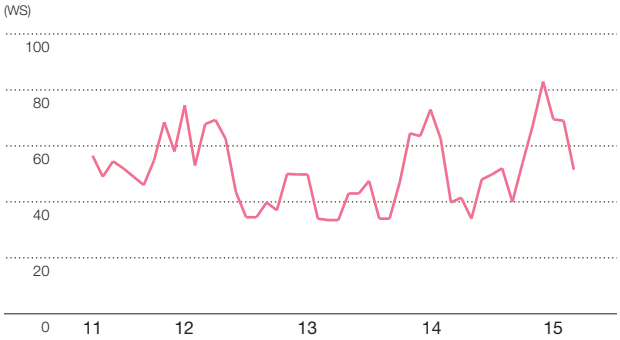
Freight rates for LNG carriers were unfavourable because signs of shipping-capacity oversupply coincided with a slump in LNG

Increase in Seaborne Trade and Fleet Tonnage (Sum of Crude Oil and Oil Product Tankers)



Oil seaborne trade Oil tanker fleet tonnage
Source: Compiled by NYK Line referring Clarkson Oil & Tanker Trades Outlook (March, 2015)

Oil Tanker Market (world scale)



demand due to falling crude oil prices. However, the effect on the energy transport business was limited because long-term contracts account for the majority of operations. In fiscal 2014, we continued to accumulate long-term contracts centred on shale oil and gas projects. For example, we concluded time-charter contracts for the Cameron LNG Project in the United States with Mitsui & Co. Ltd.

This project will produce 12 million tons of LNG annually, of which Mitsui will receive 4 million tons. The NYK Group and Mitsui concluded charter contracts in September 2014 and January 2015, each for one LNG carrier. Following their delivery in 2018, the LNG carriers will transport the Cameron LNG Project's LNG under the NYK Group's ship management for up to 25 years.

Further, setting our sights on the increasing penetration of LNG fuel, we ordered an LNG bunkering vessel and decided to participate in an LNG fuel sales business in Europe in July 2014. Scheduled for delivery in 2016, the LNG bunkering vessel will be based in Belgium.

Contracts for future LNG transport at a glance

	Number of vessels	Delivery	LNG supply source
Time-charter contract with Petronet LNG Limited for LNG carrier	1	2016	Gorgon LNG Project, Australia
Time-charter contracts with Gas Natural SDG S.A. for LNG carriers	2	2016	The United States
Time-charter contract with Tokyo Gas Co. Ltd. for LNG carrier	1	2017	Cove Point LNG Project, the United States
Time-charter contract with Tokyo Electric Power Company Incorporated for LNG carrier	1	2017	Wheatstone LNG Project, Australia
Time-charter contracts with Mitsui & Co. Ltd. for LNG carriers	2	2018	Cameron LNG Project, the United States
Time-charter contracts with Mitsubishi Corporation for LNG carriers	2	2018	Cameron LNG Project, the United States

Fiscal 2015 Strategy

Rigorously Safe Operations

Vessels engaged in the transport of energy resources involve extremely high risk because they carry dangerous substances. An accident would cause great damage. We would have to suspend operations for a long period, which would severely disrupt customers' operations. Moreover, there would be a negative impact on the environment, we would lose opportunity gains, and incur significant repair costs. The development of relationships of strong trust with customers based on rigorously safe operations has enabled us to accumulate earnings steadily. Going forward, we will continue painstaking efforts to ensure safe operations.

Crude Oil Transport

Favourable market conditions for crude oil carriers are likely to continue for the time being. We expect the supply-demand situation to stabilise somewhat because there will be limited delivery of newbuilt tonnage in 2015. However, due to the slumping market for dry bulk carriers, some companies are converting newly ordered dry bulk carriers into crude carriers. We will closely monitor the impact of this trend.

LPG Transport and Product Transport

Approximately 200 LPG carriers currently operate worldwide and transport about 60 million tons of LPG per year. This figure is estimated to reach 80 million tons over the coming two years. Therefore, the energy transport business will gradually increase its fleet size in step with a growing market. Similarly, our petrochemical product transport will cater to customer needs centred on large-range-Ⅱ product tankers and medium-range product tankers.

LNG Transport

The number of LNG carriers operating worldwide is expected to rise from the current level of roughly 380 to 550 by 2020. At present, we own jointly, manage, or operate about 70 LNG carriers. By the end of fiscal 2018, we plan to expand this fleet to more than 100 LNG carriers to cater to growing demand. We have already prepared plans to increase the fleet to 90 LNG carriers, and it is only a matter of time before the fleet reaches 100 LNG carriers. However, we will not pursue numbers recklessly. Our strategy of maintaining service quality as a basic premise while accumulating contracts remains unchanged. The acquisition of equity interests in upstream and midstream areas of value chains has broadened the scope of our business. Therefore, we will take advantage of the expertise gained through these acquisitions to continue pursuing stable, economical energy transport.

As for the LNG fuel sales business, which we decided to participate in last year, we want to accumulate expertise with our partners while monitoring results in Europe with a view to developing businesses in the United States and countries in Asia.

Offshore Business

As we pursue our target of achieving recurring profit of ¥10 billion in fiscal 2020, we will not only develop our current portfolio but also consider M&As to acquire new projects, if they seem likely to contribute to earnings. The offshore business operates on a long-term trajectory, and we believe major opportunities will come again.

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

Fiscal 2014 Overview

Business Portfolio

The significant fall in crude oil prices over the past year has dramatically changed conditions in the offshore business worldwide. For example, in the North Sea a trend toward postponing offshore oil field development has begun emerging. However, because most of our projects are based on long-term contracts, this trend did not affect profitability immediately. Nevertheless, we are slightly concerned about whether new projects will continue emerging as steadily as they have in the past.

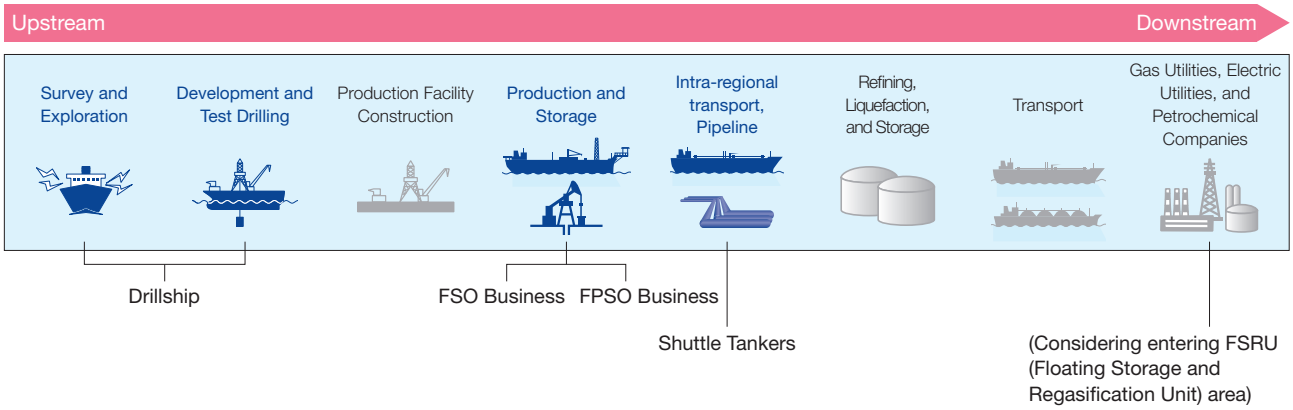
Knutsen NYK Offshore Tankers AS (KNOT), which is responsible for the NYK Group's shuttle tanker business, has concluded a series of long-term charter contracts with Repsol Sinopec Brasil S.A., a subsidiary of BG Group plc. All of these contracts are for shuttle tankers engaged in the shuttle transport of crude oil produced off Brazil. KNOT currently has 31 vessels either in operation or on order, and the company is steadily increasing its business lines centred on crude oil transport from offshore oil fields in the North Sea and off Brazil.

As for short-term shuttle transport contracts, however, offshore oil fields that had become unprofitable due to falling crude oil prices have closed, lowering demand for shuttle tankers and worsening their utilization rates. Fortunately, because shuttle tankers are in effect small crude carriers, we have the option of benefiting from a pickup in market conditions for crude carriers by switching shuttle tankers to use as general crude carriers for the spot market.

Knowledge, Expertise, and Skills

Although our offshore business has broadened its operational base and moved into the black, it still has a long way to go. As we once did for the LNG transport business, acquiring frontline knowledge and expertise steadily is important. Therefore, we are fostering technical personnel. We have dispatched several dozen technical personnel, including navigation officers and engineers, to such frontline activities as EPC (Engineering, Procurement, and Construction) projects for FPSO (Floating Production, Storage, and Offloading) units and FSO (Floating Storage and Offloading) units off Brazil, onboard operations of KNOT's shuttle tankers, and modification work at shipyards in Poland. By acquiring new skills and combining them with our long-standing competence in shipping, we will achieve differentiation that will enable us to win out against competition.

Offshore Business Value Chain



Fiscal 2015 Strategy

Business Portfolio

The development of offshore oil and gas fields will continue advancing without a doubt. Although the pace of development has slackened somewhat due to falling crude oil prices, we are not panicking. We have been in the black since fiscal 2013, and we have projects beginning from 2016 onward. In light of market conditions, there are certain projects that will have to decelerate. However, the offshore business operates on a long-term trajectory, and we believe major opportunities will come again.

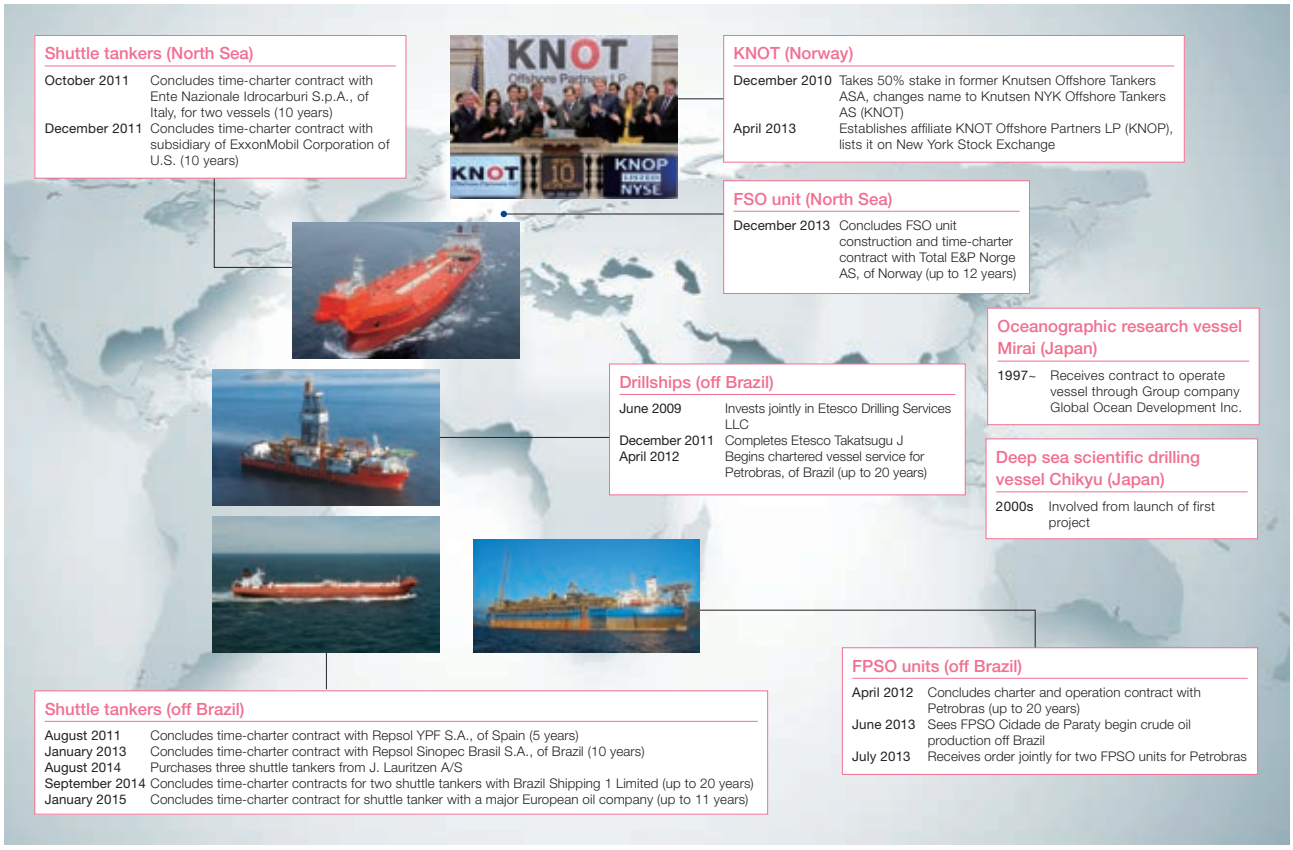
Drillships and FPSO units are highly profitable, and their earnings bases are stable. Further, KNOT's shuttle tankers face comparatively challenging business conditions, but even in the worst case scenario we do not envisage moving into the red.

As we pursue our target of achieving recurring profit of ¥10 billion in fiscal 2020, we will not only develop our current portfolio but also consider M&As to acquire new projects if they seem likely to contribute to earnings. We have adopted this stance because the crude oil price and the exchange rate have lowered estimates of the corporate value of some companies engaged in offshore businesses. We will actively consider M&As with companies that share our corporate spirit and approach to business and that can heighten our competitiveness through complementary relationships.

Knowledge, Expertise, and Skills

Reading the reports regularly sent by technical personnel who we have dispatched to overseas operational sites is reassuring because the reports give us a real sense that these personnel are immersed in their environments and are accumulating knowledge. We anticipate the expertise and other intangible assets accumulated through this experience will establish a robust business that is able to succeed in competitive conditions. In fiscal 2015, we plan to hold a meeting of technical personnel dispatched overseas to discuss business opportunities and models under the theme of how to contribute to the NYK Group, society, and Japan. Over the coming two years, we will cement the foundations that will enable us to prepare a major growth strategy in future.

The NYK Group's Offshore Business



Car Carrier Division

Even as automotive production changes structurally, transporting customers' products safely and reliably will remain our mission. We aim to continue giving first priority to transport quality and expanding and improving the business one step at a time. To this end, we will establish systems that integrate and globalise the transport of automobiles from production regions to consumption regions over land and by sea.

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

Fiscal 2014 Overview

Grows Ocean Transport by Catering to Structural Change Flexibly

In accordance with the outlook of the medium-term management plan, in 2014 local production for local consumption advanced, and exports of finished automobiles from Japan decreased 4% year on year, to 4.04 million units. By focusing on services likely to see transport demand—such as the transport of automobiles between countries outside Japan—the car transport business was able to grow ocean transport from 3.60 million units to 3.65 million. For example, in response to the many plants automotive manufacturers are establishing in Mexico, we established a route linking the country with East Asia via North America's west coast.

Of the six new vessels we ordered, we have taken delivery of four and will take delivery of the remaining two in or after summer 2015. All of these are car carriers, each having a capacity of 7,000 units, capable of passing through the widened Panama Canal, and equipped with from the latest energy-saving technology. We will maintain the fleet at an optimal size that reflects cargo movements.

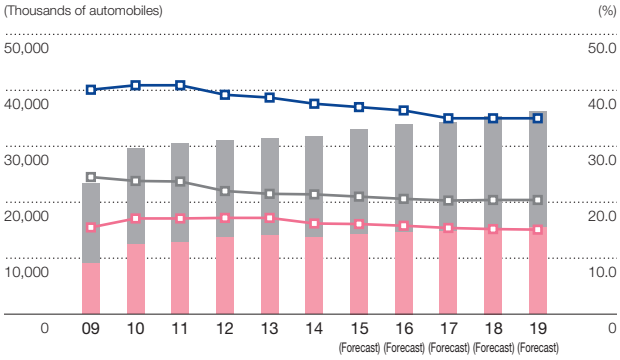
One of the World's Most Competitive Auto Logistics Businesses

Worldwide, approximately 80 million automobiles are manufactured per year. This is forecast to surpass 100 million automobiles by 2018 or 2019. However, because local production for local consumption is increasing, shipping cargo movements are expected to grow more gradually than automotive unit production. Traditionally, long-distance ocean transport has been the NYK Group's forte. In response to the increasing demand for intra-regional ocean transport and inland transport using trucks and trains, we are pursuing value-added ocean transport and broadening the scope of our services.

In particular, we have been concentrating efforts on the automotive logistics business. Based on RORO terminals established in various countries, we are providing and developing such value-added services as inland transport and pre-delivery inspection. As a result, we have created one of the world's most competitive automotive logistics businesses. In 2008, we had 19 automotive logistics bases including RORO terminals. As of 2014, we had 37 bases, and our RORO terminals, inland transport, and intra-regional transport handled 12.30 million units. In the past year, we have launched inland transport services in Mexico, Myanmar, and Kazakhstan.

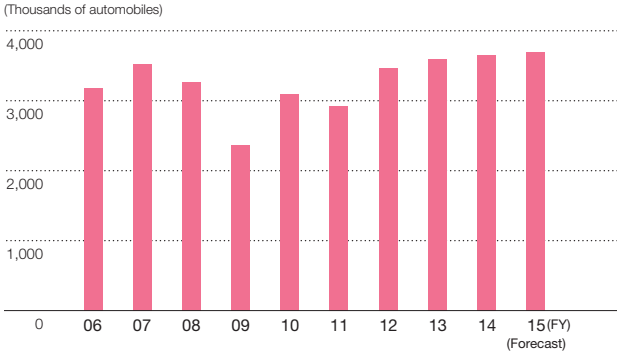
For details about the auto logistics business, please see page 32.

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



Unique Service Evolving from Reliable Transport Quality

New hydrogen-fuelled automobiles are beginning to enter the market. The NYK Group's mission is to prepare the technology and facilities to cater to this trend and establish capabilities to transport these automobiles safely and reliably. As a risk management measure onboard car carriers, we are installing special sensors that detect vibration, temperature, and humidity, as well as systems that allow us to monitor for abnormalities from aboard and onshore. Also, we are exploring the building of systems to prevent accidents in the transport of construction machinery, heavy vehicles, and high-speed railcars—an area we want to expand. These efforts will create a unique service that further differentiates the NYK Group and helps increase its competitiveness.

Fiscal 2015 Strategy

Capture Growing Demand for Finished Automobile Transport by Giving First Priority to Quality

Even as automotive production changes structurally, transporting customers' products safely and reliably will remain our mission. We aim to continue giving first priority to transport quality and expanding and improving the business one step at a time. To this end, we will establish systems that integrate and globalise the transport of automobiles from production regions to consumption regions over land and by sea.

As an initiative to cater to customer needs, in fiscal 2015 we plan to build an IT service that enables customers to track cargo and check its transport status in real time. Moreover, we will cater to not only finished automobiles but also such cargo as construction machinery, heavy vehicles, and high-speed railcars.

Regarding development of the fleet, in step with cargo movements we intend to expand it to 125 vessels by the end of fiscal 2018. However, given the structural shift towards local production for local consumption, we want to take time to carefully analyse optimal vessel types and timing in relation to the introduction of new vessels.

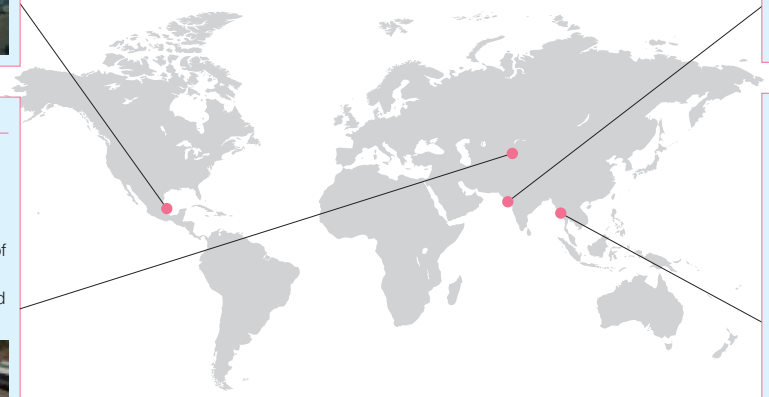
In a trend similar to the motorisation Japan experienced during its period of rapid economic growth, emerging countries are experiencing marked economic growth and seeing demand for automobiles rise year by year. Therefore, we expect demand for the transport of automobiles to become ever more widespread. At the same time, increasingly globalised production is leading to the transport of automobiles from emerging countries to consumption regions. The NYK Group is accurately identifying customer needs and developing its operations accordingly. We will continue working with major local partners to provide services rooted in local regions and advance strategic initiatives to expand and enhance bases.

Mexico

2014: Takes stake in local subsidiary; begins providing total logistics covering inland logistics through to ocean transport

Kazakhstan

2014: Makes country's largest finished automobile logistics company a wholly owned subsidiary; begins providing services that include operation of RORO terminals, inland transport, pre-delivery inspection, and customs clearance



India

2015: Begins operating RORO terminal at Pipavav Port; manages dedicated stockyard for finished automobiles; starts providing vehicle tracking services based on radio frequency identification, pre-delivery inspection, and other value-added services

Myanmar

2015: Establishes comprehensive logistics company; begins providing such value-added services as inland transport of finished automobiles by car carrier trailers (trucks), vehicle storage, pre-delivery inspection, and customs clearance

Cruises Segment

Although the cruises segment now has only one cruise ship, *Asuka II*, we aim to entrench it as a business with stable earnings that cover investment.

Kenji Mizushima
Representative Director, Senior Managing Corporate Officer
Chief Financial Officer
Oversees Cruise Enterprise Group

Fiscal 2014 Overview

Overcomes Challenging Period to Grow Revenues and Earnings for Second Consecutive Fiscal Year

Susceptible to the economic climate, the cruises segment has faced such setbacks as the global recession and the Great East Japan Earthquake. Nevertheless, we have garnered customer endorsement through creative marketing and sales techniques. Thanks to these initiatives and the hard work of the management team and frontline personnel, in fiscal 2014 revenues and earnings grew for the second consecutive fiscal year. This was a very praiseworthy performance.

Further, in fiscal 2014 we agreed to sell Crystal Cruises, Inc., to Genting Hong Kong Limited for US$550 million, and that sale was completed in May 2015. Crystal Cruises operates a luxury cruise business mainly targeting the U.S. market. Investment to introduce new cruise ships is essential to further developing the world-leading brand power of Crystal Cruises in the U.S. market, which is expected to grow. Unfortunately, the company is not a focus for priority investment under the medium-term management plan. Therefore, as a way of heightening the corporate value of Crystal Cruises, we decided to sell it to Genting Hong Kong.

Fiscal 2015 Strategy

Stabilise Earnings and Enhance Brand Power

Although the cruises segment now has only one cruise ship, *Asuka II*, we aim to entrench it as a business with stable earnings that cover investment.

Since non-Japanese cruise lines entered Japan's market in 2013, the customer base for cruises has been broadening steadily. In this market, we are confident that the combination of Japanese hospitality, service quality, and entertainment that *Asuka II* offers gives it unrivalled brand power. We will maintain and enhance this brand power even further so that passengers who have experienced various cruise ships choose *Asuka II* repeatedly.

Furthermore, we will explore the possibility of catering to the increasing numbers of tourists visiting Japan from overseas.

Asuka II was built 25 years ago. Generally, the service life of cruise ships is between 30 years and 50 years. Consequently, the cruise ship can still contribute significantly to the segment for some time to come. However, with a view to expanding our presence in Japan's market even further, we are considering our next initiative.

ESG Review

Tireless Commitment and Evolution

This section highlights the unique initiatives that support our management strategies and drive long-term growth.

ESG Highlights

External Evaluations

The NYK Group is advancing sustainability through environmental conservation and compliance initiatives. Reflecting favourable evaluations of these initiatives, major indices have included the Group. Moreover, these indices have included us continuously for long periods. For example, over the past three years the Carbon Disclosure Project (CDP) has identified us as an outstandingly progressive company with respect to our disclosure of information related to climate change, and has thus included us in its Climate Disclosure Leadership Index (CDLI). Further, the Dow Jones Sustainability Indices have included the NYK Group for 12 consecutive years, and we have also ranked in the FTSE4Good Index for 12 straight years.

In the investor relations area, in fiscal 2013 we became the first shipping company to be designated a Nadeshiko Brand, and we received this designation again in fiscal 2014. Also, the Securities Analysts Association of Japan selected the NYK Group as the winner of the industrial shipping sector and second in the industrial transportation sector of the 2014 Awards for Excellence in Corporate Disclosure.

As for technological innovations, in recognition of the leading-edge energy-saving technology of our environment-friendly tugboat, *Tsubasa*, we received the 2013 Marine Engineering of the Year award from the Japan Institute of Marine Engineering. In addition, in fiscal 2014 the Japan Institute of Navigation decided to present NYK and the Monohakobi Technology Institute (MTI) with an achievement award for optimising vessel operations through the development and application of performance management systems, also known as ship information management systems (SIMSs).

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

FTSE4Good

CDP CLIMATE DISCLOSURE LEADER 2014

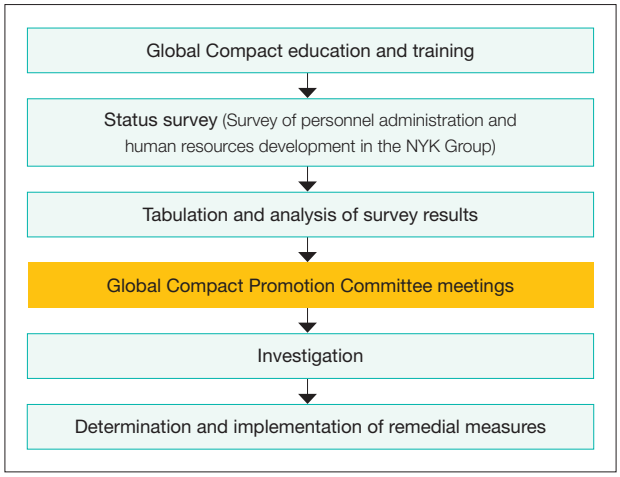
NADESHIKO BRAND 2015

MS-SRI

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 & Fair Trade Promotion Group leads initiatives for the anti-corruption area.

Global Compact Promotion Process



Environment

Completes Next-Generation Car Carrier That Reduces CO_2 Emissions by 30%

In May 2014, we completed construction of Japan's first post-Panamax car carrier, *Aries Leader*. The new vessel promises to reduce CO_2 emissions per finished automobile transported by 30% compared with the previous vessel type.

Accelerates Changeover to LNG Fuel

In March 2014, we decided to build two LNG-fuelled car carriers, which will be the world's first such vessels. In June of the same year, we decided to build an LNG bunkering vessel and participate in an LNG fuel sales business in Europe.

Advances Ballast Water Management

In October 2014, Group company Nippon Yuka Kogyo Co. Ltd. received approval from Japan's Ministry of Land, Infrastructure, Transport and Tourism for the SKY-System® ballast water management system that the company developed with Katayama Chemical Inc.

Launches Big Data Initiative to Increase Safety and Energy Saving

We have begun an initiative focused on making effective use of big data to reduce and prevent engine breakdowns in vessel operations, with a view to lowering repair costs, minimising lost time, and realising cargo transport that is even safer and more reliable. We expect this initiative to become another source of differentiation.

Safety

Initiates New POWER+ Accident Reduction Activities

As an addition to its wide variety of quality assurance activities, the NYK Group began POWER+ as a new activity aimed at reducing accidents caused by human error.

Continues Near Miss 3000 Activities

Under the slogan DEVIL Hunting!, since 2006 the NYK Group has been working with partner shipowners and ship-management companies to advance activities that are based on Heinrich's Law and which seek to nip accidents in the bud by identifying and dealing with the often overlooked precursors to accidents, or 'devils'.

Human Capital

Hosts the Global NYK/YLK Week

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

Celebrates 25th Anniversary of Manning Company in the Philippines

On December 18, 2014, we held a ceremony in Manila to celebrate the 25th anniversary of the establishment of Group company NYK-Fil Ship Management, Inc., and the completion of a complete renovation of its head office.

Social Contribution Activities

Launches NYK's Volunteer Point System

To mark the 10th anniversary of the establishment of the Corporate Citizenship Office, a dedicated department for the advancement of social contributions, we established NYK's Volunteer Point system, which came into effect from June 2014.

Participates in Tohoku Post-Tsunami Ecosystem Monitoring Project

From June to August 2014, 23 NYK Group employees participated in the Tohoku Post-Tsunami Ecosystem Monitoring Project. Tasked with restoration following the Great East Japan Earthquake that encourages society to coexist with nature, the project is scheduled to continue until 2021. Accordingly, we view participation as a long-term commitment.

Web For details about our initiatives for the environment, society, and governance (ESG), please see the URL below.
http://www.nyk.com/english/csr/

Web CSR Activities > Environment > Environmental Management

Promotion of Group Environmental Management

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

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

Strategy 1 Reducing greenhouse gas emissions

Strategy 2 Promoting social contribution through activities to conserve the global environment

Strategy 3 Strengthening group environmental management

Scope of the NYK Group's Environmental Management System

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

The NYK Group's Environmental Green Policy

① We, the NYK Group, adopt responsible practices with due regard to the environmental impacts of our corporate activities. We set and continually review objectives and targets for achieving our goal to protect our entire global environment.
② We seek not only to comply with safety and environmental regulations but also to implement in-house standards to improve our environmental performance and prevent pollution.
③ We commit ourselves to the safe operation of all our logistics services via sea, land, and air-transport modes, including not only our oceangoing vessels but also our 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 minimizing 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 four overseas regional blocs have obtained ISO 14001 environmental certification. The aggregate sales of the approximately 50 companies that have obtained this certification account for roughly 80% of the Group's total sales. Furthermore, some Group companies in Japan have received Green Management certification.

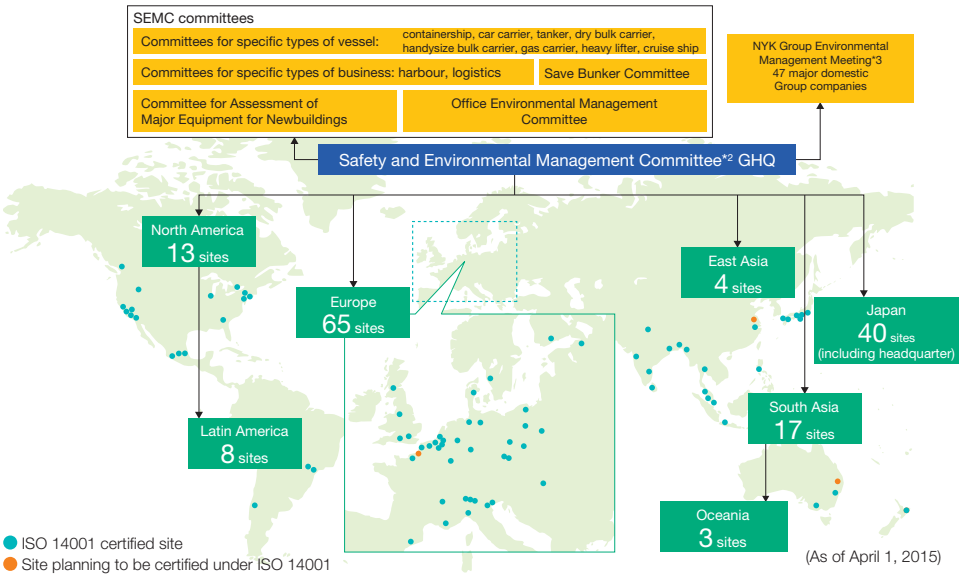
ISO 14001 environmental certification
This is the collective term for the international standard for environmental management systems issued by the International Organisation for Standardization.

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

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

Eight companies certified as practicing Green Management: Nippon Container Yuso Co., Ltd., Yusen Koun Co., Ltd., UNI-X Corporation, Asahi Unyu Kaisha, Ltd., Kaiyo Kogyo Corporation, Yokohama Kyoritsu Warehouse Co., Ltd., Narita Transport Section of Yusen Logitec Co., Ltd., and Hokuyo Kaiun Co., Ltd. (As of February 10, 2015)

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



(As of April 1, 2015)

*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

The NYK Group has been calculating environmental management indicators to monitor the operational efficiency of its vessels since 2006. In fiscal 2014, we reduced CO_2 emissions by 13% compared with the fiscal 2010 level. Aiming to improve fuel efficiency further—a 15% reduction from the fiscal 2010 level by fiscal 2018, as indicated in our medium-term management plan, 'More Than Shipping 2018'—we will seek reduction through additional and continuing fuel-saving efforts.

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

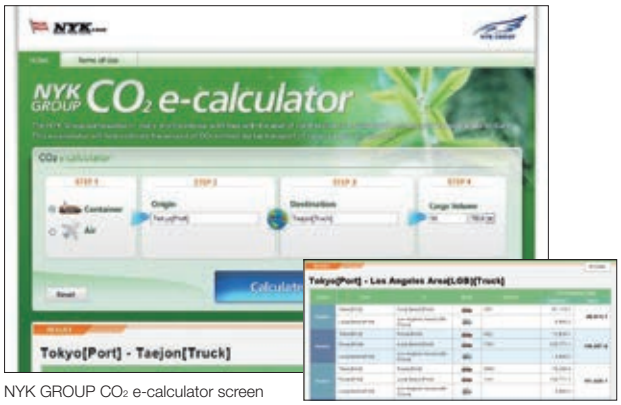
IMO: **I**nternational **M**aritime **O**rganization
UN specialist organisation to promote intergovernmental cooperation and formulate treaties and protocols covering technical and legal questions in ocean transport and shipbuilding

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 calculator since we made it available in 2011. We regularly update its contents, such as searchable routes and calculation coefficients. Our customers have commented that the e-calculator helps them to readily calculate CO_2 emissions for our worldwide route of sea, land, and air transportation.

URL: http://www.nykgroup-e-calculator.com/



NYK GROUP CO_2 e-calculator screen

Launching of Big Data Initiative to Heighten Safety and Energy Saving Even Further

Our medium-term management plan calls on us to achieve differentiation by leveraging Creative Solutions. As part of our efforts to this end, we launched the Big Data Utilization Project in April 2014. For this project, data about nautical instruments equipment and the engine are collected during voyages. Using this as Big Data, the project aims to enhance the safety and energy savings of vessel operations. Furthermore, the project is closely linked to the IBIS TWO Project. Taking advantage of remarkable advances in communications technology between ships and onshore staff, such as offshore broadband, the NYK Group has developed ship information management systems (SIMSs), which enable the timely sharing of information on weather and sea conditions and ship's equipment data between vessels and onshore staff. SIMSs automatically record several hundred types of data and send them to onshore operations hourly. These systems enable us to analyse information in much more detail than before, share our analyses, enhance the energy savings of vessel operations, and improve operational efficiency. For example, being able to predict a vessel's performance in actual sea conditions allows us to optimise vessel assignment.

Moreover, combining this Big Data with data of ports and cargos, we can come up with the ideas for competitive ship design. Also, we have begun an initiative focused on making effective use of Big Data to reduce and prevent engine breakdowns in vessel operations, with a view to reducing repair costs, minimising lost time, and realising cargo transport that is even safer and more reliable. We expect this initiative to become another source of differentiation. In this way, we will use data from vessel operations not only to enhance their safety and energy saving but to realise improvements in an increasingly wide range of areas.

Completion of Next-Generation Car Carrier That Reduces CO_2 Emissions by 30%

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


Aries Leader, a car carrier

application of this range of technologies, we will steadily move toward the realisation of *NYK Super Eco Ship 2030*.

Air-lubrication system
This system lowers CO_2 emissions by reducing friction between the vessel's bottom and seawater by supplying air bubbles to the bottom of the vessel. In 2010, the NYK Group launched the world's first operating vessels equipped with an air-lubrication system based on an air-blower. And in 2012, the Group launched the world's first operating vessel equipped with an air-lubrication system featuring a main engine scavenging air bypass.
Hybrid turbocharger
Device to utilise the extra rotational power generated by the turbine for electric power generation.
Water-emulfied fuel-combustion equipment
This equipment is used to combust a fuel compound composed of a stable mixture of water and heavy oil, known as water-emulsified fuel, in vessels' auxiliary boilers. The equipment heightens combustion efficiency, which reduces CO_2 emissions. It also reduces NOx emissions by lowering the combustion temperature.

Energy-saving Technologies of *Aries Leader*

Enlarging and 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

Appropriate Disclosure of Environmental Performance Data

The NYK Group obtains highly reliable environmental performance data and openly discloses it. The Group uses the Clean Shipping Index (CSI) to disclose the environmental effects of vessel emissions. In 2013, the Group became the first Japanese shipping company to receive third-party certification from Lloyd's Register Quality Assurance Limited (LRQA) for data accuracy. In addition, after a 2014 survey conducted by the international NPO (not-for-profit organisation) CDP, in which the disclosures of climate change data from 500 Japanese companies were evaluated, the NYK Group was selected for inclusion in the CDP's Climate Disclosure Leadership Index (CDLI) as a progressive discloser of climate change data over three consecutive years.

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

Preventing Air Pollution

First Step towards Changing Fuel to LNG

At present, vessels consume heavy oil. However, changing from bunker oil to LNG (liquefied natural gas) is expected to enable emissions reductions of about 30% for CO_2, about 80% for NOx, and 100% for SOx. In October 2011, the Group established a specialist team to research fuel changeover and develop related technology. In December 2013, we decided to build Japan's first LNG-fuelled tugboat. Furthermore, this will also be Japan's first LNG-fuelled vessel of any type, excluding LNG carriers.

Also, in March 2014 we decided to build two LNG-fuelled car carriers, which will be the first vessels of their kind. We plan to operate them to the North Sea and the Baltic Sea, where they will be more than able to meet strict sulphur emission regulations introduced in January 2015. Moreover, in June 2014 we decided to build an LNG bunkering vessel and participate in an LNG fuel sales business in Europe.

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

An LNG-fuelled vessel

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.

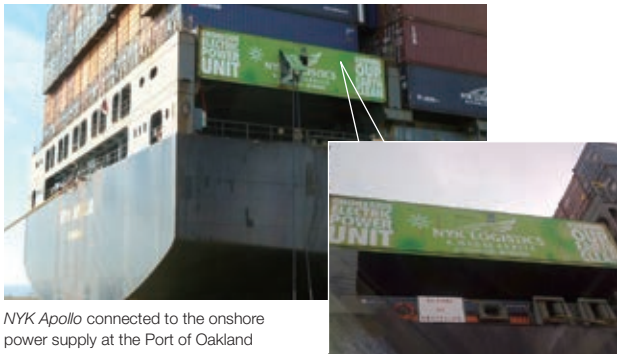
In November 2013, we placed AMP container units at our terminals in California: in the Port of Los Angeles and in the Port of Oakland. When operating containerships that have been modified to make them compatible with AMP units call at these ports, we put AMP container units on board temporarily, and 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:
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.
PM
Particulate matter (PM) is a harmful substance said to affect health adversely and cause such conditions as respiratory diseases.

Reducing NOx Emissions

Bunker oil, when burned, generates nitrogen oxide (NOx) compounds, which are greenhouse gases. International Maritime Organization (IMO) regulations aimed at reducing vessels' NOx emissions have been in effect for several years, with a second set of regulations becoming effective from 2011. As part of measures to comply with these regulations, the Group has been equipping vessels with electronically controlled engines, which reduce NOx by electronically controlling—and thereby optimising—fuel injection and exhaust valve opening and closing. In fiscal 2013, we equipped nine new vessels with electronically controlled engines. As of the end of March 2014, we have equipped eight vessels with electronically controlled engines. In response to a decision to introduce a third set of stricter regulations in the IMO-stipulated emission control areas of Canada and the United States in 2016, we are researching such new technologies as an exhaust gas recirculation (EGR) system.

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



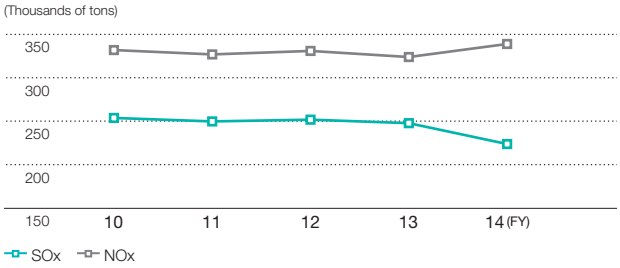
NYK Apollo connected to the onshore power supply at the Port of Oakland

AMP container unit

Reducing SOx Emissions

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

SOx / NOx Emission



Preservation of Biodiversity

Initiatives for the Preservation of Biodiversity

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

Introducing Ballast Water Management Systems

To prevent the cross-boundary movement of aquatic organisms affecting the marine environment, in 2004 the IMO adopted the International Convention for the Control and Management of Ship's Ballast Water and Sediments. Currently, various countries are moving to ratify the convention so that it comes into effect. Anticipating the convention's enforcement, the Group 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 2015, 61 of the Group's vessels have ballast water management systems installed. We will continue installing owned vessels and directly managed vessels with these systems while monitoring progress towards the ratification of the International Convention for the Control and Management of Ship's Ballast Water and Sediments.

Further, in October 2014 Group company Nippon Yuka Kogyo Co. Ltd. received approval from Japan's Ministry of Land, Infrastructure, Transport and Tourism for the SKY-System® ballast water management system that the company developed with Katayama Chemical Inc. SKY-System® sterilises and kills aquatic organisms by automatically injecting a chemical agent into ballast tanks when they take on ballast water. This system is easily installed without dry-docking, readily maintained, and energy efficient. Because it enables vessels to take on all types of water as ballast, it will help preserve the biodiversity of seas worldwide.

Ship Recycling

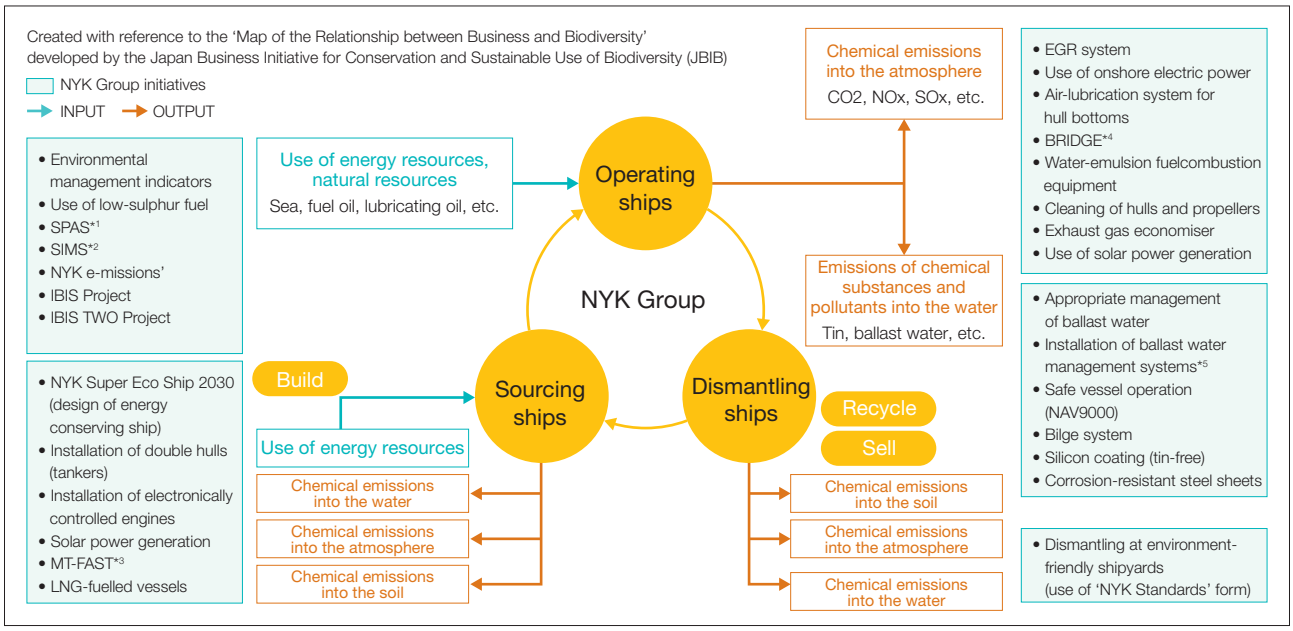
To minimise industrial accidents and environmental pollution when ships are dismantled, the IMO adopted a ship-recycling convention in 2009. With a view to the convention's entry into force, countries worldwide are progressing towards ratification. As the convention requires, the NYK Group prepares lists 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 2014 Marine Pollution Incidents

Leakage due to marine casualties	0
Leakage due to machinery troubles	2
Leakage due to failure to comply with operating procedures	1

The three incidents noted above were appropriately reported and treated.

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.

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 all operating vessels' seafarers through a monthly magazine, *Calm Sea*, which provides safety information. Further, our unique NAV9000 audits check that frontline operations are advancing safety activities steadily.

Land Transport—Safety Initiatives in Logistics

The Narita Logistics Center of Yusen Logistics Co. Ltd. obtained Technology, Asset, Protection, Association (TAPA) (class A) in 2005, while its Chubu Logistics Center has ensured the safety of cargo in warehouses by managing operations in adherence with TAPA.

Given the increased threat of international terrorism in recent years, we are focusing particular attention on strengthening the security of warehouses handling air cargo. At our logistics centres in Narita and Chubu, we have introduced metal detecting gates, which have been in use since April 2014. We are continuing pre-existing entry and exit checking procedures and using the gates to conduct inspections. Through these measures, we aim to prevent the intrusion of outsiders or suspicious persons, the introduction of hazardous articles, and illegal tampering with cargo while providing rapid, safe transport services.

Metal detecting gates at the Narita Logistics Center

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.

Safety assembly at the Oi Terminal

Air Transport—Safety Initiatives in Air Transport Sector

Continuing from fiscal 2013, in fiscal 2014 Nippon Cargo Airlines Co. Ltd. (NCA) took a multifaceted approach to safety promotion efforts based on its medium-term safety advancement plan. These efforts included encouraging notification of hiyarihatto (near-miss) incidents, enhancing the commendation system, strengthening the risk management system, and expanding safety training themed onhuman error. Based on an evaluation of achievements under theplan and the current situation inside and outside the company, Nippon Cargo Airlines prepared a new medium-term safety advancement plan covering fiscal 2015 through to fiscal 2018. Oneaim of this plan is to spread and strengthen a safety management system that entails safety-related plan–do–check–act (PDCA) cycles. To this end, we will train all employees about the system so that each individual is better able to perform duties proactively based on safety awareness.

Risk management training

Safety Campaigns

Stepping Up Safety Campaigns

To entrench safety campaigns in the NYK Group's culture and heighten their effectiveness even further, the Group conducts safety advancement campaigns regularly. By discussing and taking measures based on the main theme of each campaign, which reflects a current priority, personnel engaged in onshore and offshore operations deepen mutual understanding. We have devised ways to bring campaign activities as close as possible to frontline operations. For example, during campaign periods, many executives visit vessels to talk directly with crew members about safety. Also, we hold gatherings aimed at furthering discussion with representatives of shipowners and ship-management companies.

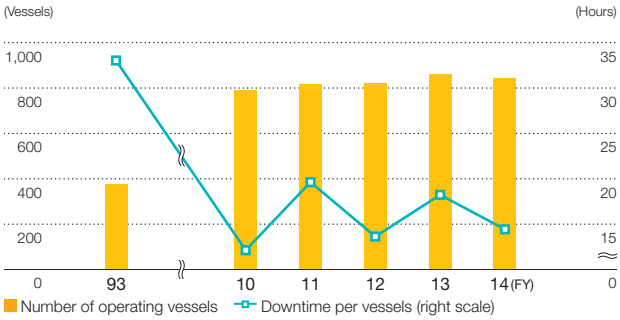
In addition, we strengthen safety campaigns by immediately distributing and sharing the latest information through a range of day-to-day communication tools. For example, *Casualty Report* carries flash reports about accidents, *Safety Bulletin* explains strategies for preventing accidents and problems, *Marine Engineering Information* specialises in technical matters, and *Security Information* focuses on securityissues.

Safety campaigns
We hold safety campaigns twice a year, in summer and winter. Summer campaigns are based on the lessons learned from the stranding of the very large crude-oil carrier (VLCC) *Diamond Grace* in Tokyo Bay in 1997. Winter campaigns mainly focus on preventing marine accidents, including those resulting from rough winter weather.

Use of Downtime to Measure Safety

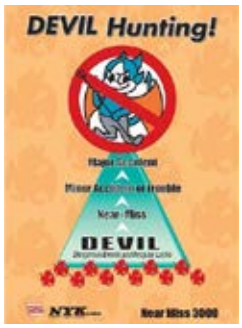
We use the time that ships are stopped due to accidents or problems as a means of measuring the degree to which we have achieved safe ship operation. Our sea and land operations work together to bring us closer to the target of 'zero' downtime.

Downtime Data



Near Miss 3000 Activities

Advancing Near Miss 3000 Activities



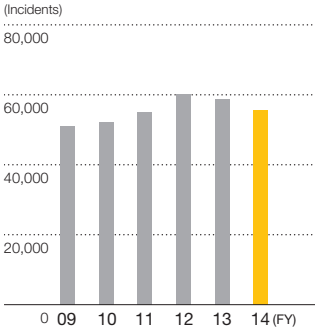
Near Miss poster

Our Near Miss 3000 activities aim to prevent accidents. Under the slogan 'DEVIL Hunting!', since 2006 the NYK Group has been working with partner shipowners and ship-management companies to advance activities that are based on Heinrich's Law and which seek to nip accidents in the bud by identifying and dealing with the often over-looked precursors to accidents, or 'devils.'

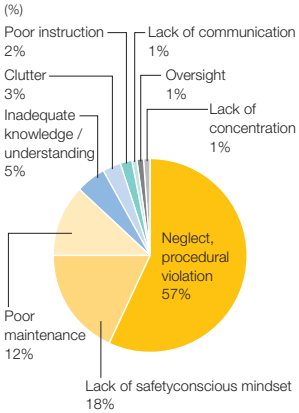
In these training activities, our goal is to create environments that are safer and easier to work in by increasing crew members' safety awareness. Through the consistent performance of routine duties with an awareness of safety, crew members help prevent collisions, equipment breakdowns, and accidents during work.

DEVIL Hunting!
'DEVIL' is derived from 'Dangerous Events and Irregular Looks'. 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 2014 Near Miss Causes



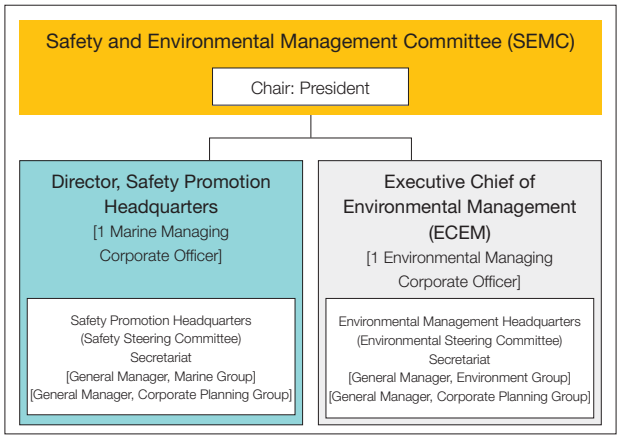
Marine Accident Readiness

Safety and Environmental Management Committee

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, 2015)

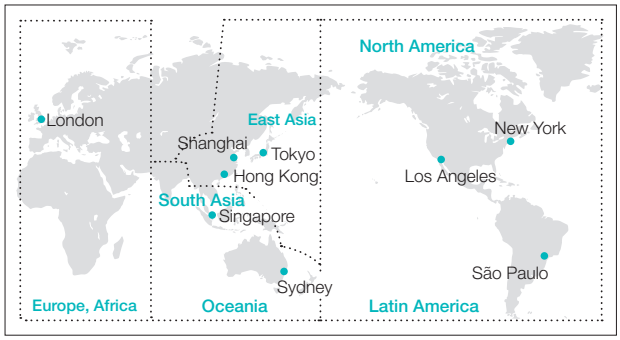


Continuing Emergency Response Exercises

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 September 2014, with advice and guidance from the Japan Coast Guard and salvage companies, we conducted an emergency response exercise based on a scenario in which an LNG carrier was stranded.

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.



Launch of POWER+

Initiating New Accident Reduction Activities

As an addition to its wide variety of quality assurance activities, the NYK Group began POWER+ as a new activity aimed at reducing accidents caused by human error.

These activities are based on a new approach that applies the concept of behaviour-based safety to safety activities on board vessels. The aim is to cultivate a safety culture in which individuals act for the benefit of the group. Rather than safety being only about adherence, individuals take the initiative and choose to implement and establish safety, and individuals show consideration for and help each other. People can behave very selflessly. For example, in daily life people engage in such activities as taking care of their families, showing respect for the elderly, and participating in charity marathons. If crew members view colleagues on board vessels as an offshore family, or if they discover that, for example, a colleague has a daughter the same age as their own child, such connections motivate them to better understand, respect, and help each other.

We will introduce these activities to NYK Shipmanagement Pte. Ltd., which is the ship-management company at the core of our safety activities. To inculcate this new concept in all personnel, from managers through to frontline personnel, we will establish a system that includes a range of different workshops, briefings, and educational ship visits. We will then introduce the achievements of these efforts to the whole fleet with a view to securing safety even further.

POWER+ OF THE HUMAN TOUCH

Human Capital Development

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

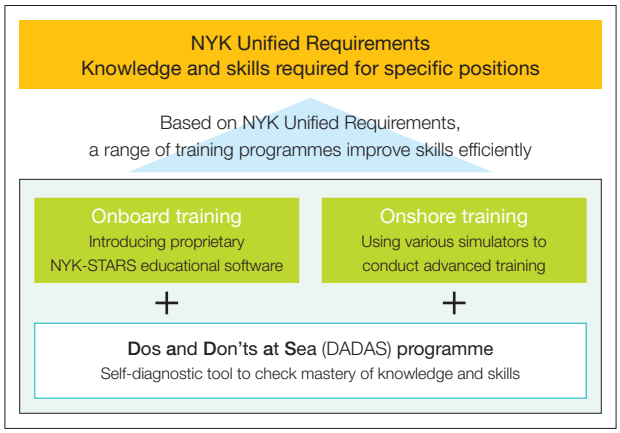
The NYK Business College is a set of training programmes aimed at improving the overall capabilities of Group employees. The NYK Group enhances these training programmes regularly. In fiscal 2014, more than 2,000 NYK Group employees participated in over 60 types of training programmes. In addition, more than 10,000 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 midcareer 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.

Developing Training Programmes for Crew Members

The key to achieving even higher levels of safety in vessel operations and improving environmental preservation is not hardware or systems but the people, or in other words the seafarers, 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 six 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-Shipboard Training and Assessment Record System
The system has a wide variety of programmes, such as Cadet STARS for cadets; STARS designed for specific types of vessels, such as PCC STARS for car carriers; and marine engineering STARS related to diesel engines, steam turbines, and other equipment.
Manning offices
These are ship-management company branch offices and crew referral agencies.

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. The goals of the training are to build global networks within the Group, give employees opportunities for direct discussions with the presidents of NYK and Yusen Logistics, and 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.

Celebrating the 25th Anniversary of Our Manning Company in the Philippines

On December 18, 2014, we held a ceremony in Manila to celebrate the 25th anniversary of the establishment of Group company NYK-Fil Ship Management, Inc., and the completion of a complete renovation of its head office. In 1989, the NYK Group and Transnational Diversified Group jointly established NYK-Fil Ship Management to train and develop Filipino seafarers for the NYK Group and manage their deployment to its operating vessels. Currently, the company has deployed Filipino seafarers to work on more than 200 of the NYK Group's operating vessels. The aim is for NYK-Fil Ship Management to produce high-quality Filipino seafarers by working in close collaboration with the NYK-TDG Maritime Academy, established in 2007, and the seafarer training facility, built next to the academy. In recent years, we have been actively promoting Filipino personnel to senior positions on board such high-risk vessels as very large crude-oil carriers (VLCCs) and LNG carriers.

NYK-Fil Ship Management, Inc.
Headquartered in the Philippines
Transnational Diversified Group
A corporate group headquartered in the Philippines that provides shipping agency, seafarer deployment, maritime education, logistics, and other services. The group and the NYK Group have worked in partnership since the group's establishment in 1976.
NYK-TDG Maritime Academy
The NYK Group and Transnational Diversified Group established this maritime academy, which offers four-year courses, in Calamba City in the suburbs of Manila in the Philippines.

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.

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 considerable amount of overtime, broadcasting announcements encouraging employees to return home on time, and disseminating information aimed at changing attitudes.

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

The award ceremony for the year's M.V.P.

Launching the NYK's Volunteer Point System

To mark the 10th anniversary of the establishment of the Corporate Citizenship Office, a dedicated department for the advancement of social contributions, we established the NYK's Volunteer Point system, which came into effect from June 2014.

Under this system, points are recorded for the various types of volunteer activities in which NYK Group employees participate inside and outside the Group. At the end of the year, total points are converted into a monetary amount that is donated to charities. At the same time, we present a commendation to the employee who has accumulated the most points for the year. We make donations to charities selected based on the results of a questionnaire conducted when employees register with the system. Furthermore, the level of donations each charity receives is proportionate to the level of support for it among registered employees, which is determined by voting.

At the end of 2014, volunteers had collected 256,313 points. Based on these points we made donations to the three charities listed on the top right of this page. They support education and children, an area that questionnaire results revealed to be of particular concern among employees.

Charities that received donations through the NYK's Volunteer Point system in 2014

(1) International Children's Action Network (ICAN), authorised nonprofit organisation
(2) Community Road Empowerment (CORE), nonprofit organisation
(3) Kid's Door, nonprofit organisation

System summary

Eligible participants: Officers and employees of NYK, officers and employees of domestic Group companies

Qualifying activities: Participation in voluntary or social contribution activities organised by the Company, nonprofit organisations, or local communities; fundraising; monetary donation; blood donation, etc.

Oraga-Otsuchi Yumehiroba, a general incorporated association

Conducting Volunteer Training for New Employees

As part of training for employees that joined us in April 2014, we conducted volunteer training in Otsuchi, Kamihei-gun, Iwate Prefecture.

In the three years since the Great East Japan Earthquake, NYK Group employees, officers, and former employees have volunteered to go to the disaster area and help restore it. In fiscal 2014, we began a volunteer-training initiative aimed at encouraging new employees to consider the significance of companies' social contributions and extend their outlook beyond day-to-day duties. During the training period, new employees worked in the disaster area and interacted with local residents.

As part of the five-day training programme, trainees were given a guided tour of Otsuchi and participated as volunteers with nonprofit organisations engaged in restoration work. Also, we held a workshop in which trainees considered the actual problems that residents of the disaster area are facing.

The programme provided new employees with valuable experience by enabling them to learn about current conditions in the disaster area, think for themselves about problems on the ground, and discuss them in earnest with colleagues.

Sending Farm Volunteers to a Support Facility for the Disabled

In November 2014, NYK Group employees and their families helped as volunteers with farming activities at the Tera Farm, which grows vegetables that are used to make meals for the disabled residents of the Hinode Taiyonoie facility in Hinodemachi, Tokyo. Volunteers harvested autumn vegetables and cultivated neglected farmland. Afterwards, they gathered to enjoy a barbecue. Those who were interested were able to participate in a ninja experience programme held within a samurai residence on the grounds of the Hinode Taiyonoie facility. The prospect of a higher-yielding vegetable harvest resulting from an expansion of the farmland area gave the facility's personnel and volunteers a sense of achievement. Many participants said they would like to experience other types of farm work, such as sowing seeds. We will continue this initiative as a new social contribution in which families can participate.

Participating in the Tohoku Post-Tsunami Ecosystem Monitoring Project

From June to August 2014, 23 NYK Group employees participated in the Tohoku Post-Tsunami Ecosystem Monitoring Project. The project is based on a joint investigation by universities, companies, and public bodies to monitor the organisms of wetlands and rice paddies that the tsunami has affected adversely. By having people investigate the natural world around them, the project aims to heighten environmental literacy and thereby encourage the sustainable restoration of the Tohoku region. We participated in two-day and three-day wetland and rice paddy surveys in Ishinomaki and Minamisanriku as well as Shiogama, in Miyagi Prefecture, and Miyako, in Iwate Prefecture. Tasked with restoration following the Great East Japan Earthquake that encourages society to coexist with nature, the project is scheduled to continue until 2021. Accordingly, we view participation as a long-term commitment.

Transport Cooperation in Fiscal 2014

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

Donating used bicycles overseas

Delivered to	Number delivered
Three countries, including Ghana and Cambodia	1,800*1

*1. 35,374 bicycles since 2000

Giving school backpacks

Delivered to	Number delivered
Afghanistan	18,704*2

*2. 143,701 school backpacks since fiscal 2004

Shanti Volunteer Association

Delivering picture books

Delivered to	Number delivered
Cambodia, Laos, Thailand (camps for refugees from Myanmar)	13,632*3

*3. 186,041 picture books since fiscal 2004

Support for Disaster Areas in Fiscal 2014

Disaster area name, support details		Amount*
June 2014	Flooding in eastern Croatia; monetary aid	¥1,016,600
August 2014	Yunnan Earthquake in China; fundraising	¥ 867,728
September 2014	Landslide Disaster in Hiroshima, Japan; fundraising	¥1,865,762

* Includes donations from the NYK Group and funds raised by NYK Group employees

Expectations of the NYK Group as It Enters a New Stage

The NYK Group's two outside directors frankly discuss the Group's tasks going forward.
(Interviewer: Hitoshi Oshika, Director, Corporate Officer)

Tadaaki Naito's inaugural speech as president emphasised soundness and boldness. The latter refers to seizing business opportunities, while the former means controlling the risks this incurs. What opportunities and risks should we keep in mind?

Okamoto

Growth of the global population will create major opportunities for shipping and logistics companies. The world is undergoing rapid structural change driven by the global population's explosive growth. After the birth of civilisation, it took between 6,000 and 7,000 years for the global population to reach one billion in 1800. It took 130 years to add another billion, reaching two billion in 1930. Today, the population is increasing by a billion people every dozen years.

The discussion of population growth has often focused on such negative aspects as disease and poverty. Currently, however, it is increasingly identified as a positive factor with the potential to drive economic growth. For example, an increasing population is the U.S. economy's greatest asset. Being the only developed country with a growing population and its incorporation of IT are enabling the United States to realise strong economic growth.

As global trends accelerate, always analysing information and making appropriate management decisions is important. We are in an era that calls for the constant, careful analysis of information to avoid missing international trends or mistaking temporary trends for long-term

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

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
Corporate auditor of Incorporated Administrative Agency, Nippon Export and Investment Insurance
(part-time)

ones. Other than population growth, trends the NYK Group should monitor closely include geopolitical risk, changes in energy supply-demand structures, and developmental disparity among countries and regions.

Okina

Because the NYK Group operates globally, it faces various actualised and underlying risks. Geopolitical risk, which Mr. Okamoto mentioned, has become associated with a wider, more diverse range of countries and regions, such as the Middle East, Russia, Africa, and Asia. China's rapid growth has given rise to various domestic tensions. Whether or not China will enter a phase of stable growth is uncertain, which is a major concern for the global economy.

As for population, as Mr. Okamoto said, the United States is in a unique position among developed countries. By 2050, it will be the only one with a growing population, while other developed countries' populations will be decreasing and aging. With these trends in mind, we should consider whether countries can sustain growth. In particular, given its real economy, Europe faces the risk of continued low growth. I think adequately collecting and analysing information about the economic and political situations of respective countries before preparing investment plans is becoming more important than ever.

Okamoto

The NYK Group engages in many different forms of transport, including car carriers, crude carriers, dry bulk carriers, and containerships, each of which requires a different analysis. I think the automotive area will continue to grow. However, the Group should focus attention on changes in automotive demand in each country and changes in production bases. In relation to energy, it needs to respond correctly to changes in the supply-demand structure accompanying the shale oil and gas revolution.

With respect to containerships, the outlook remains uncertain. From a long-term perspective, the distribution of goods could decline due to a shift towards local production for local consumption or the introduction of 3-D printing. On the other hand, Africa does not appear to have enough production capacity, but its current population of 1.1 billion is projected to rise significantly. Therefore, the continent could become a huge consumption region and require the distribution of goods from other regions. In this way, the Group needs to incorporate multiple perspectives when examining the distribution of goods. Rather than fleet downsizing, this complexity should encourage consideration of how to pursue an asset-light business model. However, maintaining the owned vessel fleet at a certain size is essential to passing on the Group's DNA as a shipping company.

Amid growing global cargo movements, the way we allocate management resources in each business segment, product category, and region is decisive in efforts to heighten competitiveness. With this in mind, how should we use our capabilities as an organisation to capture opportunities?

Okina

The NYK Group's competitive advantages include networks spanning the globe and relationships of deep trust with business partners in various regions. Another strength is human capital: the Group has many talented, loyal personnel. However, as the scope of cargo handled widens and its businesses diversify, the Group needs to extend information collection to identify risk and accumulate expertise. For example, the Group has to enhance expertise acquisition and analytical capabilities further in the energy-related area, in which it has been stepping up efforts recently. Analysing not only fuel costs but also crude oil price trends, which affect all energy businesses, is extremely difficult. Nevertheless, given the high risk associated with the energy-related area, it calls for thorough analysis.

Further, supply chains change constantly. In particular, Western companies have been optimising production processes recently based on multidimensional matrixes that classify operations by business, product, and region. This trend affects logistics significantly, and as such

the Group should analyse it thoroughly. It is important for the Group to analyse and monitor new trends so that it is always looking half a step ahead.

Okamoto

To respond to new trends, an 'inclusive' attitude that seeks to incorporate everything is necessary. In other words, if the Group adopts an 'exclusive' attitude fixated on preconceived ideas and tries to build business models in shipping and logistics based only on its own experience, the Group will not be able to keep up with the pace of change in the world. Globally, the structure of business is changing due to such initiatives as the incorporation of big data and Germany's 'fourth industrial revolution' (Industry 4.0). Consequently, the Group's ability to avoid fixed ideas and maintain an open-ended approach is vital.

The NYK Group's corporate culture is more 'inclusive' than that of other companies. It is conducive to an open-ended approach to conducting business. Perhaps this is because the Group works on the ocean, an environment that is limitless. However, the Group should remain mindful that if it does not further cultivate this excellent attribute, the pace of change in the world will leave the Group behind.

Also, rather than remaining unchanged during the five-year periods of the medium-term management plans, I think the Group would benefit from responding to changing business conditions by checking strategies and targets annually and adjusting plans as needed. To give another example, the economic outlook for emerging countries, which the Group views as a priority area, has changed significantly from one year ago. This illustrates the importance to the Group of having an 'inclusive' attitude and keeping abreast of the very latest changes as it considers how to evolve.

Okina

I think 'inclusive' is exactly the right key word. Industrial categories themselves are changing to the point where major global financial institutions and automotive manufacturers view Google and Facebook as their rivals. Because the assimilation of ICT is changing companies' business models dramatically, the NYK Group must always be willing to embrace open innovation as a way of anticipating change.

Could you please offer your frank opinions about 'Creative Solutions', a key phrase in the subheading of the medium-term management plan?

Okina

I think there are many different ways of viewing Creative Solutions.

The progressive initiatives of the Group are widely known because it provides information about its numerous environmental commendations through investor and public relations activities. However, initiatives to improve safety by introducing leading-edge technology or to raise fuel efficiency by analysing big data remain comparatively unknown. Therefore, I think there is scope for the Group to improve the way it communicates with and appeals to people.

Okamoto

For the NYK Group, technology and progress are two sides of the same coin. For example, vessel design affects fuel efficiency directly. Given the advancing globalisation of the NYK Group, incorporating ICT into operations to unify them worldwide will become more important for the Group than for most companies. Investment in skills is not just about accumulating knowledge: personnel development is crucial. Shipping companies tend to associate skills with marine officers and engineers. However, I would like the Group to devote greater personnel numbers and financial resources to technical teams that are separate from those concerned with ship handling.

What are your expectations of President Naito?

Okamoto

Former president Yasumi Kudo's positive attitude was exemplary. It was a facet of the 'inclusive' attitude I mentioned a moment ago and enabled an open-ended

approach to conducting business. I would like to see President Naito maintain this positive attitude and spread it throughout the Group. I would like him to keep in mind various risks. At the same time, I urge him to take risks boldly.

Okina

I would like to see President Naito realise the soundness and boldness emphasised in his inaugural speech. While I am not suggesting he should pursue numbers recklessly, I would like him to focus strongly on earnings as the most important fundamental requirement. I appreciate shipping is a volatile industry, but I urge the new president to take on challenges boldly to accumulate earnings and enhance corporate value.

With a corporate governance code established recently, what role would you like to play in efforts to increase the Group's competitiveness through corporate governance?

Okamoto

Corporate governance is not about adhering to form: it should adhere to 'common sense'. Social norms evolve. Also, laws change, of course. However, because social norms differ depending on the area, I see the outside director's role as incorporating each area's common sense.

Companies are expected to contribute to society's development and be widely held in high regard. In an era that is requiring all types of companies to globalise, the Group's personnel have to ask themselves whether they are truly globalising. I often conduct lectures themed on becoming an 'international person'. More than language skills or familiarity with customs, showing warmth towards people is the first and foremost requirement for becoming an international person. Warmth means letting yourself go and reaching out to those around you. I believe this is the first step in internationalisation. Rather than focusing on such formal facets as compliance, becoming a company with personnel who have an excellent attitude is important. I want to continue offering the Group a different perspective.

Okina

The NYK Group decided to introduce outside directors seven years ago, earlier than most companies. The Group deserves credit for focusing on heightening its business management transparency prior to this, and I am not only referring to the introduction of outside directors here. Based on the content of the corporate governance code, I do not see many areas where the NYK Group is lagging behind. However, we are in an era when institutional investors and many stakeholders evaluate companies in light of the corporate governance code. Therefore, all management team members, including outside directors, need to remind themselves that increasing the quality of corporate governance enhances corporate value, and redouble efforts accordingly.

Three years ago, the Group began issuing integrated reports to stress that the environment and social contribution are integral to long-term corporate value. In business management, I think considering how to raise corporate value based on long-term rather than short-term perspectives will become more important. As an outside director, I intend to continue questioning the senior management team about various issues and offering perspectives that in-house personnel do not have.

What are your frank opinions of the Group's response in relation to antitrust law?

Okamoto

The Group needs to approach antitrust law from the perspective of increasing the quality of corporate governance. Having heard the explanations of directors and other personnel, my impression is that malicious intent was not at work in the antitrust law infringement in any way whatsoever. However, I cannot deny that, in certain respects, there was a lack of awareness stemming perhaps from the shipping industry's unique history of shipping conferences; however, little will be gained from criticising the Group any further in this regard. Also, I give the Group's personnel credit for the deep regret they have shown and their rigorous rebuilding efforts. I believe this experience will lead the Group to develop sound, transparent corporate governance.

Okina

I attend NYK's Executive Committee Overseeing Thorough Antitrust Law Compliance, and the Group's concerted efforts have impressed me.

Antitrust law is not the only compliance area that companies have to be careful about as they globalise businesses. For example, since the risk of bribery is increasing, it is an issue we have discussed at meetings of the Board of Directors. I heard that the Group will strengthen risk management by deploying a legal affairs manager to each region from fiscal 2015. The Group needs to concentrate further efforts on compliance issues because they will rise in importance.

Corporate Governance

Web CSR > Corporate Governance

Corporate Governance System (As of June 23, 2015)

Organisational format	Company with Board of Directors and Audit and Supervisory Board
Number of directors	13 (of whom 2 are outside directors)
Number of Audit and Supervisory Board Members	4 (of whom 2 are outside audit and supervisory board members)
Term of office for directors	1 year (same for outside directors)
Employment of corporate officer system	Yes
Reduction in number of directors	2005: 17 → 2015: 13
Organisation supporting decision making of Board of Directors	Committee of Corporate Officers
Incentives for directors	Directors are required to participate in a share ownership plan for directors, with share price increases expected to act as an incentive.
Number of consolidated subsidiaries	More than 300
Independent auditor	Deloitte Touche Tohmatsu LLC

Corporate Governance Initiatives

(1) Operational Execution System

The Company is a company with an audit and supervisory board. As of June 23, 2015, the Board of Directors comprised 13 directors, including two outside directors. The Board of Directors decides on legal matters, establishes important management policies and strategies, and oversees the execution of operations. The Company has introduced a corporate officers system. The Committee of Corporate Officers comprises 31 members, who include directors but not outside directors or non-executive directors. These members execute operations based on the resolutions and supervision of the Board of Directors.

The Audit and Supervisory Board comprises four audit and supervisory board members, including two outside audit and supervisory board members, and audits the directors' execution of duties. The Company has elected a substitute auditor for occasions when the number of auditors does not meet the legally required number of auditors. Further, the Company has established the Audit and Supervisory Board Office to support the audit and supervisory board members in the execution of their duties.

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

Initiatives to Strengthen Corporate Governance

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

(2) Executive Compensation

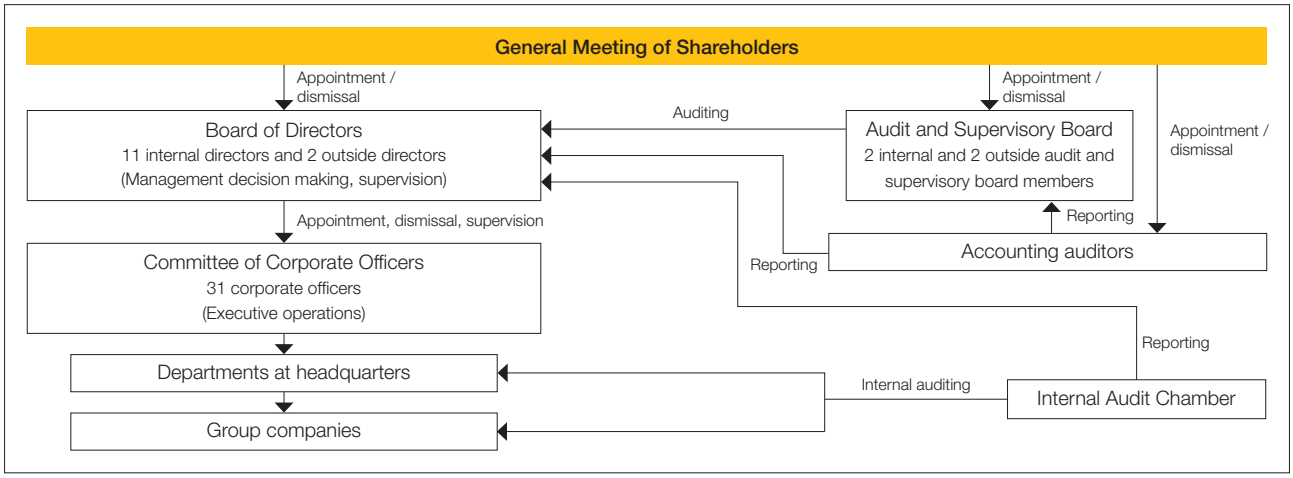
Compensation Paid to the Company's Directors and Audit and Supervisory Board Members

Classification	Number of people	Compensation
Directors (Amount allocated to outside directors)	13 (2)	¥536 million (¥38 million)
Audit and Supervisory Board Members (Amount allocated to outside audit and supervisory board members)	4 (2)	¥105 million (¥27 million)
Total	17 (4)	¥642 million (¥66 million)

*1. For four consecutive terms, from the 125th term to the current term, there have been no payments of bonus for Directors.

*2. Monthly remuneration for Directors shall be paid according to each Director's grade within the aggregate monthly remuneration limit as determined by the resolution of the Shareholders' Meeting. Bonus for Directors shall be paid according to each Director's grade within the aggregate bonus limit as determined by the resolution of the Shareholders' Meeting. However, as the proposal of the bonus for Directors shall be made at the Shareholder's Meeting based on the business results and other factors, there may be no payment depending on the fiscal year. Executive Directors shall be obliged to acquire shares of the Company by contributing to the executive shareholding association out of their monthly remuneration an amount not less than the threshold set out according to each Executive Director's grade.

NYK's Corporate Governance Organisation Chart



Information of Outside Directors and Outside Audit and Supervisory Board Members

	Name	Significant concurrent positions	Reasons for assignment	Attendance at meetings (Number of meetings attended / Total number of meetings)
Outside Directors	Yukio Okamoto	President of Okamoto Associates, Inc. Outside director of Mitsubishi Materials Corp. Outside director of NTT DATA Corporation	To utilise his extensive knowledge and insight as an expert on international affairs to benefit the Company's business management	Board of Directors' meetings (14/14)
	Yuri Okina	Vice chairman of the Japan Research Institute, Ltd. Outside director of Seven Bank, Ltd. Outside director of Bridgestone Corporation Outside auditor (part-time) of Incorporated Administrative Agency, Nippon Export and Investment Insurance	To utilise her extensive knowledge and insight as an expert on economic and financial affairs to benefit the Company's business management	Board of Directors' meetings (14/14)
Outside Audit and Supervisory Board Members	Fumio Kawaguchi (retired on June 23, 2015)	Advisor of Chubu Electric Power Company, Incorporated	—	Board of Directors' meetings (14/14) Audit and Supervisory Board (17/17)
	Toshio Mita (assigned on June 23, 2015)	Chairman of the Board of Directors of Chubu Electric Power Company, Incorporated Outside Audit & Supervisory Board Member of Toyota Industries Corporation Chairman of Chubu Economic Federation	To utilise insight he has developed from abundant experience in corporate management to audit the NYK Group	—
	Mitsuoki Kikuchi	None	To utilise insight he has developed from abundant experience in government service to audit the NYK Group	Board of Directors' meetings (13/14) Audit and Supervisory Board (16/17)

(3) Criteria for Determining Independence

The Company elects two outside directors and two outside audit and supervisory board members. Outside directors and outside audit and supervisory board members, all of whom are independent directors or independent auditors, oversee and audit the Board of Directors and directors from a position that is independent from the management team and with a view to contributing to the sustained growth of the Company and the enhancement of its corporate value in the medium-to-long term.

The Company elects outside directors and outside audit and supervisory board members that are not from, or do not execute duties for, the companies of the major shareholders of the Company; that meet the criteria for independence of the Tokyo Stock Exchange, Inc., and other bodies; and that have no conflicts of interests with the Company.

By electing highly independent outside directors and outside audit and supervisory board members in this way, the Company endeavours to increase the transparency of business management further and strengthen oversight.

(4) 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 audit and supervisory board members, including the two outside audit and supervisory board members, undertake auditing activities in accordance with audit plans determined by the Audit and Supervisory Board. These activities include attending Audit and Supervisory Board and other important sessions; ascertaining the status of duties executed by directors, the Internal Audit Chamber, and other personnel and corporate sections; and examining paperwork, such as important approval documents. The Audit and Supervisory Board Office is staffed by two full-time auditors and one auditor holding a concurrent position and supports audit and supervisory board members in the execution of their auditing duties. Audit and supervisory board members ensure the impartiality of the independent auditor while keeping lines of communication open, complementing audit-related activities through mutual information exchange, and working to raise audit quality and efficiency.

Audit and supervisory board members also hold monthly meetings where the results of audits and other information are shared. They also meet with the Internal Audit Chamber on a regular basis and convene meetings with the 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, Yuji Takei, and Tomoya Noda, all of whom are with the accounting firm Deloitte Touche Tohmatsu LLC and have been auditing the Company's accounts for less than seven consecutive years. These three accountants are assisted by 14 certified public accountants and 17 others. Audits are undertaken in accordance with standards generally accepted as fair and appropriate.

(5) Auditor Compensation

Compensation Paid to the Company's Certified Public Accountants

Classification	Fiscal 2013		Fiscal 2014	
	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	145	5	145	3
Consolidated subsidiaries	146	0	142	0
Total	291	5	288	3

Other important compensation

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

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

(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

(Audit of domestic companies)

The Internal Audit Chamber's internal auditors perform internal audit activities for the Company and 160 domestic Group companies, as well as the affiliates for which at least 20% of shares are held by the Company.

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

Major auditing activities in fiscal 2014

1. Twenty-eight Group companies were audited during the year.
2. A specific theme was selected and emphasised for the audit of the NYK headquarters and its branches.
3. An audit of payment control at both the NYK headquarters and domestic Group companies was made to check whether cash flow is adequately controlled.
4. The control of operations involving inflows and outflows of funds to and from NYK's headquarters was audited.

(Audit of overseas companies)

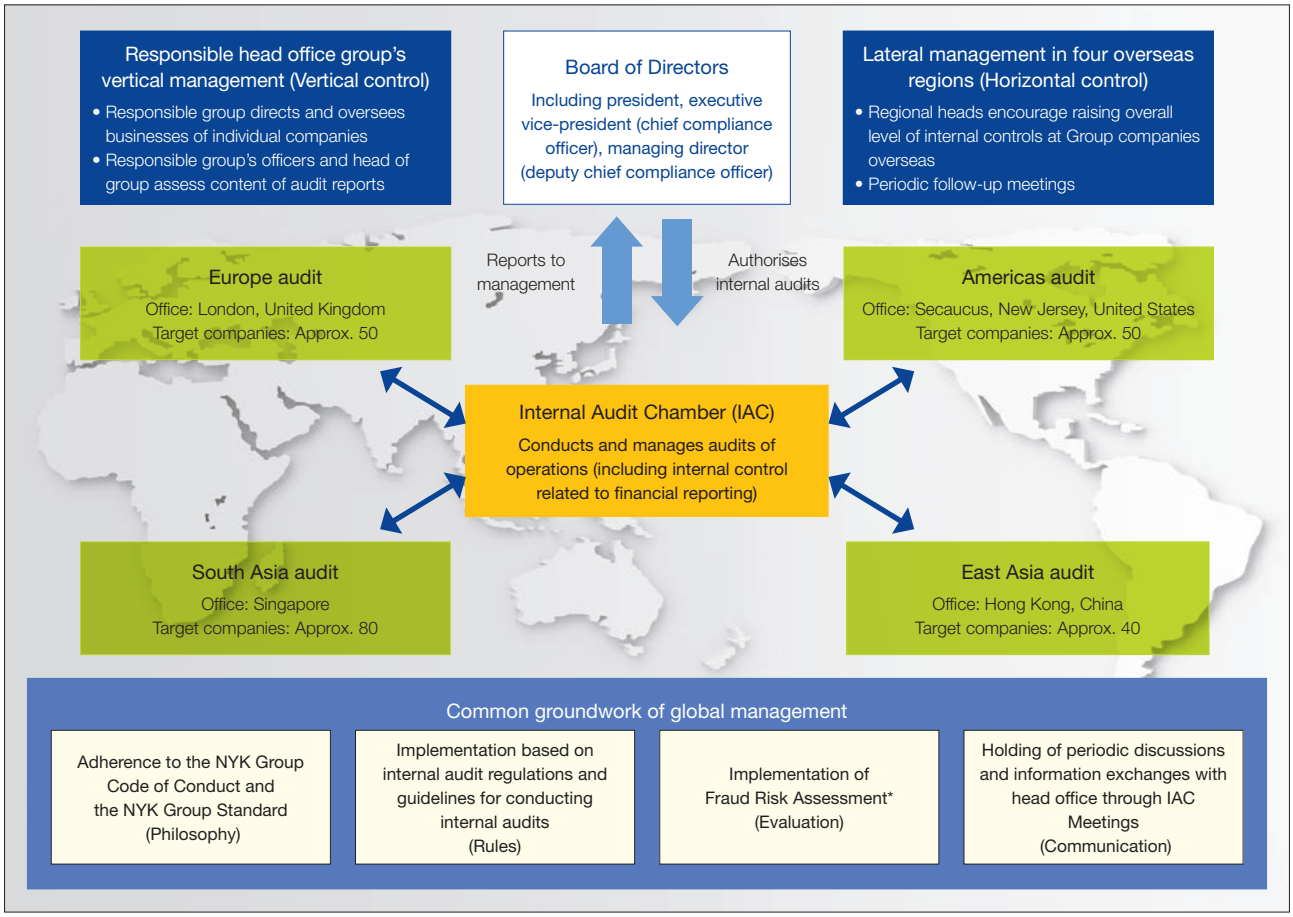
Internal auditors belonging to four Group regional headquarters conduct periodic internal audits of approximately 220 Group companies overseas. (Implemented at 81 companies in fiscal 2014)

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

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

Fraud Risk Assessment:
This assessment makes use of anonymous replies collected from employees to identify the probability of risk associated with each potential fraud case by analysing the possible financial impact and the likelihood of occurrence. Management shares the results and supports the preparation of related fraud-prevention measures. (An illustration of global management is provided below.)

Global Management of the NYK Group's Internal Audits



Status of Investor Relations (IR) Related Activities

Web CSR > Together with Stakeholders ☐ Together with Investors

Fiscal 2014 IR Highlights

	No. of participating companies	No. of participating individuals
One-on-one meetings with investors in Japan	377 (55)*	417 (55)*
Overseas IR tours	113	130
Tours of Facilities and Briefings		
In Japan (1 time)	14	14
Overseas (1 time)	5	5
IR Seminars for Individuals		
In Japan (6 times)	—	577

* Parentheses indicate participation by the NYK president

IR Activities

The NYK Group believes that the keys to the 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 activities of 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 roundtable meetings with the president for institutional investors, business briefings, facility tours in Japan and overseas, and seminars for individual investors.

In fiscal 2014, continuing its efforts of the previous fiscal year, the Group explained in greater detail the progress of initiatives in the offshore business and the LNG carrier business as well as the Group's strategies to overcome freight rate volatility by earnings accumulation in businesses with stable freight rates.

Seminar for individual investors

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 on suspicion of violations of the Antimonopoly Act in Japan and, based on similar laws and regulations, have been investigated by the U.S. Department of Justice and served with a request for information by the European Commission. In March 2014, the Company received from the JFTC cease and desist orders and surcharge payment orders. In December 2014, the NYK Group entered into a plea agreement with the U.S. Department of Justice regarding the violation of the U.S. Sherman Act in connection with ocean shipping services for cars and trucks. The NYK Group is subject to investigations by the European Commission and authorities in other jurisdictions on similar charges. Further, in the United States and other countries, actions for damages (class action lawsuits) have been filed against the Company and certain overseas subsidiaries.

We apologise sincerely to all stakeholders for causing concern.

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

Preventive measures

Management level

In April 2013, the Company established the Executive Committee Overseeing Thorough Antitrust Law Compliance. At biannual meetings of the committee, senior management of each business unit shares information on initiatives in their respective departments.

Frontline operations level

All business units, including Group companies in Japan and overseas, take the initiative in conducting risk assessments and establishing guidelines.

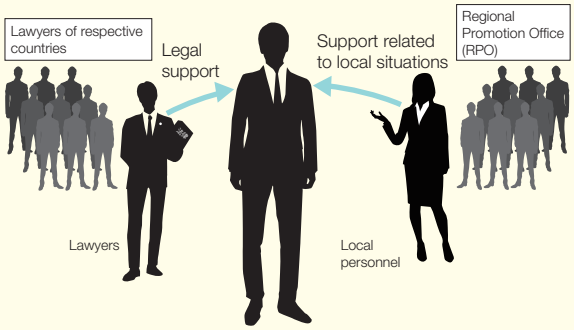
Business project level

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

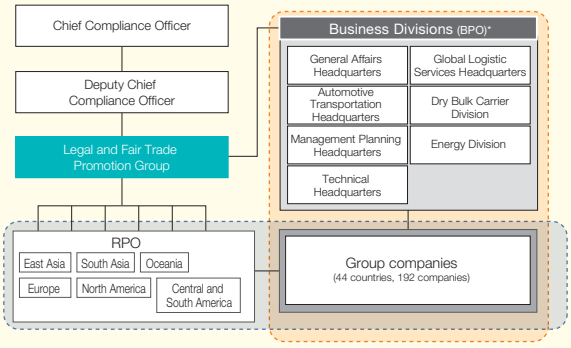
Individual level

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

In September 2014, approximately 130 people, including directors, outside directors, and outside lawyers, attended the Executive Committee Overseeing Thorough Antitrust Law Compliance.



Advancing deployment of lawyers specialising in antitrust law and local personnel with expertise in overseas affairs



Having each business unit ownership, while advancing coordination with Group companies and relevant overseas offices
* BPO: Business Promotion Officer

Training activities

To ensure each NYK Group employee is fully aware of antitrust law compliance, we conduct antitrust law training at 192 Group companies in Japan and 43 other countries. In 2009, we began this training, in which more than 17,446 Group employees* participate. (* accumulative number)
In this fiscal year, in conjunction with the abovementioned training, we introduced e-learning in Japanese, English, and Chinese targeting all business units, including Group companies in Japan and overseas. By continuing this training, we will endeavour to ensure rigorous compliance.

Thorough Prohibition of Bribery

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

Compliance Initiatives

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

Also, we have set September as the NYK Group's compliance-strengthening month. Accordingly, we conduct comprehensive compliance check-up activities during this period. In fiscal 2014, under the theme of returning to basics, we called on employees to review the responsibilities of their positions, re-examine matters in light of the Code of Conduct, and evaluate themselves honestly to check for complacency.

In a questionnaire conducted during our compliance-strengthening month, we urged employees to reread the Code of Conduct booklet distributed to them in April 2014. Further, with a view to cultivating an atmosphere in workplaces that makes it easy for colleagues to consult one another about compliance, we asked if the atmosphere in employees' workplaces was conducive to seeking advice. The results of the questionnaire will lead to revisions of measures. Moreover, we have posted the results on the in-house intranet.

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

Yusen Chat Room:
This system comprises six personnel, including outside lawyers, who receive whistle-blower reports and provide consultation on a wide range of compliance related matters. This system covers NYK and 62 domestic Group companies.

Compliance Training Sessions in Fiscal 2014

	Number of sessions	Number of attendees
Group training sessions*	14	573

* Since fiscal 2002, we have implemented 346 training sessions, which were attended by a total of 9,192 people.

Risk Management

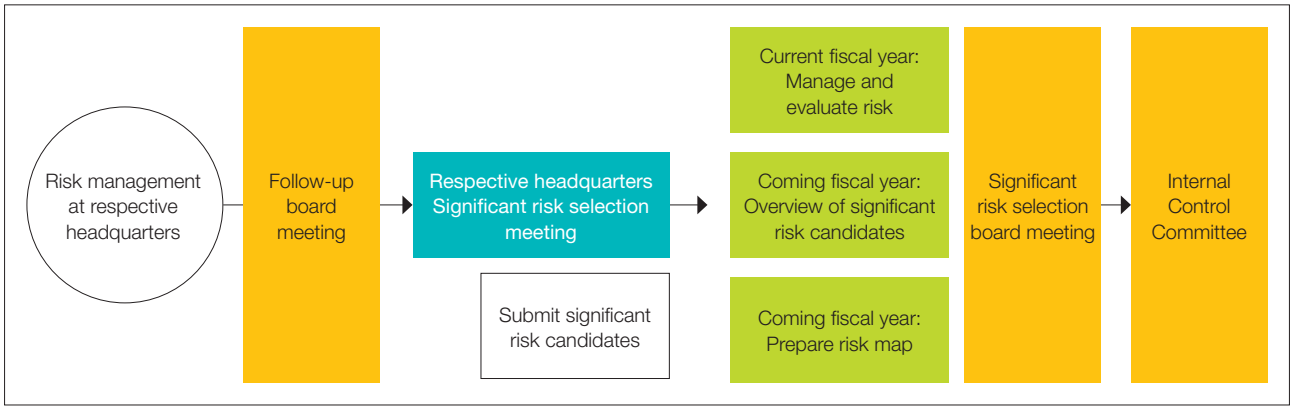
(1) Risk Management

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.

Enterprise Risk Management (ERM)

As part of our analysis of Groupwide risk, we periodically identify and evaluate risk. Executives, including outside directors, select significant

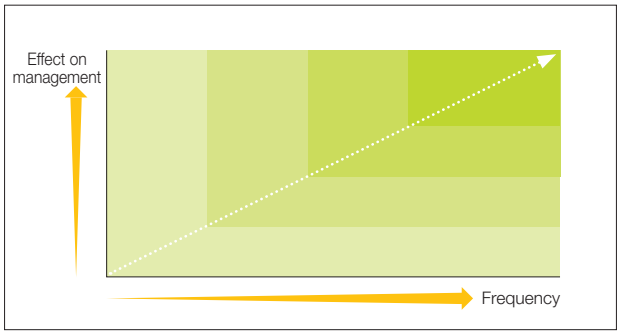
Groupwide Risk Management System



risks at a meeting held for this purpose once a year. At the significant risk selection board meeting, executives check the progress of management in relation to the significant risks of the current fiscal year and select the significant risks of the coming fiscal year. Further, the members of the board meeting conduct an interim follow-up review of the progress of management in relation to significant risks.

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

Risk Map



Information Security Measures

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 if disasters, accidents, or other events disrupt operations, the Group will be able to maintain its important functions uninterrupted wherever possible, or to quickly restore them if interrupted.

Responding to the Great East Japan Earthquake in 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 revised 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, Audit and Supervisory Board Members, and Corporate Officers

(As of June 23, 2015)

Yasumi Kudo

Chairman, Chairman Corporate Officer

Number of shares held 149,745

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

Tadaaki Naito

President, President Corporate Officer

Number of shares held 106,362

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

Naoya Tazawa

Representative Director, Executive Vice-President Corporate Officer

Chief Compliance Officer

Chief Executive of Technical Headquarters (Executive Chief of Environmental Management (ECEM), Chairman of Technology Strategy Committee)

Number of shares held 108,363

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

Kenji Mizushima

Representative Director, Senior Managing Corporate Officer

Chief Executive of Management Planning Headquarters

Chief Financial Officer

Number of shares held 64,674

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

Number of shares held 90,422

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

Koichi Chikaraishi

Representative Director, Senior Managing Corporate Officer

Chief Executive of Automotive Transportation Headquarters

Number of shares held 66,503

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

Masahiro Samitsu

Director, Senior Managing Corporate Officer
Chief Executive of Dry Bulk Carrier Division
Number of shares held 54,593

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

Hidetoshi Maruyama

Director, Managing Corporate Officer
Chairman of IT Strategy Committee
Chief Information Officer
Chief Executive of Global Logistic Services Headquarters
Number of shares held 45,917

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

Yoshiyuki Yoshida

Director, Managing Corporate Officer
Chief Executive of General Affairs Headquarters
Deputy Chief Compliance Officer
Number of shares held 56,550

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

Hitoshi Oshika

Director, Corporate Officer
Number of shares held 39,115

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
Number of shares held 50,593

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

Senior Managing Corporate Officers

Koichi Akamine
Yasuo Tanaka

Managing Corporate Officers

Fukashi Sakamoto
Takashi Abe

Corporate Officers

Takuji Nakai
Yuji Isoda
Kenichi Miki
Eiichi Takahashi
Noriaki Tajima
Hiroyuki Okamoto
Svein Steimler
Jeremy Nixon
Tomoyuki Koyama
Keiji Tsuchiya
Hiroki Harada
Noriko Miyamoto
Toshiyuki Kimura
Akira Kono
Takaya Soga
Kobune Goto

Audit and Supervisory Board Members

Hiroshi Sugiura
Yoko Wasaki

Independent Directors and Audit and Supervisory Board Members

(As of June 23, 2015)

Yukio Okamoto

Outside Director

Number of shares held 73,429

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)

Yuri Okina

Outside Director

Number of shares held 55,974

Resume

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

Mitsuoki Kikuchi

Outside Audit and Supervisory Board Member

Number of shares held 25,868

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 of the National Archives of Japan, an independent administrative institution
2009 Adviser of the National Archives of Japan
2012 Outside Audit and Supervisory Board Member of NYK (part-time, independent auditor)

Toshio Mita

Outside Audit and Supervisory Board Member

Number of shares held 0

Resume

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

Appointment Policy of Outside Directors / Outside Audit and Supervisory Board Members

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

Transaction Relationships, Conflicts of Interest

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

Performance Information

Financial and Non-Financial Review

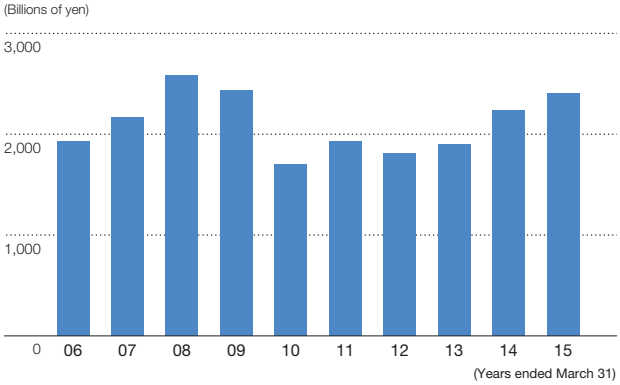
In this review, we analyse and explain financial information for fiscal 2014.

10-Year Summary

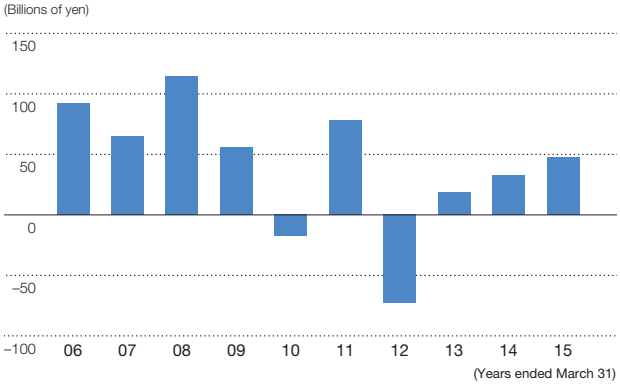
	New Horizon 2007			New Horizon 2010		
Fiscal years ended March 31	2006	2007	2008	2009	2010	2011
Results of Operation:						
Revenues	¥1,929,302	¥2,164,279	¥2,584,626	¥2,429,972	¥1,697,342	¥1,929,169
Costs and expenses	1,594,598	1,840,784	2,128,849	2,054,595	1,520,932	1,622,045
Selling, general and administrative expenses	194,222	218,553	253,698	230,463	194,504	184,777
Operating income (loss)	140,481	104,941	202,079	144,914	(18,094)	122,346
Recurring profit (loss)	140,451	107,534	198,480	140,814	(30,445)	114,165
Net income (loss)	92,058	65,037	114,139	56,151	(17,447)	78,535
Capital expenditures	193,568	271,948	501,330	417,555	237,969	278,570
Depreciation and amortization	73,814	80,487	92,400	100,124	98,019	100,198
Financial Position at Year-End:						
Total assets	1,877,440	2,135,441	2,286,013	2,071,270	2,207,163	2,126,812
Interest-bearing debt	766,024	890,754	1,022,197	1,077,956	1,081,870	981,972
Shareholders' equity	575,366	657,088	637,962	544,121	661,232	684,627
Cash Flows:						
Operating activities	138,732	86,229	199,525	150,474	62,105	174,585
Investing activities	(170,511)	(178,043)	(292,510)	(170,253)	(43,706)	(162,781)
Financing activities	40,339	97,363	146,829	29,571	137,396	(100,161)
Per Share Data:						
Basic net income (loss)	¥ 75.04	¥ 52.99	¥ 92.93	¥ 45.73	¥ (12.71)	¥ 46.27
Equity	471.05	534.90	519.51	443.16	389.46	403.46
Cash dividends applicable to the year	18.00	18.00	24.00	15.00	4.00	11.00
Dividend payout ratio	23.9%	34.0%	25.8%	32.8%	—	23.8%
Managing Indicators:						
Return on equity (ROE)	18.4%	10.6%	17.6%	9.5%	(2.9)%	11.7%
Return on assets (ROA)	5.5%	3.2%	5.2%	2.6%	(0.8)%	3.6%
Return on invested capital (ROIC)	7.5%	4.7%	7.8%	5.9%	(0.4)%	4.6%
Debt-to-equity ratio (DER) (Times)	1.33	1.36	1.60	1.98	1.64	1.43
Shareholders' equity ratio	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)	25,732	29,872	31,369	29,834	31,660	28,361
NYK fleet CO_2 emissions (Thousands of tons) *2	14,642	15,922	16,969	16,739	13,991	14,525
NYK fleet fuel consumption (Thousands of tons) *2	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. As of fiscal 2014, this data is calculated using the amount of fuel used by NYK Line and Group Company ships, based on coefficients in IMO guidelines. For convenience, data has been retrospectively calculated back to fiscal 2012, and is displayed as such.

Revenues



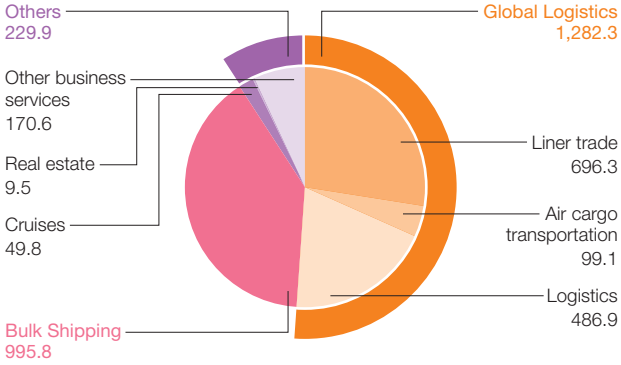
Net Income and Loss



More Than Shipping 2013			More Than Shipping 2018	
			Millions of yen	Thousands of U.S. dollars
2012	2013*1	2014	2015	2015
¥1,807,819	¥1,897,101	¥2,237,239	**¥2,401,820**	**$19,986,854**
1,661,112	1,704,591	1,991,043	**2,127,207**	**17,701,655**
170,831	175,075	201,200	**208,419**	**1,734,374**
(24,124)	17,434	44,995	**66,192**	**550,824**
(33,238)	17,736	58,424	**84,010**	**699,096**
(72,820)	18,896	33,049	**47,591**	**396,031**
309,288	302,326	248,230	**199,343**	**1,658,844**
100,857	97,522	105,956	**101,045**	**840,857**
2,122,234	2,430,138	2,551,236	**2,569,828**	**21,384,942**
1,067,125	1,292,191	1,241,963	**1,098,357**	**9,140,029**
579,342	650,490	720,270	**810,311**	**6,743,039**
29,837	93,951	136,522	**136,448**	**1,135,462**
(139,402)	(135,566)	6,409	**26,755**	**222,648**
72,159	177,966	(95,485)	**(199,007)**	**(1,656,049)**
			Yen	U.S. dollars
¥ (42.92)	¥ 11.14	¥ 19.48	**¥ 28.06**	**$0.23**
341.54	383.50	424.67	**477.79**	**3.98**
4.00	4.00	5.00	**7.00**	**0.06**
—	35.9%	25.7%	**24.9%**	
(11.5)%	3.1%	4.8%	**6.2%**	
(3.4)%	0.8%	1.3%	**1.9%**	
(0.6)%	1.1%	2.3%	**3.1%**	
1.84	1.99	1.72	**1.36**	
27.3%	26.8%	28.2%	**31.5%**	
28,498	28,865	32,342	**33,520**	
14,749	16,007	15,705	**15,575**	
4,734	4,722	4,629	**4,644**	

Revenues by Segment

(Billions of yen)

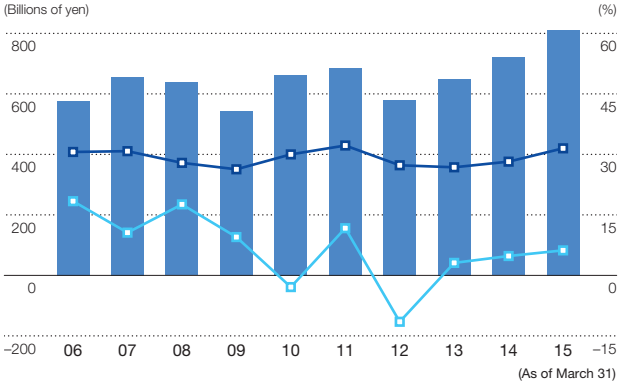


Recurring Profit and Loss by Segment

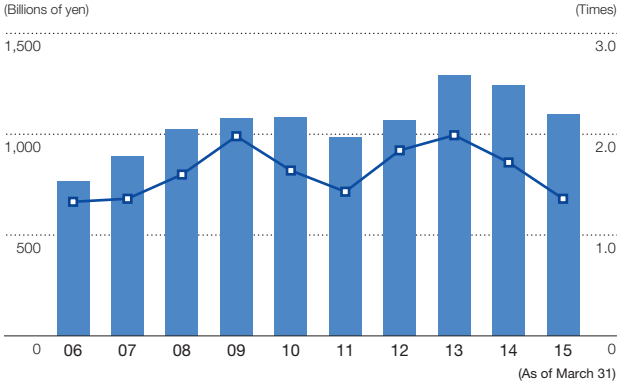
(Billions of yen)

		2014	2015	Change
Global Logistics	Liner trade	–0.7	9.8	10.5
	Air cargo transportation	–7.3	0.6	8.0
	Logistics	6.5	10.7	4.2
	Total	–1.5	21.3	22.9
Bulk Shipping		54.8	60.0	5.1
Others	Cruises	0.7	2.1	1.4
	Real estate	3.8	3.2	–0.5
	Other business services	0.6	–0.5	–1.2
Consolidated recurring profit		58.4	84.0	25.5

Shareholders' Equity / Shareholders' Equity Ratio / ROE



Interest-Bearing Debt / Debt-to-Equity Ratio



Overview of Operating Performance

Consolidated Operating Performance

(Billions of yen)
(Years ended March 31)

	2014 (result)	2015 (result) 1Q	2Q	3Q	4Q	Full year	Change year on year	2016 (forecast)	Change year on year
Revenues	2,237.2	582.3	596.7	603.7	618.9	2,401.8	164.5	2,420.0	18.2
Operating income	44.9	11.5	16.3	13.0	25.2	66.1	21.1	88.0	21.9
Recurring profit	58.4	12.0	24.7	24.8	22.4	84.0	25.5	90.0	6.0
Net income	33.0	10.2	9.7	8.4	19.1	47.5	14.5	55.0	7.5
Currency exchange rate (¥/US$)	¥99.75	¥102.40	¥102.65	¥112.34	¥119.36	¥109.19	–¥9.44	¥115.00	–¥5.81
Bunker oil price (US$/MT)	US$624.11	US$616.36	US$610.64	US$574.02	US$428.10	US$557.28	–US$66.83	US$370.00	–US$187.28

Overview of Operating Performance

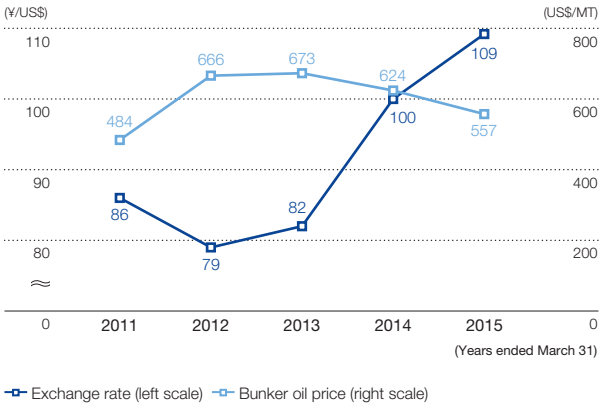
In fiscal 2014, the fiscal year ended March 31, 2015, the global economy showed solid recovery, albeit with a slight sense of vulnerability, supported by strong employment and consumption in the U.S. economy. While there were some countries in Europe that displayed the risk of economic downturn, the European economy generally followed a trend toward a gentle recovery. Although economic growth slowed in China, it still maintained a relatively high growth rate. Other emerging markets were impacted by factors including geopolitical risk, U.S. monetary policy, and the drop in oil prices. The Japanese economy stagnated following the increase in the consumption tax; however, it showed a recovery trend in the second half due to such factors as improved exports due to lower oil prices and the depreciation of the yen.

In the business environment for the shipping industry, while cargo movement increased overall, the vessel supply crunch continued to be a very prominent concern, mainly with container and dry bulk vessels, and the difficult environment continued. Nevertheless, the ongoing depreciation of the yen during the year and the fall in oil prices resulted in a favourable turn in conditions. In businesses with stable freight rates, we steadily accumulated profit on the back of the many long-term contracts that we have secured. Meanwhile, we continued efforts to rationalise vessel deployment and refine fleets to reduce operation and navigation costs and otherwise improve business efficiency and cut costs in businesses without stable freight rates. Accordingly, the NYK Group was able to achieve a substantial year-on-year increase in financial results.

As a result of the aforementioned factors, consolidated revenues for fiscal 2014 increased ¥164.5 billion (an increase of 7.4%) compared with the previous fiscal year. Although costs and expenses were up ¥136.1 billion year on year (an increase of 6.8%), operating income rose by a significant ¥21.1 billion year on year (an increase of 47.1%), and recurring profit grew ¥25.5 billion year on year (an increase of 43.8%). While we recorded extraordinary losses in the forms of losses related to antitrust law of ¥13.7 billion and expenses related to restructuring various businesses, we posted extraordinary income from the sale of our holdings in the North American terminal business. These and other factors resulted in a year-on-year increase in net income of ¥14.5 billion (an increase of 44.0%), making for substantial improvements in all income figures.

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

Movements in Exchange Rates and Bunker Oil Prices



Analysis of Year-on-Year Change in Recurring Profit and Loss (2014 vs. 2015)

(Billions of yen)
(Years ended March 31)

Yen depreciation	15.1	Yen depreciates ¥9.44: depreciation by ¥1 increases earnings approx. ¥1.6 billion
Bunker oil price cuts	9.4	Price decreases US$66.83/MT: increase of US$1 per metric ton reduces earnings approx. ¥140 million
Shipping market effects, etc.	–45.8	Market conditions deteriorate for containerships and dry bulk vessels
Cost reduction	25.1	Liner trade segment reduces cost by ¥19.5 billion
Foreign exchange gains and losses	6.7	
Other	15.1	Extension of depreciation period results in ¥5.8 million profit increase
Total	25.6	

Forecasts

We expect the yen to be weaker and fuel prices to be lower than in fiscal 2014, which will serve as a driver for overall performance. In the Container Shipping Division, market conditions are projected to be sluggish due to an ongoing capacity oversupply that resulted from the completion and delivery of large vessels, mainly on European routes. However, we will work to further improve profitability by continuing to promote measures to reduce costs and heighten profit, such as improving utilisation and reorganising routes. We project strong freight movement in the air cargo transportation segment, and we are anticipating improved earnings. The logistics segment, meanwhile, is expected to continue performing stably. Stagnant market conditions will persist for the Dry Bulk Carrier Division, while the Car Carrier Division and the Liquid Division should continue to perform favourably. Given the above forecasts, in the fiscal year ending March 31, 2016, the NYK Group expects to post higher revenues and earnings as shown in the table below.

Segment Review

Results by Segment

(Billions of yen)
(Years ended March 31)

		2015 operating performance			2016 operating performance forecast	
		2014	2015	Change	2016	Change
Global Logistics	Liner trade*1 *2	617.4	696.3	78.8	772.0	75.6
		–0.7	9.8	10.5	27.5	17.6
	Air cargo transportation	88.8	99.1	10.2	92.0	–7.1
		–7.3	0.6	8.0	2.0	1.3
	Logistics	431.5	486.9	55.3	542.5	55.5
		6.5	10.7	4.2	11.0	0.2
Bulk Shipping*2		988.4	995.8	7.3	948.0	–47.8
		54.8	60.0	5.1	49.5	–10.5
Others	Cruises	45.2	49.8	4.5	—	—
		0.7	2.1	1.4	—	—
	Real estate	9.9	9.5	–0.4	9.0	–0.5
		3.8	3.2	–0.5	3.0	–0.2
	Other business services*3	192.7	170.6	–22.1	206.5	–13.9
		0.6	–0.5	–1.2	0	–1.5

Upper row: Revenues Lower row: Recurring profit and loss
*1. The Terminal Division is included in the liner trade segment from fiscal 2013.
*2. NYK-Hinode Line, Ltd., which was previously included in the liner trade segment, is included in the Bulk Shipping Business from fiscal 2013.
*3. As a result of the sale of Crystal Cruises, Inc., the cruises segment will be included in Others beginning in the fiscal year ending March 31, 2016.

Liner Trade

In the Container Shipping Division, although overall lifting volumes increased, there was a strong supply crunch due to the completion and delivery of ultra-large containerships, mainly on European routes, and market conditions were weak. On North American shipping routes, demand proved to be favourable due to the strong U.S. economy, the benefits of which were relatively positive on freight rates. However, the effects of the port congestion that occurred on the west coast of North America resulted in reductions in voyages, and additional costs resulted from schedule delays. In terms of services, we expanded cooperation under the G6 alliance to North American west coast and Atlantic routes in fiscal 2014, enabling further consolidation and enhancement of the service network. In Asia, we reorganised routes to improve service competitiveness. We also reorganised West African routes and routes from east coast ports in North America to South America to consolidate and revise the service network.

In terms of costs, we worked to reduce ship operation and navigation costs by returning uneconomical vessels, modifying vessels to improve fuel efficiency, and deploying highly fuel-efficient ships. Further, we aimed to thoroughly optimise fleet economics through measures such as improving efficiency in transportation by introducing larger vessels, allocating vessels in line with service characteristics, making efficient use of excess and chartered vessels to recover from delays, and planning efficient vessel allocation to avoid unnecessary costs. We expanded the EAGLE Project (activities aimed at efficiency in container operations and maximisation of profit that we first launched for North American routes) to European and Latin American routes, and thereby pursued further cost reductions and profit improvements.

Container Freight Rates (Figures are indexed: Year ended March 31, 2009, 1Q=100)

	2014 (result)	2015 (result)				Full year	2016 (forecast)
		1Q	2Q	3Q	4Q		
Asia→North America	96	91	91	89	94	91	92
Asia→Europe	72	72	74	66	69	70	68

Total volumes handled at container terminals increased steadily both in Japan and overseas and were up compared with the previous fiscal year.

As a result of the above, we achieved a year-on-year increase in revenues and made a profit in the liner trade segment.

Air Cargo Transportation

Nippon Cargo Airlines Co., Ltd. (NCA), stepped up initiatives geared towards realising a business that is resistant to market volatility. These initiatives included providing cargo bookings specifically for aircraft to respond quickly to customer needs and improve transportation quality and offering airline charters. NCA also entered into new businesses around airports, with the opening of a capsule hotel at Narita Airport as one example. Congestion at west coast ports in North America evident in the third quarter onward resulted in brisk air cargo transportation, which boosted performance together with the drop in fuel prices, leading to a year-on-year increase in revenues and a turn to profit.

Logistics

In the airfreight forwarding business, demand rose due to higher cargo movement following economic recovery in the United States as well as port congestion there. As a result, we handled significantly larger volumes in all areas compared with the previous fiscal year. In the ocean freight forwarding business, we failed to reach the volumes handled in the previous fiscal year. This was because the solid volume of shipments out of Japan was outweighed by the persistence of poor results for shipments out of Asia. We took steps to expand the logistics business, such as opening new warehouses centered on South Asia. The passenger and cargo transportation business between Japan and Korea, coastal transportation business, and warehousing business in Japan all performed favourably. As a result of the above, the logistics segment posted year-on-year increases in revenues and profit.

Bulk Shipping

In the Car Carrier Division, exports of finished automobiles from Japan were consistently lower than in the previous fiscal year. However, as a result of steadily allocating vessels to regions with comparatively strong shipment demand, overall finished automobile shipment numbers for the NYK Group remained at the same level as in the previous fiscal year. Furthermore, four new ships using the latest energy-efficient technologies were completed, enabling us to improve our fleet while further reducing our environmental impact. In the automotive logistics business, we continued to proactively develop our business in growth markets through means such as commencing finished automobile logistics businesses in partnership with local companies in Mexico and Myanmar.

In the Dry Bulk Carrier Division, while cargo movement was relatively strong, the capacity oversupply continued, which resulted in weaker market conditions compared with the previous fiscal year for all vessel types and regions, with capesize bulk carriers being impacted particularly hard. Given this environment, the NYK Group took steps to increase the number of contracts that are less susceptible to short-term market volatility while at the same time cutting costs through measures such as thoroughly promoting slow steaming. Furthermore, we worked to improve earnings by instituting innovative measures related to cargo combinations and vessel allocation to reduce ballast passage.

In the Liquid Division, oil demand grew following a drop in crude oil prices that began in the summer. This drop can be attributed to the rapid increase in crude oil production in the United States, combined with the decision among member countries of the Organization of the Petroleum Exporting Countries (OPEC) to keep production volumes at the current level. Conditions in the very large crude-oil carrier (VLCC) market improved year on year, as diversification in suppliers to China led to increased transportation routes. The LNG carrier business performed well, supported by long-term contracts capable of generating stable earnings. In the offshore business, we successfully launched shuttle tankers; floating production, storage, and offloading (FPSO) facilities; and drill ships.

As a result of the above, the Bulk Shipping Business recorded higher revenues and profit compared with the previous fiscal year.

Automobile Transport Volume

(Years ended March 31)
(1,000 vehicles)

2014 (result)	2015 (result)	2016 (forecast)
3,600	3,650	3,700

Freight Rates for Dry Bulk Carriers and Tankers
(Years ended March 31)

		2014 (result)	2015 (result)	2016 (forecast)
Dry bulk carriers	Dry bulk market trends (BDI)	1,348	917	958
	Capesize bulk carriers (US$/day, Average of four shipping routes)	17,256	10,827	11,000
Tankers	VLCCs (US$/day)	22,913	35,208	37,500

Cruises

In North America, Crystal Cruises, Inc., posted strong sales for world cruises and cruises to European destinations, while Asuka Cruises in Japan recorded favourable sales for summer that prove to be popular each year as well as for New Year's cruises. Overall, the cruise segment achieved increased revenues and profit compared with the previous fiscal year. With the objective of revising our cruises business, we have concluded an agreement to sell Crystal Cruises, our cruise subsidiary in the North American market, to Genting Hong Kong Limited. We expect the transfer to occur in the first quarter of the fiscal year ending March 31, 2016.

Real Estate and Other Business Services

Real estate revenues and profit both declined year on year as a result of the impacts of the sale of properties and rebuilding aimed at rejuvenating buildings held for leasing.

Sales of ship parts were favourable in other business services. However, the trading business suffered from a significant drop in the sales price of mainstay vessel fuel oil that resulted from the sudden drop in oil prices. Due to the above, revenues declined year on year and an overall loss was recorded for the Other Business segment.

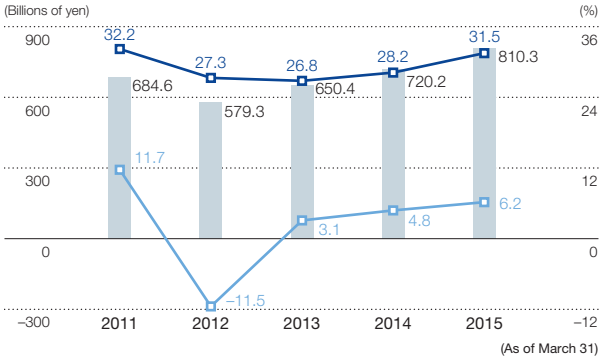
Analysis of Financial Position

Total assets amounted to ¥2,569.8 billion at the end of the fiscal year (March 31, 2015), an increase of ¥18.5 billion compared with the end of the previous fiscal year (March 31, 2014).

Total liabilities amounted to ¥1,688.9 billion, down ¥88.4 billion from the end of the previous fiscal year, as a result of continued repayment of interest-bearing debt.

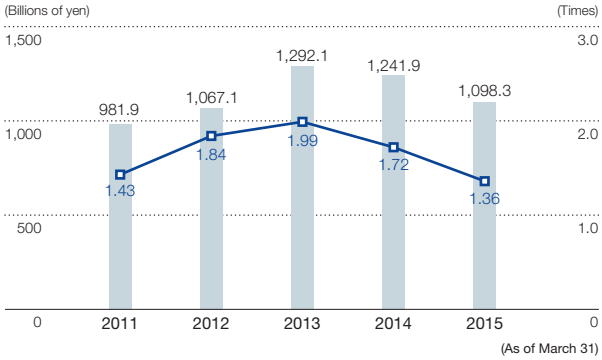
In equity, retained earnings increased ¥38.9 billion from the end of the previous fiscal year. Shareholders' equity—the aggregate of total shareholders' capital and total accumulated other comprehensive income (loss)—amounted to ¥810.3 billion, and adding minority interests of ¥70.6 billion, total equity amounted to ¥880.9 billion. As a result, the debt-to-equity ratio was 1.36.

Shareholders' Equity / Shareholders' Equity Ratio / ROE



Shareholders' equity (left scale) Shareholders' equity ratio (right scale) ROE (right scale)

Interest-Bearing Debt / Debt-to-Equity Ratio



Interest-bearing debt (left scale) Debt-to-equity ratio (right scale)

Analysis of Capital Sources and Liquidity

Cash Flows

Net cash provided by operating activities in fiscal 2014 was ¥136.4 billion, reflecting income before income taxes and minority interests of ¥86.1 billion and non-cash depreciation and amortization of ¥101.0 billion, which was partially offset by ¥17.8 billion in interest expenses paid. Net cash provided by investing activities totaled ¥26.7 billion, reflecting asset sales and efforts to move assets off the balance sheet. Net cash used in financing activities was ¥199.0 billion, largely stemming from repayment of long-term loans payable. As a result, the balance of cash and cash equivalents stood at ¥327.2 billion at March 31, 2015, a decrease of ¥22.4 billion compared with the beginning of the fiscal year (April 1, 2014), after taking into account the effect of exchange rate fluctuations.

Funding Requirements and Capital Expenditures

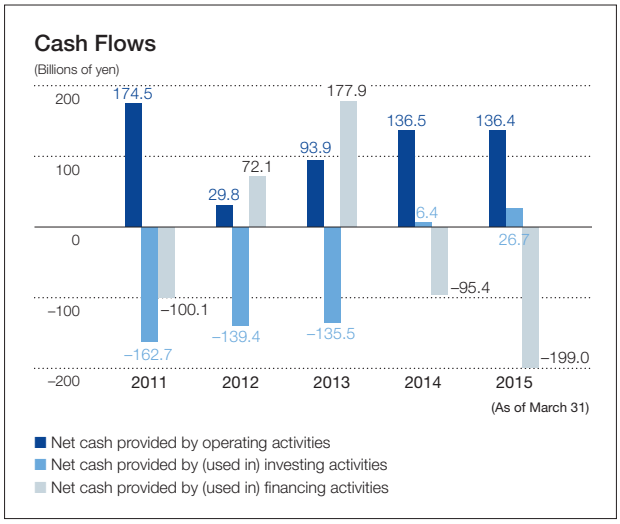
Most of the working capital that the NYK Group requires is for transportation operations related to the Group's liner trade segment and Bulk Shipping Business. These funds are primarily used to cover cargo expenses, fuel expenses, port charges, and other operating expenses as well as ship expenses, such 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 totaled ¥199.3 billion.

Financial Policies

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

Expenditures for vessels—the Group's main category of equipment—are made using long-term borrowings with currencies and tenors matching the future cargo freight revenue and vessel rental income expected to be 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 made with stable funds that match projected 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, 2015, the outstanding amount of long-term borrowings stood at ¥788.8 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 totaled ¥195.4 billion as of March 31, 2015.

The Group strives to maintain capital liquidity, and in addition to its ¥100.0 billion limit for the issuance of commercial paper as of March 31, 2015, and a syndicated commitment line (borrowing limit) from financial institutions denominated in yen and U.S. dollars, a cash management system is used to improve capital efficiency through financing within the Group.

The NYK Group has credit ratings from two agencies in Japan and one overseas. As of March 31, 2015, the NYK Group's long-term corporate credit was rated A+ by Japan Credit Rating Agency, Ltd. (JCR), A– by Rating and Investment Information, Inc. (R&I), and Baa2 by Moody's Investors Service, Inc.

Ratings

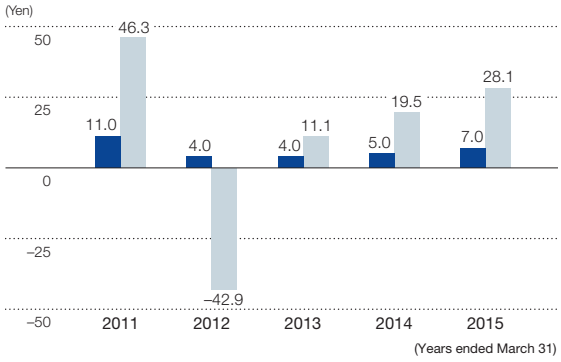
(As of March 31, 2015)

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, 2015, and the Fiscal Year Ending March 31, 2016

The Company regards stably 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 fiscal 2014 the Company plans to pay a year-end dividend of ¥5 per share, ¥1 per share higher than the most recent year-end dividend forecast. This will make for a full-year payment of ¥7 per share when combined with the ¥2 per share interim dividend. For the fiscal year ending March 31, 2016, the Company aims to pay dividends equivalent to a 25% consolidated payout ratio in line with its policy of continuing stable shareholder returns. Accordingly, the Company plans to pay a ¥4 per share interim payment and a ¥4 per share year-end payment, totaling ¥8 per share for the full year.

Dividends per Share / Basic Net Income and 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 Shipping and Freight Markets

The NYK Group endeavours to generate stable operating revenue that is not affected by 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.

In particular, imbalances in shipping supply and demand are causing major fluctuations in freight rates. Meanwhile, if shipping supply surpasses demand, in the market the level of charterage fees could fall.

Further, factors which could affect demand for shipping include the following.

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

Meanwhile, factors which could affect the supply of shipping include the following.

- Increase in shipping capacity due to completion of construction of new vessels
- Decrease in shipping capacity due to scrapping of aged vessels
- Congestion or closure of ports and canals
- Increase or decrease in vessels owing to changes in or expanded provisions for environmental legislation or other regulations that could limit the useful life of vessels

The NYK Group gives priority to long-term, stable contracts and procures the majority of its fleet as owned and long-term chartered vessels. However, if there were not sufficient long-term cargo contracts commensurate with the scale of the fleet, the Group would operate these vessels based on short-term contracts. In such as case, if the level of freight rates fell significantly, earnings acquired from the operation of vessels would not adequately cover fixed expenses of owned vessels. As a result, the NYK Group's business operating performance and financial condition could be affected.

(3) 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.

(4) 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.

(5) 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. Some potential risks are described below.

1. 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 and statutory regulations, etc., that differ from those in Japan

The NYK Group collects information in-house and uses external consultants to prevent or avoid the actualisation of these risks. However, the occurrence of these events could affect the NYK Group's business operating performance and financial condition.

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 vessel operation duties depend on having sufficient seafarers. Highly capable 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 highly capable seafarers, such as providing education and training and recruiting in other countries, but there is no guarantee that in the future the Group will always be able to secure enough seafarers that have the necessary skills at an appropriate level of cost. 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 the seafarers it requires at a reasonable cost, its management of operations 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 management of operations. Third-party strikes or work stoppages by employees outside the NYK Group, such as, for example, strikes at port facilities in North America, could also impact the NYK Group's management of operations.

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, although damage due to piracy has been decreasing in recent years, some of the vessels the NYK Group owns or charters operate in areas where pirate attacks are still frequent, 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 Japan 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.

(6) 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. The NYK Group works to ensure the safety and stability of its system with respect to earthquakes, fires, or other calamities and cyber-attacks. If such factors cause these systems to fail, 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.

(7) 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.

A rise in the costs required to respond to increasingly stringent legislative measures or social expectations for environmental preservation, including the prevention of global warming, atmospheric pollution, the preservation of biodiversity, and safety and security or difficulty in complying with legislation or other regulations in certain regions could limit the NYK Group's operations in that region, which could impact the Group's business operating performance and financial condition.

(8) Air Cargo Transportation Segment

The NYK Group ordered fourteen 747-8F aircraft from Boeing. The Group took delivery of eight of these aircraft in fiscal 2014 and plans to take delivery of the remaining six aircraft in or after fiscal 2017.

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

(9) Relations with Business Partners

The NYK Group's Dry Bulk Carrier Division and Tanker Division place importance on long-term contracts with business partners. 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 automakers, paper manufacturers, electronics manufacturers, steelmakers, and public utilities, and 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 business operating performance and financial condition.

(10) Investment Plans

Although the NYK Group plans and implements investment in the expansion of its fleet of vessels and aircraft, fluctuations including changes in the conditions in the global market or the shipping market 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.

From the ordering of a vessel through to its completion takes several years, and changes in demand during this period are a factor. Large-scale shipbuilding plans are subject to delivery delays and may be affected by shipyard labour disputes, management difficulties, or other factors that affect the shipyard itself.

(11) 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.

(12) Disposal of Operating Vessels

Dramatic changes in the conditions in the shipping market, 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 operating 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.

There is no guarantee that the NYK Group will always be able to sell vessels and aircraft under attractive conditions or, indeed, be able to sell them at all. When market conditions are stagnant and market prices on vessels and aircraft are falling, the NYK Group could be compelled to sell vessels or aircraft that were not fully depreciated for prices below their book values and, as a result, could be forced to record a loss on their sale and retirement. Furthermore, if the NYK Group were unable to sell such assets and markets failed to recover from their current malaise or deteriorated further, the Group may suffer valuation losses on its vessels, aircraft, and other assets. If the NYK Group cancelled charter contracts, based on discussions with shipowners, it could pay penalties for breach of contract.

(13) 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.

(14) 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.

(15) 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.

(16) Litigation and Other Legal Procedures

The NYK Group is engaged in businesses in the liner trade and air cargo transportation segments, the Bulk Shipping Business, the real estate business, 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.

Since September 2012, the NYK Group has been investigated by authorities in Europe and other authorities overseas on suspicion of the violation of antitrust law in relation to the transport of automobiles and other cargoes.

Further, in the United States and other countries, the NYK Group is a defendant 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 investigations and 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 2014 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 2014 and goals for fiscal 2015, following the structure of the seven core subjects of the ISO 26000 standard.

ISO 26000 core subjects	Initiatives	Fiscal 2014 targets	Fiscal 2014 programmes
Organizational governance	Strengthening of CSR management	Heighten Group employees' CSR awareness, and aim to enhance corporate value by fulfilling corporate responsibility through CSR activities that take advantage of mainstay businesses while disclosing appropriately	• Step up coordination between members of internal CSR Task Force • Hold meetings of Group company managers liaison committee
		• Prepare integrated report linked with public relations and investor relations • Continually strengthen Internet distribution	• Prepare integrated report and differentiate position of digest and PDF versions • Renew CSR website to strengthen ability to provide information through the Internet
	Dialogue with stakeholders	• Maintain first position in transportation category (shipping) of Securities Analysts Association of Japan's evaluation ranking • Conduct individual investors' seminars • Hold briefings and facility tours for institutional investors Coordinate planning and finance divisions' responses to ratings agencies	• Acquire first position in transportation category (shipping) of Securities Analysts Association of Japan's evaluation ranking • Conduct individual investors' seminars • Hold briefings and facility tours for institutional investors • Coordinate planning and finance divisions' responses to ratings agencies
Human rights	Respect for human rights, prohibition of discrimination	Continue human rights training through NYK Business College	Conduct human rights training through NYK Business College
	Promotion of diversity	• Continue human rights initiatives through Global Compact Promotion Committee (jointly controlled with the Human Resources Group) and its subcommittee • Participate in respective subcommittees of Global Compact Japan Network (ISO 26000, Human Rights Due Diligence, etc.)	• Continue human rights initiatives through Global Compact Promotion Committee (jointly controlled with the Human Resources Group) and its subcommittee
		• Distribute information on advancement of female employees to media in Japan and overseas	• Distribute information soliciting the Company's proactive stance toward the advancement of female employees
Labour practices	Support for diversity work styles	Through Work-Life Balance Promotion Committee, reduce overtime work and heighten awareness of taking leave	Through Work-Life Balance Promotion Committee, reduce overtime work and heighten awareness of taking leave
	Human resources development	Continue implementing current training syllabus, including NYK Business College training and rank-specific training	Institute NYK Business College training, rank-specific training, training for employees transferred overseas, training for new presidents at Group companies, and training for business trips at Group companies
Fair operating practices	Compliance enforcement	Continue compliance activities and education	Conduct compliance awareness survey and anonymous questionnaire, distribute code of conduct booklets, and transmit compliance-related information
	Promotion of fair competition and trade	Construct systems and advance activities for re-entrenching compliance with antitrust laws	1) Issue antitrust law compliance surveys to all corporate divisions and conduct related interviews, 2) conduct potential risk evaluations, 3) hold meetings of committee to ensure rigorous antitrust law compliance, and 4) continue to institute antitrust law surveys, evaluations, and appraisal for legal risk over new business investment
	Protection and management of information	Implement educational activities aimed at heightening security awareness of end users	Disseminate information to cultivate security awareness through e-learning programs and bulletin boards
Consumer issues	Improvement of customer satisfaction services	Continue rigorous quality assurance by CS Improvement Committee (*Asuka II*)	Implement rigorous quality assurance through CS Improvement Committee (*Asuka II*)
	Promotion of safety	Improve quality of NAV9000 audits	Target safe and efficient vessel operations by merging performance evaluations and cost management to conduct multifaceted, comprehensive, and efficient performance checks
	Development of safety programmes	Continue to enforce terminal safety standards for companies operating at NYK-operated terminals in Japan	• Thoroughly enforce terminal safety standards for companies operating at three inland NYK-operated terminals
Community involvement and development	Social contribution activities	Prepare plan for social contribution activities (volunteer work) in training program for new employees; further encourage participation in social contribution activities in respective regions during approximately six-month training period	Promote volunteer activities by Group employees: support for disaster areas, sale of fair trade goods, implementation of in-house workshops, coastal clean-ups, etc.
		Continue cooperation activities using transport services, including new initiatives	Provide transportation assistance, including new initiatives
		Continue holding events and campaigns in collaboration with City of Yokohama and nearby facilities, and invite and cater to corporate trainings and school field trips	Hold events at NYK Maritime Museum and *Hikawa Maru* together with related organizations
	Involvement in community development	Utilize coal carriers to contribute to local measures	Hold tours and other community events to help foster mutual understanding between shippers and local communities
		Conduct the new Yusen Mirai Project in fiscal 2014	—
		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	Review NYK's seafarers education program at NYK Maritime College, including response to new agreements Enhance Philippine training center by reconstructing and extending building

HR: Human Resources ISMS: Information Security Management System CS: Customer Satisfaction

	Achievement as at the end of March 2014	Evaluation	Fiscal 2015 targets
	• CSR Task Force members (in-house): Convened four in total, 34 departments, 42 participants Group company managers liaison committee: Convened five times in total, 47 companies, 67 participants	⛵⛵⛵	• Step up coordination between members of internal CSR Task Force • Hold meetings of Group company managers liaison committee
	• *NYK Report 2014* received favorable evaluations from various organizations and increased opportunities to make presentations. Received Award for Excellence in the Integrated Report category at Nikkei Annual Report Awards and World Intellectual Capital Initiative Japan Prize for Excellence in the Integrated Reporting • Renewed CSR website	⛵⛵⛵	• Prepare integrated report and communicate process for increasing corporate value • Enhance content of CSR website to strengthen ability to provide information through the Internet
	• Maintained first position in transportation category (shipping) of Securities Analysts Association of Japan's evaluation ranking • Individual investors' seminars: Held six times Facility tours: Held once overseas and once in Japan	⛵⛵⛵	• Maintain first position in transportation category (shipping) of Securities Analysts Association of Japan's evaluation ranking • Conduct individual investors' seminars • Hold briefings and facility tours for institutional investors • Coordinate planning and finance divisions' responses to ratings agencies
	Integrated CSR training with new employee training	⛵⛵⛵	Conduct human rights training
	• Continued activities through Global Compact Promotion Committee (jointly controlled with the Human Resources Group) • Participated in respective subcommittees of Global Compact Japan Network	⛵⛵⛵	Continue conducting current activities
	Conducted PR activities through press events and news releases	⛵⛵⛵	Enhance ability to provide diversity-related information through NYK Report and CSR website
	In addition to activities through Work-Life Balance Promotion Committee, held seminars on reducing overtime work for managers and worked to heighten awareness	⛵⛵⛵	Conduct hearings at divisions with chronically high levels of overtime, examine possible countermeasures together with employees, investigate conditions and consider responses through Work-Life Balance Promotion Committee, and raise time management awareness through announcements informing employees of when it is "go-home-early" day
	Held training for new employees and new team leaders, basic leadership training, training for new presidents at Group companies, and training for business trips at Group companies	⛵⛵⛵	Prepare plan for social contribution activities (volunteer work) in training program for new employees
	Completed implementation of respective items	⛵⛵⛵	Continue compliance activities and education
	1) Conducted risk evaluations for business groups in Dry Bulk Carrier Division and Liquid Division 2) In addition to 1), conducted compliance improvement initiatives following risk evaluation for Automotive Transportation Headquarters 3) Held meetings of committee to ensure rigorous antitrust law compliance in September 2014 and March 2015; formulated compliance activity progress report and policies for next six months 4) Conducted risk assessments of investments from perspective of antitrust laws	⛵⛵⛵	Continue issuing antitrust law compliance surveys to corporate divisions and conducting related interviews and potential risk evaluations, and introduce similar initiatives at domestic and overseas Group companies to promote stringent antitrust law compliance throughout the Group
	Instituted e-learning program over period from September to November 2014; approx. 10,000 people participated at head office, branch offices, and applicable domestic and overseas consolidated subsidiaries; issued seven computer virus warnings via bulletin board	⛵⛵⛵	Introduce Groupwide communication tools to strengthen intra-Group coordination and thereby make better proposals to customers; simultaneously raise Groupwide security level
	Revised five response levels of customer satisfaction surveys, and instituted the following improvement measures based on survey feedback: 1) Forbade smoking in customer rooms (including balconies) to help improve customer health by reducing secondhand smoke exposure 2) Held orientation on ship amenities for new-boarding customers on Company-run cruises prior to departure 3) Revised drink prices to make pricing system easier to understand and made soft drinks free in dining rooms, cafes, and lounges 4) Redefined e-mail communications fees on *Asuka II* and introduced onboard Wi-Fi services	⛵⛵⛵	Continue conducting current activities
	Utilized feedback on vessel structural conditions from audits in performance analyses Conducted trial company audits at several companies with regard to cost management	⛵⛵⛵	• Evolve systems and improve quality by establishing OA team • Conduct evaluations of ship-management companies through coordination between dry bulk carrier, PPC, containership, liquid, and NBP divisions, and institute comprehensive performance checks, including cost-management assessments, to ensure safe and efficient vessel operations
	• Held monthly safety meetings with contractors and operators • Conducted checks of safe operation compliance at meetings every morning before beginning operations at NYK-operated terminals • Conducted bottom-up reviews of dangers identified during operations through *hiyarihatto* (near-miss) reporting, etc.	⛵⛵⛵	Continue conducting current activities
	Conducted new environmental initiatives as part of efforts to support disaster areas	⛵⛵⛵	Continue conducting current activities
	Continued as usual	⛵⛵⛵	Continue cooperation activities using transport services, including new initiatives
	At NYK Maritime Museum and *Hikawa Maru*: 1) Aided events held by Yokohama City (triathlon in May, Mois de la France à Yokohama (France Month) in June, Yokohama Sparkling Twilight 2014 in July 2014, etc.) 2) Held events through collaboration with nearby facilities 3) Accepted participants from junior high school and high school workplace experience programmes	⛵⛵⛵	1) Continue social contribution activities and 2) provide education on maritime topics at NYK Maritime Museum and *Hikawa Maru*
	Cooperated in events at which shippers and harbor staff ride Company ships and local authorities tour ships	⛵⛵⛵	Continue conducting current activities
	–	–	Provide education on maritime topics and communicate the appeal of working on oceangoing ships to elementary school, junior high school, and maritime academy students throughout Japan
	Established seafarer education and training system suited to Philippines	⛵⛵⛵	Review NYK Maritime College, including response to new agreements; enhance Philippine training center by reconstructing and extending building to ensure the cultivation of high-quality seafarers

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

Advancement of Environmental Management Program and Progress toward Goals

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

Fiscal Year Ended March 31, 2015 Review of the Environmental Management Program (Year-End Review)

ISO 26000 core subjects	Initiatives	Fiscal 2014 targets	Fiscal 2014 programmes	
The environment	Use of ISO 14001 certification to promote environmental activities	1) Maintain and expand NYK Group multi-site environmental certification 2) Step up NYK Group multi-site environmental initiatives 3) Continually improve EMS manual 4) Prepare for new certification standard, ISO 14001:2015	1) Maintain activities appropriate for communities and businesses, and expand certification as requested by customers 2) Implement internal audits of corporate divisions, hold discussions with Group companies, and external audits by external organizations 3) Operate and continually improve systems based on EMS manual 4) Hold workshop based on final draft of revised ISO requirement	
	Adherence to domestic and international laws and regulations, formulation of and adherence to industry and Company standards	1) Identify and rigorously adhere to treaties, laws, and regulations that impact ships 2) Monitor and comply with laws and regulations for non-vessel businesses 3) Contribute to formulation of international rules for sustainable societies through industry-wide effort	1) Update NAV9000 audit contents (ship-management companies and ships) 2) Confirm status at Group companies through questionnaire (Internal Audit Chamber) 3) Institute comprehensive compliance inspections 4) Proactively participate in the formulation of international rules	
	Reduction of fleet accidents	1) Eliminate major accidents 2) Reduce fleet downtime (10 hours/year/ship) 3) Conduct emergency preparedness and response	1-1) Conduct NAV9000 audits (ship-management companies and ships) 1-2) Near Miss 3000 activities (increase companies to be covered) 1-3) Hold various safety promotion meetings and safety seminars 1-4) Distribute safety information 1-5) Conduct safety campaigns 2) Continue activities to minimize fleet downtime 3-1) Conduct emergency response exercises and reviews 3-2) Conduct media response training and reviews	
	Maintenance and reinforcement of security and sharing of information	Share information throughout the NYK Group and with concerned parties	1) Hold meetings of Safety and Environmental Management Committee 2) Conduct assemblies of the NYK Group Environmental Management Conference 3) Permeate understanding of the NYK Group Environmental Management Guidelines 4) Conduct emergency drills in NYK building	
	Prevention of global warming (Reduction of CO_2 emissions)	1) Establish environmental management benchmarks: improve fuel consumption efficiency 10% compared with fiscal 2010 by fiscal 2015 and improve fuel consumption efficiency 15% compared with fiscal 2010 by fiscal 2018) 2) Determine total CO_2 emissions for NYK Group	1) Extract data for calculation of environmental management indicators from SPAS for more accurate monitoring 2) Use environmental performance data tabulation system (NYKECOM)	
	Prevention of air pollution (Reduction of NOx and SOx emissions)	Reduce NOx and SOx emissions	1) Increase usage of electronically controlled engines 2) Cooperate with California Speed Reduction Program 3) Make onshore power charging (AMP) equipment compliant with global standards 4) Utilize AMP equipment (container-type) 5) Cooperate with SCR onboard testing 6) Rigorously enforce EU and California low-sulfur fuel guidelines	
	Introduction and use of equipment that reduces marine pollution, conserves and recycles resources, lowers emissions of toxic substance emissions, and protects biodiversity	1) Advance installation of ballast water management systems 2) Scrap ships in an environment-friendly manner 3) Advance installation NYK Total Bilge System	1) Expand installation 2) Adhere to 'NYK Standards' on ship recycling 3) Actively install in new built ships	
	Reduction of office environmental burden	Maintain paper, water, and electricity use at same levels as in fiscal 2013	Endeavour to reduce usage of paper, water, and electricity	
	Contribution to environmental protection through research and development of new technologies	1) Enhance precision of measurement of ship speed relative to water 2) Monitor engine rooms, Phase-3 3) Enhance efficiency of air-blower and scavenging-air-type air-lubrication methods	1) Develop speed log that can maintain accuracy even in turbulent seas 2) Develop system that can monitor performance and condition of main engine 3) Improve efficiency of air-blower and scavenging-air-type air-lubrication methods	
	Stimulation of interest in environmental protection activities	1) Step up environmental training and education of employees 2) Conduct environmental e-learning programs 3) Step up dissemination of information to employees	1) Hold training and workshops, create content for environmental e-learning program, and increase participant numbers 2) Feature environmental activities in internal newsletter, and conduct environmental preservation campaign	
	Disclosure of environmental information	1) Provide up-to-date environmental information through website 2) Disclose CO_2 emissions information	1) Revise and update information contained on website 2) Update CO_2 e-calculator data, participate in CCWG of BSR (U.S. NPO), and verify Scope 3 data	

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

	Achievement as at the end of March 2014	Evaluation	Fiscal 2015 targets
	1) Added two new sites (NYK Maritime Museum and *NYK Hikawamaru*) Total: 55 companies, 150 sites 2) Improvement requests resulting from audits: Internal audits 36, external audits 24 3) Manual revisions: 1 4) Held workshop in August 2014	♣♣♣	1) Maintain and expand NYK Group multi-site environmental certification 2) Step up NYK Group multi-site environmental initiatives 3) Continually improve EMS manual 4) Prepare for new certification standard, ISO 14001:2015
	1) Revised NAV9000 Checklist for ships (ver. 5.2.0) 2) Instituted internal control status questionnaires aimed at newly established companies (June and December 2014), and conducted internal compliance awareness survey (September 2014) 3) Participated in industry body steering committees and the Marine Environment Protection Committee of the International Marine Organization (IMO)	♣♣♣	1) Identify and rigorously adhere to treaties, laws, and regulations that impact ships 2) Maintain and comply with laws and regulations for non-vessel businesses 3) Contribute to formulation of international rules for realization of sustainable societies through industry-wide effort
	1-1) Audited 303 ships / 31 companies, 1,059 improvement proposals 1-2) Scope: 32 companies / 55,633 reports 1-3) Held fleet safety promotion meetings; Global SEMC Safety Meeting; meetings between president, captains, and chief engineers (July–September 2014) 1-4) Total of 39 reports 1-5) Visited 491 ships / 807 participants 2) 16.4 hours/ship/year; Downtime due to engine accidents: 4.4 hours/ship/year 3-1) 7 times 3-2) Conducted training based on scenario of LNG carrier blackout (September 1, 2014)	♣♣♣	1) Eliminate major accidents 2) Reduce fleet downtime (10 hours/year/ship) 3) Conduct emergency preparedness and response
	1) Held at appropriate times for each vessel type (May–July 2014) 2) Conducted in November 2014 3) Collected Environmental Action Plans (100% collection rate) 4) Conducted twice (September 2014, March 2015)	♣♣♣	Share information throughout the NYK Group and with concerned parties
	1) Collected data from 641 ships, 6,776 reports 2) Collected data from 158 operating bases (overseas), 53 companies / 261 operating bases (Japan)	♣♣♣	1) Establish environmental management benchmarks (improve fuel consumption efficiency 15% compared with fiscal 2010 by fiscal 2018) 2) Determine total CO_2 emissions for NYK Group
	1) Adopted for 8 ships in fiscal 2014 2) Compliance percentages, Los Angeles: 100% (20 mile), Long Beach: 100% (40 mile) 3) Took measures to comply with international unified standards issued in July 2012 4) Shoreside generators usage: 127 times; Ships equipped to make use of shoreside generators: 13 5) SCR-equipped ships: 17 6) Started up new project and advanced activities targeting commencement of onboard trials in 2016 7) All vessels using low-sulfur bunker oil	♣♣♣	Reduce NOx and SOx emissions
	1) Installed on 7 ships in fiscal 2014 2) Implemented for two ships in fiscal 2014 3) Installed in 14 ships in fiscal 2014	♣♣♣	1) Advance installation of ballast water management systems 2) Scrap ships in an environment-friendly manner 3) Advance installation NYK Total Bilge System
	Paper usage: –3.89%, water usage: +0.34%, electricity usage: –3.84% compared with levels in fiscal 2013	♣♣	Maintain paper, water, and electricity use at same levels as in fiscal 2014
	1) Analyzed usage data and formulated ideas to improve accuracy 2) Developed application to utilize big data for safe vessel operation and began introducing at ship-management companies 3) Analyzed test data for air-blower air-lubrication methods and formulated guidelines for effective use Developed testing plans to formulate effective usage procedures for scavenging-air-bypass-type air-lubrication methods, instituted onboard tests, and analyzed data	♣♣♣	1) Enhance precision of measurement of ship speed relative to water 2) Expand functionality of application for monitoring performance and condition of main engine 3) Enhance efficiency of air-blower and scavenging-air-type air-lubrication methods
	1) Conducted training for new employees and CSR training 2) Held environmental e-learning programs; realized year-on-year increase of 3,000 participants 3) Continued to feature environmental activities and conducted in-house environmental protection campaign (June–October 2014)	♣♣♣	1) Conduct environmental training 2) Conduct environmental e-learning programs 3) Step up dissemination of information to employees
	1) Updated once (October 2014) 2) Updated CO_2 e-calculator data in September 2014, participated in CCWG, and completed data verification for Scope 1, 2, and 3 and acquired certification	♣♣♣	1) Provide up-to-date environmental information through website 2) Disclose CO_2 emissions information

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

Consolidated Balance Sheets

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(March 31, 2015 and 2014)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
ASSETS			
CURRENT ASSETS:			
Cash and deposits (Notes 4 and 13)	¥ 260,900	¥ 218,358	$ 2,171,091
Notes and operating accounts receivable–trade (Note 4)	287,518	268,612	2,392,598
Short-term investment securities (Notes 4 and 5)	73,400	136,046	610,801
Inventories (Note 7)	48,717	72,147	405,402
Deferred and prepaid expenses	70,510	72,621	586,756
Deferred tax assets (Note 15)	7,083	4,622	58,946
Other	96,589	101,802	803,772
Allowance for doubtful accounts (Note 4)	(2,222)	(2,429)	(18,495)
Total current assets	842,496	871,782	7,010,873
NON-CURRENT ASSETS:			
VESSELS, PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION (Notes 8, 10, 11 and 13):			
Vessels	937,245	923,623	7,799,330
Buildings and structures	79,650	77,254	662,813
Aircraft	21,621	18,505	179,924
Machinery, equipment and vehicles	37,337	35,231	310,706
Equipment	6,446	5,669	53,646
Land	67,162	64,906	558,893
Construction in progress	34,113	97,054	283,874
Other	6,883	6,320	57,281
Net vessels, property, plant and equipment	1,190,460	1,228,565	9,906,471
INTANGIBLE ASSETS:			
Leasehold right	4,625	5,102	38,489
Software	15,585	7,621	129,693
Goodwill	23,955	24,179	199,349
Other	4,621	5,029	38,454
Total intangible assets	48,787	41,933	405,987
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4, 5, 9 and 13)	348,665	291,212	2,901,431
Long-term loans receivable (Note 4)	30,196	24,177	251,281
Net defined benefit asset (Note 22)	50,238	36,913	418,059
Deferred tax assets (Note 15)	6,104	7,445	50,797
Other	54,848	52,240	456,421
Allowance for doubtful accounts (Note 4)	(2,462)	(3,698)	(20,491)
Total investments and other assets	487,589	408,291	4,057,499
Total non-current assets	1,726,837	1,678,790	14,369,958
DEFERRED ASSETS	493	664	4,109
TOTAL ASSETS	¥2,569,828	¥2,551,236	$21,384,942

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
LIABILITIES			
CURRENT LIABILITIES:			
Notes and operating accounts payable–trade (Note 4)	¥ 217,470	¥ 229,738	$ 1,809,692
Short-term loans payable (Notes 4, 12 and 13)	99,566	115,090	828,549
Income taxes payable (Note 15)	20,628	6,190	171,659
Deferred tax liabilities (Note 15)	3,017	4,156	25,112
Advances received	78,102	70,156	649,930
Provision for bonuses	9,983	7,991	83,077
Provision for directors' bonuses	369	345	3,072
Provision for losses related to antitrust law	7,175	13,307	59,711
Provision for losses related to contracts	2,649	3,892	22,049
Provision for losses related to cancellation of charter contract	—	906	—
Other	97,894	74,787	814,635
Total current liabilities	536,858	526,564	4,467,490
NON-CURRENT LIABILITIES:			
Bonds payable (Notes 4 and 12)	195,445	235,445	1,626,404
Long-term loans payable (Notes 4, 12 and 13)	788,832	875,956	6,564,305
Deferred tax liabilities (Note 15)	46,749	33,928	389,026
Net defined benefit liability (Note 22)	19,480	17,433	162,111
Provision for directors' retirement benefits	1,786	1,867	14,862
Provision for periodic dry docking of vessels	20,959	19,726	174,414
Provision for losses related to contracts	8,678	—	72,219
Other	70,115	66,414	583,467
Total non-current liabilities	1,152,047	1,250,773	9,586,811
Total liabilities	1,688,905	1,777,337	14,054,301
EQUITY (Notes 12, 16 and 26)			
SHAREHOLDERS' CAPITAL:			
Common stock	144,319	144,319	1,200,963
Capital surplus	155,616	155,617	1,294,971
Retained earnings	467,092	428,173	3,886,928
Treasury stock	(2,070)	(2,034)	(17,232)
Total shareholders' capital	764,957	726,076	6,365,630
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Unrealized gain (loss) on available-for-sale securities	54,665	29,169	454,899
Deferred gain (loss) on hedges	(41,857)	(22,638)	(348,318)
Foreign currency translation adjustments	27,196	(8,289)	226,318
Remeasurements of defined benefit plans	5,348	(4,046)	44,508
Total accumulated other comprehensive income (loss)	45,353	(5,805)	377,408
Minority interests	70,611	53,628	587,600
Total equity	880,923	773,899	7,330,640
TOTAL LIABILITIES AND EQUITY	¥2,569,828	¥2,551,236	$21,384,942

	Yen		U.S. dollars (Note 2)
Equity per share	¥477.79	¥424.67	$3.98

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, 2015 and 2014)

(Consolidated Statements of Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
REVENUES	¥2,401,820	¥2,237,239	$19,986,854
COST AND EXPENSES	2,127,207	1,991,043	17,701,655
Gross profit	274,612	246,195	2,285,198
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	208,419	201,200	1,734,374
Operating income	66,192	44,995	550,824
NON-OPERATING INCOME:			
Interest income	3,249	2,603	27,038
Dividend income	5,099	4,188	42,435
Equity in earnings of unconsolidated subsidiaries and affiliates	12,657	15,321	105,327
Foreign exchange gains	11,955	5,299	99,489
Other	7,366	7,955	61,300
Total non-operating income	40,328	35,368	335,592
NON-OPERATING EXPENSES:			
Interest expenses	17,755	18,985	147,749
Other	4,755	2,954	39,571
Total non-operating expenses	22,510	21,939	187,320
Recurring profit	84,010	58,424	699,096
OTHER GAINS:			
Gain on sales of non-current assets	12,165	11,216	101,236
Gain on sales of shares of subsidiaries and affiliates	36,647	146	304,967
Other	2,762	16,117	22,985
Total other gains	51,575	27,480	429,189
OTHER LOSSES:			
Loss on sales of non-current assets	503	2,415	4,190
Losses related to antitrust law (Note 17)	13,734	13,101	114,295
Provision for losses related to contracts	11,328	3,892	94,269
Loss on valuation of investment securities (Note 5)	7,082	40	58,934
Impairment loss (Note 18)	6,262	6,832	52,110
Other	10,518	6,516	87,528
Total other losses	49,429	32,797	411,327
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	86,156	53,106	716,958
Income taxes–current	35,538	16,767	295,731
Income taxes–deferred	(1,661)	(1,014)	(13,829)
Total income taxes (Note 15)	33,876	15,752	281,902
NET INCOME BEFORE MINORITY INTERESTS	52,280	37,354	435,055
MINORITY INTERESTS IN NET INCOME	4,689	4,305	39,024
NET INCOME	¥ 47,591	¥ 33,049	$ 396,031

PER SHARE OF COMMON STOCK (Note 3. M):	Yen		U.S. dollars (Note 2)
Basic net income	¥28.06	¥19.48	$0.23
Diluted net income	28.05	19.48	0.23
Cash dividends applicable to the year	7	5	0.06

(Consolidated Statements of Comprehensive Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Net income before minority interests	¥ 52,280	¥37,354	$435,055
Other comprehensive income (Note 19)			
Unrealized gain (loss) on available-for-sale securities	25,692	(922)	213,798
Deferred gain (loss) on hedges	(14,074)	6,844	(117,124)
Foreign currency translation adjustments	29,042	24,433	241,678
Remeasurements of defined benefit plans	9,459	(805)	78,718
Share of other comprehensive income of associates accounted for using equity method	5,950	18,292	49,514
Total other comprehensive income	56,069	47,841	466,585
Comprehensive income	¥108,350	¥85,196	$901,641
Comprehensive income attributable to owners of the parent	¥98,697	¥78,962	$821,317
Comprehensive income attributable to minority interests	9,652	6,233	80,324

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2015 and 2014)

	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, 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
Cumulative effects of changes in accounting policies	–	–	(70)	–	(70)	–	–	–	–	–	293	223
Restated Balance, March 31, 2014	144,319	155,617	428,102	(2,034)	726,005	29,169	(22,638)	(8,289)	(4,046)	(5,805)	53,922	774,122
Dividends from surplus	–	–	(8,480)	–	(8,480)	–	–	–	–	–	–	(8,480)
Net income	–	–	47,591	–	47,591	–	–	–	–	–	–	47,591
Purchase of treasury stock	–	–	–	(38)	(38)	–	–	–	–	–	–	(38)
Disposal of treasury stock	–	(0)	–	1	1	–	–	–	–	–	–	1
Change of scope of consolidation	–	–	(110)	–	(110)	–	–	–	–	–	–	(110)
Increase by merger	–	–	15	–	15	–	–	–	–	–	–	15
Other	–	–	(25)	–	(25)	–	–	–	–	–	–	(25)
Net change of items other than shareholders' capital	–	–	–	–	–	25,495	(19,218)	35,486	9,395	51,158	16,689	67,848
Total changes of items during the period	–	(0)	38,989	(36)	38,952	25,495	(19,218)	35,486	9,395	51,158	16,689	106,800
Balance, March 31, 2015	¥144,319	¥155,616	¥467,092	¥(2,070)	¥764,957	¥54,665	¥(41,857)	¥27,196	¥5,348	¥45,353	¥70,611	¥880,923

	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, 2014	$1,200,963	$1,294,977	$3,563,064	$(16,931)	$6,042,074	$242,737	$(188,388)	$ (68,985)	$(33,674)	$ (48,309)	$446,270	$6,440,035
Cumulative effects of changes in accounting policies	–	–	(589)	–	(589)	–	–	–	–	–	2,445	1,856
Restated Balance, March 31, 2014	1,200,963	1,294,977	3,562,475	(16,931)	6,041,485	242,737	(188,388)	(68,985)	(33,674)	(48,309)	448,716	6,441,891
Dividends from surplus	–	–	(70,570)	–	(70,570)	–	–	–	–	–	–	(70,570)
Net income	–	–	396,031	–	396,031	–	–	–	–	–	–	396,031
Purchase of treasury stock	–	–	–	(318)	(318)	–	–	–	–	–	–	(318)
Disposal of treasury stock	–	(5)	–	16	10	–	–	–	–	–	–	10
Change of scope of consolidation	–	–	(922)	–	(922)	–	–	–	–	–	–	(922)
Increase by merger	–	–	126	–	126	–	–	–	–	–	–	126
Other	–	–	(211)	–	(211)	–	–	–	–	–	–	(211)
Net change of items other than shareholders' capital	–	–	–	–	–	212,161	(159,929)	295,303	78,182	425,718	138,884	564,602
Total changes of items during the period	–	(5)	324,453	(301)	324,145	212,161	(159,929)	295,303	78,182	425,718	138,884	888,748
Balance, March 31, 2015	$1,200,963	$1,294,971	$3,886,928	$(17,232)	$6,365,630	$454,899	$(348,318)	$226,318	$44,508	$377,408	$587,600	$7,330,640

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2015 and 2014)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
OPERATING ACTIVITIES			
Income before income taxes and minority interests	¥ 86,156	¥ 53,106	$ 716,958
Adjustments for:			
Depreciation and amortization	101,045	105,956	840,857
Impairment loss	6,262	6,832	52,110
Losses related to antitrust law	13,734	13,101	114,295
Provision for losses related to contracts	11,328	3,892	94,269
Loss (gain) on sales and retirement of vessels, property, plant and equipment and intangible assets	(11,113)	(8,520)	(92,483)
Loss (gain) on sales of short-term and long-term investment securities	(35,244)	(14,198)	(293,286)
Loss (gain) on valuation of short-term and long-term investment securities	7,241	47	60,256
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	(12,657)	(15,321)	(105,327)
Interest and dividend income	(8,348)	(6,792)	(69,474)
Interest expenses	17,755	18,985	147,749
Foreign exchange (gains) losses	(11,159)	(1,533)	(92,861)
Decrease (increase) in notes and accounts receivable-trade	(12,905)	(35,067)	(107,394)
Decrease (increase) in inventories	22,492	(6,820)	187,168
Increase (decrease) in notes and accounts payable-trade	(15,344)	40,812	(127,689)
Other, net	25,047	9,569	208,437
Subtotal	184,290	164,049	1,533,584
Interest and dividend income received	14,240	10,194	118,501
Interest expenses paid	(17,880)	(19,246)	(148,796)
Paid expenses related to antitrust law	(24,782)	(2,252)	(206,230)
Income taxes paid	(19,419)	(16,222)	(161,598)
Net cash provided by operating activities	136,448	136,522	1,135,462
INVESTING ACTIVITIES			
Proceeds from sales of short-term investment securities	—	42	—
Purchase of vessels, property, plant and equipment and intangible assets	(189,981)	(233,985)	(1,580,939)
Proceeds from sales of vessels, property, plant and equipment and intangible assets	185,298	246,586	1,541,967
Purchase of investment securities	(23,409)	(29,307)	(194,802)
Proceeds from sales of investment securities	51,703	38,100	430,253
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(70)	(923)	(587)
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(1,634)	—	(13,599)
Payments of loans receivable	(18,415)	(29,941)	(153,241)
Collections of loans receivable	25,797	13,669	214,675
Other, net	(2,532)	2,167	(21,077)
Net cash provided by investing activities	26,755	6,409	222,648
FINANCING ACTIVITIES			
Net increase (decrease) in short-term loans payable	(4,068)	(15,588)	(33,855)
Proceeds from long-term loans payable	27,082	49,226	225,371
Repayments of long-term loans payable	(167,473)	(108,032)	(1,393,639)
Proceeds from issuance of bonds	—	39,812	—
Redemption of bonds	(40,000)	(50,000)	(332,861)
Proceeds from stock issuance to minority shareholders	—	126	—
Purchase of treasury stock	(38)	(41)	(318)
Proceeds from sales of treasury stock	1	3	10
Cash dividends paid to shareholders	(8,480)	(6,784)	(70,570)
Cash dividends paid to minority shareholders	(2,268)	(1,540)	(18,880)
Other, net	(3,761)	(2,665)	(31,305)
Net cash used in financing activities	(199,007)	(95,485)	(1,656,049)
Effect of exchange rate change on cash and cash equivalents	12,869	3,891	107,095
Net increase (decrease) in cash and cash equivalents	(22,933)	51,337	(190,843)
Cash and cash equivalents at beginning of period	349,723	298,429	2,910,243
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	338	268	2,818
Increase in cash and cash equivalents resulting from merger with non-consolidated subsidiaries	114	—	950
Increase (decrease) in beginning balance of cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	—	(312)	—
Cash and cash equivalents at end of period (Note 14)	¥ 327,243	¥ 349,723	$ 2,723,169

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2015 and 2014)

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 U.S. dollars using the exchange rate prevailing at March 31, 2015, which was ¥120.17 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 574 consolidated subsidiaries at March 31, 2015.

During the fiscal year ended March 31, 2015, the Company newly established 6 companies and judged 7 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, 2015.

2 companies became a consolidated subsidiary due to the acquisition of shares.

42 companies were excluded from consolidation due to liquidation.

1 company was excluded from consolidation due to merger.

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

(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 7 unconsolidated subsidiaries and 138 affiliates by the equity method at March 31, 2015.

In the consolidated fiscal year ended March 31, 2015, the Company newly established 7 companies and judged 9 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.

1 company became an affiliate company as a result of the acquisition of stock and was included in the scope of the companies accounted for by the equity method.

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

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

7 companies were excluded from the scope of application of the equity method due to the exchange or disposal of shares.

1 company was excluded from the scope of companies accounted for by the equity method, as its net income and retained earnings, etc. decreased in importance.

(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, 2015, December 31 was used by 39 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.

2 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:
   Provided for possible losses associated with surcharge and other payment as well as action for damages (class action lawsuit), arising from suspected violation of competition laws (including antitrust laws) concerning air cargo freight, international air freight forwarding service, marine transportation of automobiles, etc., based on estimated amounts of losses.

(7) Provision for losses related to contracts:
   Provided for possible losses associated with purchase of non-current assets as well as performance of lease contracts based on estimated amounts of losses.

(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 defined benefit obligations, the estimated amount of retirement benefits attributed to a period up to the current fiscal year is primarily determined based on a benefit formula basis.

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

Prior service cost is amortized by the straight-line method over a certain period (primarily 8 years) which is not more than the average remaining service period of employees.

I. Income Taxes

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

J. Freight Revenue and Expense Recognition

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

(1) Transportation by containerships:
Revenues and expenses arising from ocean transportation of containers are 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 per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

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

N. Cash and Cash Equivalents

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

O. Additional Information

(1) Changes in accounting policies:
Following the adoption from the beginning of the fiscal year ended March 31, 2015 of 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" (March 26, 2015; hereinafter "Guidance on Retirement Benefits"), with respect to 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, the method for calculating defined benefit obligations and service cost has been reviewed, and the method for attributing estimated amounts of retirement benefits to periods has been changed from a straight-line basis to a benefit formula basis.

The Accounting Standard for Retirement Benefits, etc., is applied in accordance with the transitional guidance set forth in Article 37 of the Accounting Standard for Retirement Benefits, and the effect of the change in the method for calculating defined benefit obligations and service cost has been added to, or subtracted from, retained earnings at the beginning of the fiscal year ended March 31, 2015. The impacts of this change in accounting policy in the fiscal year ended March 31, 2015 are minor.

(2) Changes in presentation:

Consolidated statements of income

"Gain on sales of shares of subsidiaries and affiliates," which was included in "Other" in "Other gains" in the fiscal year ended March 31, 2014, is presented separately from the fiscal year ended March 31, 2015, because it increased to more than 10% of the total amount of "Other gains." To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2014, have been reclassified.

Consequently, in the consolidated statement of income for the fiscal year ended March 31, 2014, ¥2,205 million that had been presented as "Other" in "Other gains" has been reclassified as "Gain on sales of shares of subsidiaries and affiliates" of ¥146 million and "Other" of ¥16,117 million.

"Gain on sales of investment securities," which was presented separately in "Other gains" in the fiscal year ended March 31, 2014, is included in "Other" from the fiscal year ended March 31, 2015, because it declined to less than or equal to 10% of the total amount of "Other gains." To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2014, have been reclassified.

Consequently, in the consolidated statement of income for the fiscal year ended March 31, 2014, ¥14,058 million that had been presented as "Gain on sales of investment securities" in "Other gains" has been reclassified as "Other."

"Loss on valuation of investment securities," which was included in "Other" in "Other losses" in the fiscal year ended March 31, 2014, is presented separately from the fiscal year ended March 31, 2015, because it increased to more than 10% of the total amount of "Other losses." To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2014, have been reclassified.

Consequently, in the consolidated statement of income for the fiscal year ended March 31, 2014, ¥6,556 million that had been presented as "Other" in "Other losses" has been reclassified as "Loss on valuation of investment securities" of ¥40 million and "Other" of ¥6,516 million.

Consolidated statements of cash flows

"Paid expenses related to antitrust law," which were included in "Increase (decrease) in provision for losses related to antitrust law" and "Other, net " under "Operating activities" in the consolidated statement of cash flows for the fiscal year ended March 31, 2014, are presented separately from the fiscal year ended March 31, 2015, as "Paid expenses related to antitrust law," which is below the subtotal line for "Operating activities," to increase clarity in the consolidated statements of cash flows. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2014, have been reclassified.

Consequently, ¥11,674 million that had been presented as "Increase (decrease) in provision for losses related to antitrust law" and –¥826 million that had been presented as "Other, net" under "Operating activities" in the consolidated statement of cash flows for the fiscal year ended March 31, 2014, have been reclassified as "Losses related to antitrust law" of ¥13,101 million and "Paid expenses related to antitrust law" of –¥2,252 million, which is below the subtotal line.

(3) Change in accounting estimates

Among all types of vessels classified under vessels, property, plant and equipment, the useful life of dry bulk carriers was previously set at 15 years, which has been changed to 20 years from the fiscal year ended March 31, 2015, based on the assessment that the main type of dry bulk carriers are usable for longer periods than originally expected, following a review for each type of vessel over the policies for management and use of vessels. As a result of this change, operating income, recurring profit and income before income taxes and minority interests for the fiscal year ended March 31, 2015 increased each by ¥5,808 million.

(4) New accounting pronouncements:

ASBJ Statement No. 21 "Accounting Standard for Business Combinations" (September 13, 2013)
ASBJ Statement No. 22 "Accounting Standard for Consolidated Financial Statements" (September 13, 2013)
ASBJ Statement No. 7 "Accounting Standard for Business Divestitures" (September 13, 2013)
ASBJ Statement No. 2 "Accounting Standard for Earnings Per Share" (September 13, 2013)
ASBJ Guidance No. 10 "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (September 13, 2013)
ASBJ Guidance No. 4 "Guidance on Accounting Standard for Earnings Per Share" (September 13, 2013)

i) Summary

(a) Transactions with non-controlling interest - A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet - In the consolidated balance sheet, "Minority interest" under the current accounting standard will be changed to "Non-controlling interest" under the revised accounting standard.

(c) Presentation of the consolidated statement of income - In the consolidated statement of income, "Income before minority interests" under the current accounting standard will be changed to "Net income" under the revised accounting standard, and "Net income" under the current accounting standard will be changed to "Net income attributable to

owners of the parent" under the revised accounting standard.

(d) Provisional accounting treatments for a business combination - If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) Acquisition-related costs - Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

ii) Planned adoption date

The Company plans to adopt the said accounting standards from the beginning of the consolidated fiscal year ending March 31, 2016.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015.

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

The effect of adoption of the said accounting standard 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 for designation accounting under the accounting standard, the Company and its consolidated subsidiaries translate hedged foreign currency assets and liabilities at the rates of these contracts. In addition, for interest rate swap contracts that meet specified conditions for exceptional accounting under the accounting standard, the related interest differentials paid or received under the contracts are included in the interest income/expense of the hedged financial assets and liabilities.

② Principal hedging methods and items hedged

Principal hedging methods	Principal items hedged
Currency swap contacts	Charterage 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, 2015 and 2014, 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)		
	2015			2014			2015		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
① Cash and deposits	¥ 260,900	¥ 260,900	¥ —	¥ 218,358	¥ 218,358	¥ —	$ 2,171,091	$ 2,171,091	$ —
② Notes and operating accounts receivable–trade	287,518			268,612			2,392,598		
Allowance for doubtful accounts*1	(1,116)			(1,393)			(9,289)		
Balance	286,402	286,402	—	267,218	267,218	—	2,383,308	2,383,308	—
③ Short-term and long-term investment securities (Note 5)									
Held-to-maturity debt securities	73,644	73,651	6	136,625	136,625	0	612,836	612,890	54
Available-for-sale securities	144,931	144,931	—	109,449	109,449	—	1,206,053	1,206,053	—
Investments in unconsolidated subsidiaries and affiliates	13,319	16,310	2,990	12,422	12,549	127	110,837	135,726	24,888
④ Long-term loans receivable	30,196			24,177			251,281		
Allowance for doubtful accounts*1	(0)			(0)			(2)		
Balance	30,196	32,229	2,033	24,177	24,677	500	251,278	268,200	16,921
Subtotal	809,393	814,424	5,030	768,251	768,879	627	6,735,405	6,777,270	41,865
① Notes and operating accounts payable–trade	217,470	217,470	—	229,738	229,738	—	1,809,692	1,809,692	—
② Short-term loans payable	99,566	99,566	—	115,090	115,090	—	828,549	828,549	—
③ Bonds payable	195,445	205,429	9,984	235,445	244,451	9,006	1,626,404	1,709,494	83,090
④ Long-term loans payable	788,832	804,892	16,059	875,956	885,578	9,621	6,564,305	6,697,944	133,639
Subtotal	1,301,315	1,327,359	26,044	1,456,231	1,474,860	18,628	10,828,951	11,045,681	216,730
Derivative financial instruments*2	¥ (16,256)	¥ (16,256)	¥ —	¥ 494	¥ 494	¥ —	$ (135,275)	$ (135,275)	$ —

*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)
	2015	2014	2015
Segment	Book value	Book value	Book value
Investments in unconsolidated subsidiaries and affiliates	¥164,493	¥136,978	$1,368,838
Shares in unlisted companies	12,739	20,944	106,011
Others	12,937	10,838	107,655
Total	¥190,169	¥168,761	$1,582,505

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

	2015				2014			
	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	¥260,900	¥ —	¥ —	¥ —	¥218,358	¥ —	¥ —	¥ —
Notes and operating accounts receivable–trade	287,304	214	—	—	268,062	549	—	—
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)	73,019	25	—	—	136,000	25	—	—
Available-for-sale securities with maturity dates (government bonds)	—	60	—	—	—	60	—	—
Available-for-sale securities with maturity dates (others)	—	—	—	—	46	—	—	—
Long-term loans receivable	—	5,930	10,999	13,266	—	9,323	9,325	5,528
Total	¥621,723	¥6,329	¥10,999	¥13,266	¥622,467	¥10,458	¥9,425	¥5,528

Thousands of U.S. dollars (Note 2)

	2015			
	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years
Cash and deposits	$2,171,091	$ —	$ —	$ —
Notes and operating accounts receivable–trade	2,390,816	1,781	—	—
Short-term and long-term investment securities:				
Held-to-maturity debt securities (government bonds)	—	832	—	—
Held-to-maturity debt securities (corporate bonds)	4,160	—	—	—
Held-to-maturity debt securities (others)	607,634	208	—	—
Available-for-sale securities with maturity dates (government bonds)	—	499	—	—
Available-for-sale securities with maturity dates (others)	—	—	—	—
Long-term loans receivable	—	49,347	91,534	110,398
Total	$5,173,703	$52,668	$91,534	$110,398

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

Millions of yen

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

Thousands of U.S. dollars (Note 2)

	2015					
	Within one year	More than one year, within two years	More than two years, within three years	More than three years, within four years	More than four years, within five years	More than five years
Short-term loans payable	$828,549	$ —	$ —	$ —	$ —	$ —
Bonds payable	—	—	416,077	249,646	249,646	711,034
Long-term loans payable	—	730,725	798,601	847,839	785,715	3,401,424
Total	$828,549	$730,725	$1,214,678	$1,097,485	$1,035,361	$4,112,458

	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

5. Securities

(1) Short-term and long-term investment securities held-to-maturity with fair value as of March 31, 2015 and 2014, are summarized as follows:

	Millions of yen						Thousands of U.S. dollars (Note 2)		
	2015			2014			2015		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities for which fair value exceeds book value:									
Government bonds and others	¥ 100	¥ 104	¥ 4	¥ 100	¥ 105	¥ 5	$ 833	$ 872	$38
Corporate bonds	500	500	0	200	202	2	4,160	4,164	3
Others	44	45	1	—	—	—	369	381	12
Subtotal	644	651	6	300	308	7	5,363	5,418	54
Securities for which fair value is equal to or less than book value:									
Government bonds and others	—	—	—	—	—	—	—	—	—
Corporate bonds	—	—	—	300	292	(7)	—	—	—
Others	73,000	73,000	—	136,025	136,024	(0)	607,472	607,472	—
Subtotal	73,000	73,000	—	136,325	136,317	(7)	607,472	607,472	—
Total	¥73,644	¥73,651	¥ 6	¥136,625	¥136,625	¥ 0	$612,836	$612,890	$54

(2) Short-term and long-term investment securities classified as available-for-sale securities with fair value as of March 31, 2015 and 2014, are summarized as follows:

	Millions of yen						Thousands of U.S. dollars (Note 2)		
	2015			2014			2015		
	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	¥139,668	¥61,641	¥78,026	¥ 92,471	¥44,984	¥47,487	$1,162,253	$512,955	$649,298
Government bonds and others	59	59	0	59	59	0	498	494	4
Corporate bonds	—	—	—	—	—	—	—	—	—
Others	—	—	—	38	28	10	—	—	—
Subtotal	139,727	61,701	78,026	92,570	45,071	47,498	1,162,752	513,449	649,302
Securities for which book value is equal to or less than acquisition costs:									
Corporate shares	5,189	6,046	(857)	16,828	20,944	(4,115)	43,183	50,317	(7,133)
Government bonds and others	—	—	—	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—	—	—	—
Others	14	30	(16)	51	57	(6)	117	252	(134)
Subtotal	5,203	6,076	(873)	16,879	21,001	(4,122)	43,301	50,569	(7,267)
Total	¥144,931	¥67,778	¥77,153	¥109,449	¥66,073	¥43,375	$1,206,053	$564,019	$642,034

"Acquisition costs" are the book value after recording impairment losses. Impairment losses were recognized in the fiscal year ended March 31, 2015, and were recorded as a loss on valuation of investment securities in the amount of ¥7,082 million ($58,934 thousand).

(3) Proceeds, gains, and losses on sales of available-for-sale securities in the fiscal years ended March 31, 2015 and 2014, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Proceeds from sales	¥641	¥28,397	$5,337
Gross realized gains	175	14,058	1,456
Gross realized losses	(0)	(6)	(2)

6. Derivatives

Derivative financial instruments with fair value as of March 31, 2015 and 2014, are summarized as follows:

(1) Derivative transactions not qualifying for hedge accounting

	Millions of yen						Thousands of U.S. dollars (Note 2)		
	2015			2014			2015		
	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	¥ 8,667	¥ —	¥ 15	¥ 2,418	¥ 91	¥ 30	$ 72,123	$ —	$ 128
Sell U.S. dollar, buy Japanese yen	210,656	—	(1,141)	55,108	—	(228)	1,752,991	—	(9,500)
Buy Euro, sell Japanese yen	—	—	—	304	—	1	—	—	—
Sell Euro, buy Japanese yen	2,088	—	148	4,134	—	(156)	17,379	—	1,233
Buy U.S. dollar, sell Euro	2,130	—	21	3,139	—	0	17,732	—	176
Sell Pound sterling, buy U.S. dollar	—	—	—	1,256	—	(56)	—	—	—
Others	4,261	—	(65)	2,754	463	(28)	35,465	—	(545)
Currency swaps:									
Receive Thai baht, pay Euro	1,247	—	137	—	—	—	10,380	—	1,144
	¥229,052	¥ —	¥ (884)	¥69,116	¥ 554	¥(437)	$1,906,073	$ —	$(7,362)
b. Interest rate-related									
Interest rate swaps:									
Receive fixed, pay floating	¥ 7,018	¥3,021	¥ 99	¥16,811	¥ 9,078	¥ 297	$ 58,406	$25,146	$ 830
Receive floating, pay fixed	6,986	2,993	(132)	16,428	9,018	(401)	58,138	24,908	(1,103)
	¥ 14,005	¥6,015	¥ (32)	¥33,240	¥18,097	¥(104)	$ 116,544	$50,055	$ (273)
c. Commodity-related									
Freight (chartered-freight) forward transactions:									
Forward chartered-freight agreements on buyer's side	¥ 608	¥ —	¥ (299)	¥ 1,558	¥ —	¥ 269	$ 5,067	$ —	$(2,489)
Forward chartered-freight agreements on seller's side	114	—	46	409	—	13	949	—	390
Fuel swaps:									
Receive floating, pay fixed	10	—	(5)	1,605	—	16	89	—	(42)
	¥ 733	¥ —	¥ (257)	¥ 3,573	¥ —	¥ 299	$ 6,105	$ —	$(2,140)

*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, 2015 and 2014.

(2) Derivative transactions qualifying for hedge accounting

		Millions of yen						Thousands of U.S. dollars (Note 2)		
		2015			2014			2015		
		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	$ –	$ –	$ –
Sell U.S. dollar, buy Japanese yen	Investment for equity of overseas subsidiary	19,500	–	(249)	4,211	–	(19)	162,275	–	(2,075)
Sell Euro, buy Japanese yen		6,632	–	380	–	–	–	55,194	–	3,165
Others		217	173	(9)	8	2	0	1,810	1,444	(82)
Non-deliverable forward	Principal items hedged:									
Sell Russian ruble, buy U.S. dollar	Investment for equity of overseas subsidiary	–	–	–	3,688	–	(12)	–	–	–
Currency swaps:	Principal items hedged:									
Receive Japanese yen, pay U.S. dollar	Charterage received	547	279	(94)	244	–	(1)	4,553	2,323	(785)
Receive U.S. dollar, pay Malaysian ringgit	Loans payable	1,866	1,351	208	760	412	14	15,533	11,250	1,736
Receive Singapore dollar, pay U.S. dollar	Loans receivable	684	617	(94)	705	642	(8)	5,698	5,136	(789)
Currency options:	Principal items hedged:									
Buy U.S. dollar put option, sell U.S. dollar call option	Freight	7,228	–	2	4,181	–	12	60,150	–	21
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	¥ 31,132	¥ 17,207	¥ 7,312	¥ 77,740	¥ 25,354	¥ 13,210	$ 259,074	$ 143,194	$ 60,849
Sell U.S. dollar, buy Japanese yen		4,114	–	6	205	–	(0)	34,238	–	53
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	¥ 8,847	¥ 7,486	¥ 1,860	¥10,208	¥ 8,847	¥ 281	$ 73,623	$ 62,296	$ 15,484
		¥ 80,772	¥ 27,115	¥ 9,322	¥103,562	¥ 36,697	¥ 13,477	$ 672,153	$225,645	$ 77,576
b. Interest rate-related										
Derivative transactions qualifying for general accounting policies, deferral hedge accounting										
Interest rate swaps:	Principal items hedged:									
Receive fixed, pay floating		10,000	10,000	606	12,694	12,335	74	83,215	83,215	5,044
Receive floating, pay fixed	Long-term loans payable	¥160,651	¥128,285	¥(13,058)	¥155,275	¥141,734	¥(12,266)	$1,336,869	$1,067,534	$(108,668)
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	$ 208,038	$ 208,038	*2
Receive floating, pay fixed		69,745	64,122		69,794	63,103		580,387	533,595	
		¥265,396	¥227,407	¥(12,452)	¥262,764	¥242,173	¥(12,191)	$2,208,510	$1,892,383	$(103,623)
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	¥ 1,596	¥ –	¥ 876	¥ 2,056	¥ –	¥ (477)	$ 13,287	$ –	$ 7,291
Fuel swaps:	Principal items hedged:									
Receive floating, pay fixed	Fuel	40,133	5,930	(10,015)	24,811	588	216	333,973	49,352	(83,347)
Fuel oil collar transactions:	Principal items hedged:									
Buy call option, sell put option	Fuel	9,534	–	(950)	9,537	–	(5)	79,342	–	(7,911)
		¥ 51,264	¥ 5,930	¥(10,090)	¥ 36,405	¥ 588	¥ (266)	$ 426,603	$ 49,352	$ (83,967)

*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, 2015 and 2014.
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, 2015 and 2014, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Products and goods	¥ 2,880	¥ 2,820	$ 23,971
Work in progress	548	502	4,564
Raw materials, fuel and supplies	45,287	68,824	376,865

8. Accumulated Depreciation

As of March 31, 2015 and 2014, accumulated depreciation of vessels, property, plant and equipment is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Accumulated depreciation	¥975,961	¥902,363	$8,121,506

9. Investment in Non-consolidated Subsidiaries and Affiliates

Amounts corresponding to non-consolidated subsidiaries and affiliates as of March 31, 2015 and 2014, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Investment securities (stocks)	¥177,812	¥149,401	$1,479,676
Other in investment and other assets (investment in capital)	14,392	12,917	119,771

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, 2015, totaled ¥4,180 million ($34,790 thousand).

The amounts recorded in the consolidated balance sheets, the increase (decrease) during the fiscal years ended March 31, 2015 and 2014, and the fair values of the relevant investment and rental property as of March 31, 2015 and 2014, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Amount recorded in consolidated balance sheet:			
Balance at beginning of year	¥ 40,632	¥ 41,346	$338,121
Increase (decrease) during the fiscal year	(708)	(714)	(5,895)
Balance at end of year	39,923	40,632	332,226
Fair value as of fiscal year-end	¥100,162	¥100,089	$833,504

*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, 2015, the primary increase was ¥1,259 million ($10,484 thousand) from acquisition and the primary decreases were –¥1,139 million (–$9,478 thousand) from depreciation and –¥394 million (–$3,280 thousand) from sales.
3. The market value as of the fiscal year-end is the amount calculated primarily based on the Real Estate Appraisal Standard (including adjustments made using indexes).

11. Deferred Capital Gains

Under certain conditions, such as exchanges of fixed assets of similar kinds, gains from insurance claims, and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer gains arising from such transactions by reducing the cost of the assets acquired. As such, deferred capital gains from insurance claims were deducted from the cost of properties acquired in replacement, which amounted to ¥6,246 million ($51,983 thousand) and ¥5,437 million as of March 31, 2015 and 2014, respectively.

12. Short-Term and Long-Term Debt

(1) Bonds as of March 31, 2015 and 2014, consisted of the following:

	Interest rate	Maturity date	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars (Note 2) 2015
Unsecured Straight Bonds No.23	2.36%	June 7, 2024	¥ 10,000	¥ 10,000	$ 83,215
Unsecured Straight Bonds No.24*1	2.06%	June 22, 2016	—	20,000	—
Unsecured Straight Bonds No.25	2.65%	June 22, 2026	10,000	10,000	83,215
Unsecured Straight Bonds No.27	2.05%	June 20, 2017	30,000	30,000	249,646
Unsecured Straight Bonds No.29	1.782%	August 9, 2019	30,000	30,000	249,646
Unsecured Straight Bonds No.30*1	0.475%	September 9, 2016	—	20,000	—
Unsecured Straight Bonds No.31	1.218%	September 9, 2021	25,000	25,000	208,038
Unsecured Straight Bonds No.32	2.13%	September 9, 2031	10,000	10,000	83,215
Unsecured Straight Bonds No.33	0.472%	June 16, 2017	20,000	20,000	166,430
Unsecured Straight Bonds No.34	0.594%	June 18, 2018	10,000	10,000	83,215
Unsecured Straight Bonds No.35	1.177%	June 17, 2022	10,000	10,000	83,215
Unsecured Straight Bonds No.36	0.572%	September 13, 2018	20,000	20,000	166,430
Unsecured Straight Bonds No.37	0.939%	September 11, 2020	20,000	20,000	166,430
Convertible bonds*2	0%	September 24, 2026	445	445	3,703
Total			¥195,445	¥235,445	$1,626,404

*1. Unsecured Straight Bonds No.24 and Unsecured Straight Bonds No.30 were treated as a redemption as a 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 ($6.47 (Note 2))
Total amount of debt securities issued	¥445 million ($3,703 thousand (Note 2))
Total amount of shares issued by exercising warrants	—
Percentage of shares with warrants (%)	100
Exercise period	October 4, 2006 – September 10, 2026

The aggregate annual maturities of convertible bonds and bonds as of March 31, 2015, were as follows:

Millions of yen

2015				
Within one year	More than one year, within two years	More than two years, within three years	More than three years, within four years	More than four years, within five years
¥ —	¥ —	¥50,000	¥30,000	¥30,000

Thousands of U.S. dollars (Note 2)

2015				
Within one year	More than one year, within two years	More than two years, within three years	More than three years, within four years	More than four years, within five years
$ —	$ —	$416,077	$249,646	$249,646

(2) Loans payable, obligations under finance lease and other interest-bearing liabilities as of March 31, 2015 and 2014, were as follows:

Classification	Average interest rate	Repayment deadline	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars (Note 2) 2015
Short-term loans payable (including overdraft)	1.65%	—	¥ 12,174	¥ 16,346	$ 101,310
Current portion of long-term loans payable	0.91%	—	87,392	98,744	727,238
Current portion of obligations under finance lease	3.28%	—	2,074	1,819	17,266
Long-term loans payable	0.99%	2016~2033	788,832	875,956	6,564,305
Obligations under finance lease	2.52%	2016~2021	12,438	13,650	103,503
Other interest-bearing liabilities:					
Current portion of long-term accounts payable	1.61%		1,361	1,361	11,326
Long-term accounts payable	1.77%	2021	10,798	11,684	89,859
Total			¥915,071	¥1,019,563	$7,614,810

* 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, 2015, are as follows:

	Millions of yen			
	2015			
	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	¥87,811	¥95,967	¥101,884	¥94,419
Obligation under finance lease	4,679	985	944	847
Long-term accounts payable	1,361	1,361	1,361	1,361

	Thousands of U.S. dollars (Note 2)			
	2015			
	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	$730,725	$798,601	$847,839	$785,715
Obligation under finance lease	38,942	8,203	7,859	7,051
Long-term accounts payable	11,326	11,326	11,326	11,326

13. Pledged Assets and Secured Liabilities

As of March 31, 2015, 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	¥ 877	$ 7,299
Vessels*	229,812	1,912,394
Buildings and structures	1,324	11,021
Machinery, equipment and vehicles	0	0
Land	4,293	35,726
Investment securities*	44,826	373,029
Total	¥281,134	$2,339,470

Secured liabilities	Millions of yen	Thousands of U.S. dollars (Note 2)
Short-term loans payable	¥ 17,747	$ 147,689
Long-term loans payable	177,893	1,480,349
Total	¥195,641	$1,628,039

* Vessels include ¥359 million ($2,992 thousand) and Investment securities include ¥44,772 million ($372,577 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, 2015 and 2014, are reconciled to cash and deposits reflected in the accompanying consolidated balance sheets as of March 31, 2015 and 2014, as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Cash and deposits	¥260,900	¥218,358	$2,171,091
Time deposits with a maturity of more than three months	(6,656)	(4,681)	(55,394)
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)	73,000	136,046	607,472
Cash and cash equivalents	¥327,243	¥349,723	$2,723,169

15. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2015 and 2014, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Deferred tax assets:			
Provision for bonuses	¥ 2,537	¥ 2,551	$ 21,118
Net defined benefit liabilities	5,548	5,283	46,171
Impairment loss on vessels, property, plant and equipment	4,159	5,459	34,611
Losses on revaluation of securities	4,864	1,258	40,476
Tax loss carryforwards	41,389	49,573	344,427
Unrealized gains on sale of vessels, property, plant and equipment	1,571	1,575	13,075
Provision for periodic dry docking of vessels	6,247	6,344	51,990
Accrued expenses	1,719	2,273	14,311
Foreign tax credit carryforwards	6,626	3,860	55,144
Deferred loss on derivatives under hedge accounting	13,122	7,033	109,201
Others	15,582	9,716	129,673
Subtotal of deferred tax assets	103,370	94,931	860,202
Valuation allowance	(80,344)	(74,798)	(668,588)
Total deferred tax assets	23,026	20,132	191,614
Deferred tax liabilities:			
Net defined benefit asset	(12,639)	(8,563)	(105,179)
Gain on securities contribution to employee retirement benefit trust	(2,968)	(3,193)	(24,701)
Depreciation	(4,056)	(7,460)	(33,756)
Reserve for reduction entry	(4,142)	(4,000)	(34,471)
Valuation difference on available-for-sale securities	(24,622)	(13,987)	(204,894)
Deferred gain on derivatives under hedge accounting	(3,000)	(4,878)	(24,968)
Others	(8,176)	(4,065)	(68,037)
Total deferred tax liabilities	(59,605)	(46,149)	(496,010)
Net deferred tax (liabilities) assets	¥ (36,579)	¥(26,017)	$(304,395)

(2) Reconciliation of the statutory income tax rate to the effective income tax rate for the years ended March 31, 2015 and 2014, was as follows:

	2015	2014
Normal statutory income tax rate	31.9%	34.4%
Increase (decrease) in taxes resulting from:		
Amortization of goodwill	0.7	0.9
Equity in earnings of unconsolidated subsidiaries and affiliates	(3.3)	(7.0)
Permanently non-deductible expenses for tax purposes, such as entertainment expenses	5.4	9.8
Permanently non-taxable income, such as dividend income	(0.3)	(0.7)
Changes in valuation allowance	10.3	(2.8)
Tax exemption of shipping business	(6.6)	(5.3)
Other	1.2	0.4
Actual effective income tax rate	39.3%	29.7%

(3) New tax reform laws enacted in 2015 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2015, from approximately 31.9% to 29.83% and for the fiscal year beginning on or after April 1, 2016, to approximately 29.65%. This change had only a negligible impact on deferred tax assets in the consolidated balance sheet as of March 31, 2015.

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 legal retained earnings (a component of retained earnings) or as legal capital surplus (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal retained earnings and legal capital surplus equals 25% of the amount of common stock. Under the Companies Act, the total amount of legal 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, 2015, were as follows:

	Shares of common stock (Thousands)	Shares of treasury stock (Thousands)
At March 31, 2014	1,700,550	4,462
Increase in number of shares	—	123
Decrease in number of shares	—	4
At March 31, 2015	1,700,550	4,581

b. Matters concerning dividends

(1) Total dividend payments to be paid for the consolidated fiscal year ended March 31, 2015, are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Approved at the ordinary general meeting of shareholders on June 24, 2014	¥5,088	$42,343
Approved by the Board of Directors on October 31, 2014	3,392	28,227

(2) The effective date for dividends, including retained earnings, as of March 31, 2015, 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 23, 2015	¥8,480	$70,566

17. Notes to Consolidated Statements of Income

Losses related to antitrust law

For the year ended March 31, 2015, the NYK Group has recorded payment associated with the plea-agreement, along with currently estimated possible future loss, in connection with the investigations by the U.S. and other authorities overseas concerning competition laws relating to marine transportation of automobiles, as well as the actions for damages (class action lawsuits) filed in the U.S. concerning air cargo freight and international air freight forwarding services.

18. Impairment Losses

The Company and its consolidated subsidiaries divide operating assets based on management accounting and group such assets according to the business that makes investment decisions. For rental property, assets to be disposed of by sale and idle assets, the Company and its consolidated subsidiaries group the assets by structure.

In the consolidated fiscal year ended March 31, 2015, the economic performance of operating assets is, or will be, worse, causing a noticeable deterioration in profitability. The Company reduced the book value on these asset groups to recoverable amounts and booked the reductions as impairment losses of ¥6,262 million ($52,110 thousand).

The breakdown is as follows:

Location	Application	Type	Millions of yen	Thousands of U.S. dollars (Note 2)
Singapore	Assets for operations	Vessel	¥1,540	$12,820
Belgium	Assets for operations	Vessel	3,224	26,829
Others	Mainly assets for operations	Aircraft and others	1,497	12,460
Total			¥6,262	$52,110

Impairment loss by location

Location	Millions of yen	Thousands of U.S. dollars (Note 2)	
Singapore	¥1,540	$12,820	(Vessel ¥1,540 million ($12,820 thousand))
Belgium	¥3,224	$26,829	(Vessel ¥3,224 million ($26,829 thousand))
Others	¥1,497	$12,460	(Vessel ¥108 million ($899 thousand), Aircraft ¥942 million ($7,844 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 5.755%.

19. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2015 and 2014, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 34,609	¥ 12,203	$ 288,008
Reclassification adjustments to profit or loss for the year	(307)	(13,885)	(2,559)
Amount before income tax effect	34,302	(1,681)	285,449
Income tax effect	(8,610)	759	(71,650)
Total	25,692	(922)	213,798
Deferred gain (loss) on hedges:			
Gains (losses) arising during the year	(12,714)	14,619	(105,800)
Reclassification adjustments to profit or loss for the year	12,346	4,891	102,737
Adjustment for the acquisition cost of assets	(15,937)	(13,491)	(132,624)
Amount before income tax effect	(16,305)	6,019	(135,687)
Income tax effect	2,230	824	18,563
Total	(14,074)	6,844	(117,124)
Foreign currency translation adjustments:			
Gains (losses) arising during the year	31,988	23,156	266,191
Reclassification adjustments to profit or loss for the year	(2,945)	1,277	(24,513)
Amount before income tax effect	29,042	24,433	241,678
Income tax effect	—	—	—
Total	29,042	24,433	241,678
Remeasurements of defined benefit plans:			
Gains (losses) arising during the year	11,310	(1,259)	94,117
Reclassification adjustments to profit or loss for the year	2,431	534	20,233
Amount before income tax effect	13,741	(725)	114,350
Income tax effect	(4,281)	(80)	(35,632)
Total	9,459	(805)	78,718
Share of other comprehensive income of associates accounted for using equity method:			
Gains (losses) arising during the year	1,155	14,377	9,613
Reclassification adjustments to profit or loss for the year	4,794	3,908	39,901
Adjustment for the acquisition cost of assets	—	6	—
Total	5,950	18,292	49,514
Total other comprehensive income (loss)	¥ 56,069	¥ 47,841	$ 466,585

20. Commitments and Contingent Liabilities

(1) Commitments made by the Company and its consolidated subsidiaries as of March 31, 2015, totaled ¥46,802 million ($389,464 thousand) for the construction of vessels and ¥166,668 million ($1,386,935 thousand) for the purchase of aircraft.

Contingent liabilities for notes receivable discounted and endorsed, guarantee of loans and debt assumption as of March 31, 2015, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Notes receivable discounted and endorsed	¥ 7	$ 66
Guarantees of loans	138,827	1,155,255
Debt assumption:		
Unsecured Straight Bonds No. 24	20,000	166,430
Unsecured Straight Bonds No. 30	20,000	166,430

(2) Certain operating lease agreements that the NYK Group concluded on its respective vessels incorporate a residual value guarantee clause. The maximum amount of potential future payment under the guarantee obligation is ¥57,026 million ($474,552 thousand). The guarantee may be paid if the companies choose to return the leased property rather than exercise an option to buy it. The operating lease agreements will expire by June 2021.

(3) Some operating lease agreements that the NYK Group concluded on its aircraft incorporate a residual value guarantee clause. The maximum amount of potential future payment under the guarantee obligation is ¥71,241 million ($592,841 thousand).

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

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

21. Accounting for Leases

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

Pro forma information of such leases existing at the transaction date on an "as if capitalized" basis for the years ended March 31, 2015 and 2014, was as follows:

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

As lessees

a. Acquisition cost, accumulated depreciation, accumulated impairment loss, and net balance at the end of the year of leased assets as of March 31, 2015 and 2014, 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

	2015				2014			
	Vessels	Equipment	Other	Total	Vessels	Equipment	Other	Total
Acquisition cost	¥12,170	¥7,877	¥267	¥20,315	¥15,703	¥22,721	¥364	¥38,788
Accumulated depreciation	11,640	7,670	263	19,574	14,186	20,621	330	35,138
Accumulated impairment loss	—	—	—	—	—	—	—	—
Net balance at end of the year	529	207	4	741	1,517	2,099	33	3,650

	Thousands of U.S. dollars (Note 2)			
	2015			
	Vessels	Equipment	Other	Total
Acquisition cost	$101,276	$65,556	$2,225	$169,058
Accumulated depreciation	96,867	63,828	2,190	162,887
Accumulated impairment loss	—	—	—	—
Net balance at end of the year	4,409	1,727	34	6,171

b. Future lease payments as of March 31, 2015, which included the portion of interest thereon, are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Within one year	¥739	$6,153
More than one year	0	4
Total	¥740	$6,158

c. Lease expenses, depreciation, interest expenses, and impairment loss for the years ended March 31, 2015 and 2014, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Lease expenses for the year	¥3,172	¥4,436	$26,398
Depreciation	3,395	4,918	28,256
Interest expenses	63	152	529

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, 2015, are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Within one year	¥ 94,008	$ 782,293
More than one year	306,599	2,551,378
Total	¥400,607	$3,333,671

As lessors

Future lease income as of March 31, 2015, is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Within one year	¥ 6,528	$ 54,324
More than one year	50,812	422,838
Total	¥57,340	$477,162

22. Accounting for Employees' Retirement Benefits

1. Outline of employees' retirement benefit plans

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

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

2. Defined benefit plans

(1) Changes in defined benefit obligation for the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Balance at beginning of year	¥81,768	¥80,262	$680,441
Cumulative effects of changes in accounting policies	(671)	—	(5,587)
Restated balance	81,097	80,262	674,854
Service costs	3,161	3,084	26,310
Interest costs	1,345	1,393	11,193
Actuarial (gains) losses	3,361	(1,266)	27,971
Benefits paid	(3,581)	(3,721)	(29,803)
Prior service cost	43	11	358
Others	1,291	2,005	10,745
Balance at end of year	¥86,718	¥81,768	$721,630

(2) Changes in plan assets for the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Balance at beginning of year	¥108,291	¥ 98,837	$ 901,149
Expected return on plan assets	1,777	1,608	14,787
Actuarial gains (losses)	14,499	6,144	120,657
Contributions from the employer	1,467	2,818	12,208
Benefits paid	(2,611)	(2,926)	(21,729)
Others	1,023	1,807	8,516
Balance at end of year	¥124,446	¥108,291	$1,035,590

(3) Reconciliation between the balance at beginning of year and the balance at end of year in relation to net defined benefit liability for which the shortcut method was applied for the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Balance at beginning of year	¥7,042	¥7,603	$58,603
Net periodic benefit costs	989	1,026	8,232
Benefits paid	(455)	(629)	(3,792)
Contributions from the employer	(679)	(633)	(5,653)
Other	74	(324)	622
Balance at end of year	¥6,971	¥7,042	$58,011

(4) Reconciliation between the liability recorded in the consolidated balance sheets and the balances of defined benefit obligation and plan assets as of March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Funded defined benefit obligation	¥ 88,266	¥ 83,600	$ 734,511
Plan assets	(131,770)	(115,126)	(1,096,533)
	(43,504)	(31,525)	(362,021)
Unfunded defined benefit obligation	12,746	12,045	106,073
Net liability (asset) arising from defined benefit obligation	(30,757)	(19,480)	(255,947)
Net defined benefit liability	19,480	17,433	162,111
Net defined benefit asset	(50,238)	(36,913)	(418,059)
Net liability (asset) arising from defined benefit obligation	¥ (30,757)	¥ (19,480)	$ (255,947)

(5) Components of net periodic benefit costs for the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Service costs	¥ 3,161	¥ 3,084	$ 26,310
Interest costs	1,345	1,393	11,193
Expected return on plan assets	(1,777)	(1,608)	(14,787)
Recognized actuarial (gains) losses	2,262	(354)	18,830
Amortization of prior service cost	463	517	3,861
Net periodic benefit costs calculated using the shortcut method	989	1,026	8,232
Other	41	21	344
Net periodic benefit costs	¥ 6,487	¥ 4,079	$ 53,985

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Prior service cost	¥ 410	¥ 42	$ 3,416
Actuarial gains (losses)	13,331	(768)	110,935
Transitional obligation	(0)	(0)	(0)
Total	¥13,741	¥(725)	$114,350

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Unrecognized prior service cost	¥ (29)	¥ (440)	$ (248)
Unrecognized actuarial gains (losses)	7,860	(5,459)	65,409
Unrecognized transitional obligation	(0)	(0)	(4)
Total	¥7,829	¥(5,900)	$65,156

(8) Components of plan assets

Plan assets consisted of the following as of March 31, 2015 and 2014:

	2015	2014
Debt investments	35%	37%
Equity investments	51%	47%
Cash and cash equivalents	4%	6%
Others	10%	10%
Total	100%	100%

A retirement benefit trust established for a corporate pension plan accounts for 36% and 35% of plan assets as of March 31, 2015 and 2014, respectively.

(9) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(10) Assumptions in calculation of the above information

Discount rate	Mainly 1.1%
Expected rate of return on plan assets	Mainly 2.0%

3. Defined contribution plan

Certain consolidated subsidiaries had ¥2,319 million ($19,305 thousand) for the fiscal year ended March 31, 2015, 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.

23. 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, 2015 and 2014.

Year ended March 31, 2015:

	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	¥683,426	¥92,433	¥483,224	¥ 995,205	¥49,723	¥ 7,880	¥ 89,926	¥2,401,820	¥ —	¥2,401,820
(2) Intersegment revenues	12,925	6,677	3,695	645	78	1,624	80,680	106,327	(106,327)	—
Total	696,352	99,110	486,919	995,851	49,802	9,504	170,607	2,508,147	(106,327)	2,401,820
Segment profit (loss)	9,807	699	10,794	60,082	2,117	3,257	(596)	86,163	(2,153)	84,010
Segment assets	¥499,804	¥56,221	¥274,382	¥1,501,200	¥44,273	¥56,835	¥414,123	¥2,846,840	¥(277,012)	¥2,569,828
II Other items:										
Depreciation and amortization	¥ 17,660	¥ 2,595	¥ 8,043	¥ 68,688	¥ 1,800	¥ 1,090	¥ 1,387	¥ 101,266	¥ (220)	¥ 101,045
Amortization of goodwill and negative goodwill	345	—	316	1,214	—	—	1	1,877	—	1,877
Interest income	462	26	381	2,017	45	6	4,001	6,941	(3,692)	3,249
Interest expenses	2,574	525	825	13,158	36	31	4,369	21,522	(3,767)	17,755
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	1,004	—	(49)	11,646	—	29	26	12,657	—	12,657
Investments in equity method affiliates	11,370	—	1,028	143,626	—	939	137	157,103	(40)	157,062
Increase in vessels, property, plant and equipment and intangible assets	21,263	33,052	10,623	130,091	1,996	1,323	992	199,343	—	199,343
III Information about impairment loss by reportable segments:										
Impairment loss	¥ —	¥ 942	¥ 369	¥ 4,872	¥ —	¥ —	¥ 14	¥ 6,199	¥ 62	¥ 6,262
IV Information about balance of goodwill by reportable segments:										
Balance of goodwill (negative goodwill) at the end of current period	¥ 3,057	¥ —	¥ 2,582	¥ 18,312	¥ —	¥ —	¥ 2	¥ 23,955	¥ —	¥ 23,955

	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	$5,687,164	$769,185	$4,021,172	$ 8,281,647	$413,779	$ 65,578	$ 748,326	$19,986,854	$ –	$19,986,854
(2) Intersegment revenues	107,560	55,568	30,749	5,371	651	13,517	671,390	884,808	(884,808)	–
Total	5,794,724	824,753	4,051,921	8,287,019	414,430	79,095	1,419,716	20,871,663	(884,808)	19,986,854
Segment profit (loss)	81,616	5,820	89,830	499,979	17,622	27,106	(4,961)	717,014	(17,918)	699,096
Segment assets	$4,159,146	$467,846	$2,283,286	$12,492,305	$368,421	$472,961	$3,446,145	$23,690,113	$(2,305,171)	$21,384,942
II Other items:										
Depreciation and amortization	$ 146,958	$ 21,598	$ 66,931	$ 571,594	$ 14,981	$ 9,077	$ 11,547	$ 842,690	$ (1,833)	$ 840,857
Amortization of goodwill and negative goodwill	2,874	–	2,630	10,109	–	–	10	15,625	–	15,625
Interest income	3,847	223	3,175	16,790	380	50	33,297	57,765	(30,727)	27,038
Interest expenses	21,422	4,375	6,870	109,499	304	265	36,364	179,102	(31,352)	147,749
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	8,356	–	(415)	96,914	–	247	224	105,327	–	105,327
Investments in equity method affiliates	94,623	–	8,560	1,195,190	–	7,817	1,148	1,307,339	(339)	1,307,000
Increase in vessels, property, plant and equipment and intangible assets	176,945	275,045	88,400	1,082,562	16,616	11,017	8,256	1,658,844	–	1,658,844
III Information about impairment loss by reportable segments:										
Impairment loss	$ –	$ 7,844	$ 3,074	$ 40,549	$ –	$ –	$ 123	$ 51,591	$ 518	$ 52,110
IV Information about balance of goodwill by reportable segments:										
Balance of goodwill (negative goodwill) at the end of current period	$ 25,445	$ –	$ 21,493	$ 152,388	$ –	$ –	$ 21	$ 199,349	$ –	$ 199,349

* Adjustments of segment profit or loss are –¥85 million (–$710 thousand) of internal exchanges or transfers among segments and –¥2,067 million (–$17,208 thousand) of corporate expense which are not attributed to specific segments.
The Company treats general and administrative expenses that do not belong to any single segment as corporate expenses. From the fiscal year ended March 31, 2015, the Company changed the profit management scheme in relation to head office costs. The effect of this change on segment profit is minimal in terms of head office costs, and there is no effect on revenues of each segment, consolidated revenues, or consolidated recurring profit.
Adjustments of segment assets are –¥364,782 million (–$3,035,554 thousand) of receivables or assets relating to internal exchange among segments and ¥87,770 million ($730,383 thousand) of corporate assets.
Major corporate assets are the excess of operating funds (cash and deposits).

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

* Adjustments of segment profit or loss are internal exchanges or transfers among segments.
Adjustments of segment assets are –¥457,923 million (–$3,810,631 thousand) of receivables or assets relating to internal exchange among segments and ¥97,021 million ($807,365 thousand) of corporate assets.
Major corporate assets are the excess of operating funds (cash and deposits).

24. Related Information

Information by geographical segment is as follows. As there were no customers that accounted for more than 10% of consolidated revenues, information about revenues from major customers is omitted.

Year ended March 31, 2015:

	Millions of yen					
	Japan	North America	Europe	Asia	Others	Total
I Revenues	¥1,801,885	¥200,387	¥174,689	¥208,000	¥16,857	¥2,401,820
II Tangible fixed assets	860,967	42,156	206,114	80,325	896	1,190,460

	Thousands of U.S. dollars (Note 2)					
	Japan	North America	Europe	Asia	Others	Total
I Revenues	$14,994,469	$1,667,533	$1,453,687	$1,730,881	$140,281	$19,986,854
II Tangible fixed assets	7,164,582	350,805	1,715,194	668,432	7,456	9,906,471

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

25. Related Party Transactions

The Company was contingently liable as guarantor of indebtedness of related parties at March 31, 2015 and 2014, as follows:

Millions of yen		Thousands of U.S. dollars (Note 2)
2015	2014	2015
¥28,286	—	$235,389

The guarantee amount as of March 31, 2014 is not stated because it is immaterial.

26. Subsequent Events

(1) Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2015, was approved at the Company's shareholders' meeting held on June 23, 2015:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Year-end cash dividends, ¥5.00 ($0.04) per share	¥8,480	$70,566

(2) With the objective of revising the cruise business, on March 3, 2015, an agreement was reached between NYK Group Americas Inc., a consolidated subsidiary, and Genting Hong Kong Limited for the sale to Genting Hong Kong Limited of the entire equity interest in Crystal Cruises, Llc, a subsidiary in the cruise business. In accordance with this agreement, the transfer was completed on May 15, 2015.

1. Name of counterparty to the transfer

Genting Hong Kong Limited

2. Name and business activities of the company transferred

(1) Subsidiary transferred

Crystal Cruises, Llc (Head office: Los Angeles, United States)

(2) Business activities

Operation of two luxury cruise ships in the U.S. market

3. Date of transfer

May 15, 2015

4. Sales price

To be determined based on an Enterprise Value of US$550 million.

5. Impact on performance

The Company estimates other gains of approximately ¥27.5 billion ($228,929 thousand) on the sale of Crystal Cruises, Llc in the fiscal year ending March 31, 2016. Gain on sale may vary due to the fact that the transfer price under this agreement is still under examination.

Management's Report on Internal Control Over Financial Reporting

1. Matters relating to the basic framework of internal control over financial reporting

Tadaaki Naito, President, President Corporate Officer, and 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, 2015, 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.

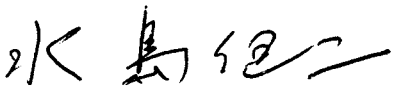
We determined the required scope of assessment of internal control over financial reporting for the Company, as well as its consolidated subsidiaries and equity-method affiliated companies, from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality 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.

Tadaaki Naito
President, President Corporate Officer
June 23, 2015



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, 2015, 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, 2015, 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, 2015.

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, 2015 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 23, 2015

Major Consolidated Subsidiaries

(As of March 31, 2015)

(Millions of yen)

		Company	Voting rights held (%)	Paid-in capital
Domestic	Liner	UNI-X CORPORATION	83.50	¥934
		GENEQ CORPORATION	55.14	242
		NIPPON CONTAINER TERMINALS CO., LTD.	51.00	250
		ASAHI UNYU KAISHA, LTD.	95.00	100
		YUSEN KOUN CO., LTD.	81.00	100
		NIPPON CONTAINER YUSO CO., LTD.	51.00	250
		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.	59.76	¥4,301
		KINKAI YUSEN KAISHA LTD.	100.00	465
		CAMELLIA LINE CO., LTD.	51.00	400
	Bulk Shipping	NYK BULK & PROJECTS CARRIERS LTD.	100.00	¥2,100
		HACHIUMA STEAMSHIP CO., LTD.	74.86	500
		ASAHI SHIPPING CO., LTD.	69.67	495
	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 LLC*	100.00	US$2
		NYK LINE (NORTH AMERICA) INC.	100.00	US$4
		ACX PEARL CORPORATION	100.00	¥0.1
	Logistics	YUSEN LOGISTICS (AMERICAS) INC.	100.00	US$70
		YUSEN LOGISTICS (UK) LTD.	100.00	£44
		YUSEN LOGISTICS (CHINA) CO., LTD.	100.00	CHY158
		YUSEN LOGISTICS (HONG KONG) LTD.	100.00	HK$55
		YUSEN LOGISTICS (THAILAND) CO., LTD.	84.48	B70
	Bulk Shipping	NYK BULKSHIP (ASIA) PTE. LTD.	100.00	US$7
		NYK BULKSHIP (ATLANTIC) N.V.	100.00	US$190
		NYK ENERGY TRANSPORT (ATLANTIC) LTD.	100.00	US$51
		ADAGIO MARITIMA S.A.	100.00	¥0.1
	Cruise	CRYSTAL CRUISES, INC.	100.00	US$0.04

* Former name: YUSEN TERMINALS INC.
New name effective from September 25, 2014.

Currencies: B Thai Baht CHY Chinese yuan HK$ Hong Kong dollar US$ U.S. dollar £ Pound sterling

Environmental Performance Data

Fleet

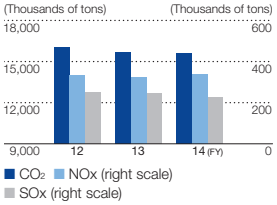
NYK

INPUT

	2012	2013	2014
Heavy oil C	4,660	4,567	4,557
Heavy oil A	0.5	0.5	0
Diesel	62	62	87
			(Thousands of tons)

OUTPUT

	2012	2013	2014
CO_2	16,007	15,705	15,575
NOx	331	324	339
SOx	252	248	224
			(Thousands of tons)



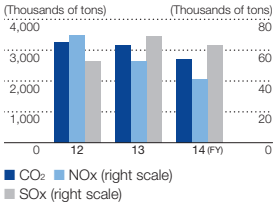
Domestic and International Group Companies

INPUT

	2012	2013	2014
Heavy oil C	966	963	835
Heavy oil A	7	11	9
Diesel	26	18	24
			(Thousands of tons)

OUTPUT

	2012	2013	2014
CO_2	3,249	3,149	2,707
NOx	70	53	41
SOx	53	69	63
			(Thousands of tons)



In the NYK Report 2014 and previous reports, this data has been calculated using the amount of fuel purchased by NYK Line and Group Company ships. As of the NYK Report 2015, this data was recalculated using the amount of fuel used by NYK Line and Group Company ships each year, based on coefficients in IMO guidelines.

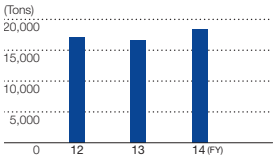
Three NYK-Owned Container Terminals in Japan

INPUT

	2012	2013	2014
Electric power	22,419	21,389	21,781
			(1,000kWh)
Fuel	2,654	2,620	2,669
			(kl)

OUTPUT

	2012	2013	2014
CO_2	17,158	16,600	18,375
			(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), CO_2 emissions in fiscal 2014 increased year on year.

Offices

Input indicates resources and energies we have used.

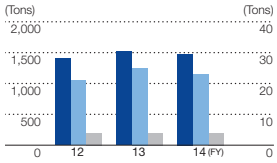
NYK Headquarters

INPUT

	2012	2013	2014
Electricity	2,410	2,345	2,254
			(1,000kWh)
Gasoline	21	20	16
			(kl)
City gas	18	17	18
			(1,000m²)
Steam	1,303	1,307	1,352
			(Tons)
Water	18	17	17
			(1,000m²)
Paper	28	28	26
			(Tons)

OUTPUT

	2012	2013	2014
CO_2 emissions	1,407	1,516	1,478
Ordinary waste	21	25	23
Industrial waste	4	4	4
Recycling	138	126	119
			(Tons)



Power consumption declined because of the NYK Group's ongoing energy-conservation activities and lower usage volume for electric sockets that accompanied the switch to multifunction machines.

* Actual values for Nippon Yusen's head office in fiscal 2014 have been used.
* CO_2 emissions volumes are calculated from electric power consumption. CO_2 emissions in fiscal 2014 have been calculated using the coefficient of 0.530kg-CO_2/kWh provided by Tokyo Electric Power Co. Inc. (fiscal 2013 result).
* The waste volume recycling rate was 81%.
* From August 2012, recycling was added as a category for data collection.

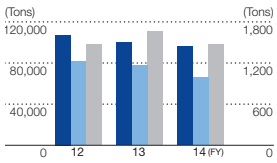
Japan-Based Group Companies

INPUT

	2012	2013	2014
Electricity	61,720	59,954	58,395
			(1,000kWh)
Heavy oil A	18,462	17,926	17,382
Diesel	5,293	5,138	5,172
Kerosene	81	70	60
Gasoline	816	865	720
			(kl)
LPG	70	69	64
City gas	775	792	590
			(1,000m²)
Steam	185	177	130
			(Tons)
Cold water	168,349	147,856	197,838
			(Megajoules)
Water	294	299	268
			(1,000m²)
Paper	470	508	532
			(Tons)

OUTPUT

	2012	2013	2014
CO_2 emissions	107,498	98,116	96,191
Ordinary waste	1,223	1,124	992
Industrial waste	1,468	1,623	1,472
Recycling	376	489	216
			(Tons)



* Forecasts for Japan-based Group companies in fiscal 2014 have been used.
* CO_2 emissions volumes are calculated from electric power consumption. CO_2 emissions in fiscal 2014 have been calculated using the coefficient of 0.551kg-CO_2/kWh (fiscal 2013 result).
* Figures are for consolidated subsidiaries.
* From August 2012, recycling was added as a category for data collection.

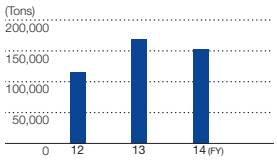
International Group Companies

INPUT

	2012	2013	2014
Electricity	63,523	65,502	67,245
			(1,000kWh)
Gasoline	3,084	23,201	15,085
Diesel	23,182	24,489	21,035
			(kl)
LPG	604	572	468
			(Tons)
City gas	8,229	9,273	15,351
			(1,000m²)

OUTPUT

	2012	2013	2014
CO_2 emissions	115,361	168,410	153,619
			(Tons)



* Forecasts for international Group companies in fiscal 2014 have been used.
* CO_2 emissions volumes are calculated from electric power consumption. CO_2 emissions have been calculated using Greenhouse Gas (GHG) Protocol coefficients.
* Figures are for consolidated subsidiaries.

Environmental Accounting

The basic concept behind our environmental accounting is to correctly capture the expenses required for the protection of the environment and repeatedly review our findings so that we can engage in appropriate environmental conservation as a part of our business activities.

Fiscal 2014 Overview

In fiscal 2014, we continued our efforts in environmental activities, starting with the introduction of hybrid transfer cranes. However, protection cost related to machinery such as electronically controlled engines decreased due to the reduction of the number of vessels in service. As a result, overall environmental protection cost was reduced by half compared to the previous fiscal year.

Comparison of All Costs and Resultant Savings Related to Environmental Activities

(Millions of yen)

	2013		2014	
	Environmental protection cost	Year-on-year savings	Environmental protection cost	Year-on-year savings
Reduction of accidents through safety promotion activities*	365	512	197	–241
Prevention of global warming and air pollution, conservation of marine environments, conservation of resources, and deployment of environmental technologies	6,601	13,216	3,480	10,114
Total	6,966	13,728	3,677	9,873

* 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 ¥3,059 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)	80
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)	118
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.	1,019
	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.	1,469
	Preventing destruction of the ozone layer	Ship air-conditioners, refrigerators/freezers, etc.	0
	Preventing marine pollution	NYK bilge treatment system, etc.	537
	R&D expenses	Smart fleet operations; verification of CO_2 and NOx reduction technology based on EGR equipment for large diesel engines for vessels	447
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.	7
Total			3,678

* 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	631	0
b. Global environmental protection cost	1,488	906
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	197
b. Environmental information disclosure, environmental advertising	0	5
c. Environmental education and training	0	1
d. Expenses for environmental improvement	0	0
(4) R&D cost:		
Environmental-burden reduction	0	447
(5) Social contribution activities cost:		
Social contribution activities	0	2
(6) Environmental damage response cost	0	0
Total	2,118	1,559

Calculation methodology:

1. The period is from April 1, 2014, to March 31, 2015. (The calculation period for activities to reduce ship fuel consumption is from January 1, 2014, to December 31, 2014.)
2. The scope is primarily business activities associated with NYK's headquarters and branch offices, NYK-operated terminals, fleet, and ancillary activities in Japan. (Expenses to maintain ISO 14001 certification are included for certified Group companies in North America, Europe, South Asia, and East Asia.)
3. The Ministry of the Environment's FY2005 Environmental Accounting Guidelines were used.
4. Investment amount refers to cost for depreciable environment-related facilities acquired during the term.
5. Expenses include maintenance and management of facilities for the purpose of environmental protection and associated personnel costs, but do not include depreciation.
6. Cost calculations do not include costs to comply with legal requirements and the like and cover only voluntary environmental protection activities.
7. Results are noted only to the extent that impact can be quantified.

Human Resources Data (Nippon Yusen Kaisha)

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, 2015)

Employee Demographics

Long-term employees

	Male	Female	Total
Office workers	748	265	1,013
Seafarers currently working at the office	257	3	260
Seafarers	297	10	307
Total	1,302	278	1,580

Newly hired employees

* Includes recent graduates and mid-career hires

	Male	Female	Total
Office workers	32	6	38
Seafarers	20	1	21
Total	52	7	59

Definite-term employees

	Male	Female	Total
Office workers	41	41	82
Seafarers	7	0	7
Total	48	41	89

Employees under age 30 that left the Company

	Male	Female
Office workers	1	1
Seafarers	6	0

Average period of employment in the Company

* Seafarers include those who currently work in the office.

(Years)	Male	Female
Office workers	15.1	19.5
Seafarers	15.8	5.6

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

	2012		2013		2014	
	Male	Female	Male	Female	Male	Famale
Directors, corporate officers	32	2	29	2	31	2
General managers	40	2	35	2	34	3
Managers or higher	120	21	126	21	131	25
Total employees	461	187	494	192	512	195

Occupational Accidents

Number of occupational accidents

* Excludes accidents that occurred while commuting to work

	2012	2013	2014
Office workers	0	0	0
Seafarers	3	0	0

Lost time caused by occupational accidents

* Lost time of one day or longer

	2012	2013	2014
Office workers	0	0	0
Seafarers	0	0	0

Number of work-related deaths

	2012	2013	2014
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

2012	2013	2014
13.0	12.4	14.1

Number of employees that have utilised the maternity leave programme

* Total users, excluding those who have left the Company

2012	2013	2014
15	11	10

Number of employees that have utilised the parental leave programme

* Total users, excluding those who have left the Company

2012		2013		2014	
Male	Female	Male	Female	Male	Famale
2	31	3	28	0	23

Percentage of eligible female employees that have utilised the parental leave programme

2012	2013	2014
100%	100%	100%

Employees making use of shorter working hours for parents

* Total users, excluding those who have left the Company

2012		2013		2014	
Male	Female	Male	Female	Male	Famale
0	20	0	23	0	21

Number of working mothers

* Mothers with children in compulsory education or younger
* Excludes mothers on maternity or parental leave

2012	2013	2014
39	39	46

Number of employees that have utilised the family-care leave programme

* Total users, excluding those who have left the Company

2012		2013		2014	
Male	Female	Male	Female	Male	Famale
0	0	0	1	0	0

Percentage of employees with disabilities

2012	2013	2014
2.22%	2.11%	2.60%

Education

Average number of days participating in training programmes

(Days)	2012	2013	2014
Office workers	5.10	4.82	5.02
Seafarers	37.0	40.5	29.8

* As of fiscal 2014, this figure is calculated excluding the applicable period for seafarers' correspondence courses.

Average expenditure on education and training programmes

(Yen)	2012	2013	2014
Office workers	208,805	142,888	148,943
Seafarers	499,341	492,387	533,133

● Long-term study; training abroad (examples)
- MBA programme abroad (two years; one person selected every two years)
- Chinese language study-abroad programme (one year; one person selected every year)
- Short-term study-abroad programme (four weeks; two people joined in FY2014)

Human Resources Data (Employees Hired through Group companies (Including Nippon Yusen Kaisha))

Statistics based on a human resources survey of consolidated subsidiaries in Japan and overseas with respect to personnel composition and training and other personnel-related items
(As of the closing date for FY 2014)

Breakdown of Group Company Employees (Including Nippon Yusen Kaisha)

Number of employees of consolidated companies (long-term employees, employees on contracts for over 6 months)

	Male	Female	Total
Office workers	21,994	11,097	33,091
Seafarers	415	14	429
Total	22,409	11,111	33,520

*1. The number of office workers includes seafarers currently engaged in onshore duties and personnel transferred from Group companies.
*2. The number of seafarers does not include non-Japanese seafarers.

Breakdown of number of employees of consolidated companies (by region, including seafarers)

Region	Japan	Europe	South Asia	North America	East Asia	Oceania	Latin America	Seafarers	Total
Number of companies	66	26	32	11	20	4	6	—	165
Number of employees	8,026	5,300	11,578	2,747	3,664	339	1,437	429	33,520

Number of non-Japanese employees on NYK-operated vessels

260 vessels under NYK management	9,119
617 chartered vessels	12,936

Number of employees of Group companies	55,575

Number of newly hired employees

	Male	Female	Total
Office workers, seafarers	3,919	1,700	5,619

Occupational accidents

Number of work-related deaths	3

Number of female employees
and percentage of female employees in the workplace

	Female employees	Total employees	Percentage
Directors	42	933	3%
Manager or above	830	4,175	20%
Employees	11,111	33,520	33%

Number of employees
(office workers / contracts less than 6 months)

Number of employees	297

Existence of parental leave and family-care leave systems and number of employees using these systems

	Companies with programme	Establishment percentage	Employees utilising programme		
			Male	Female	Total
Parental leave	135	99%	279	647	926
Family-care leave	97	71%	339	523	862

* Establishment percentage: Percentage of companies that have established a programme (total: 136 companies)

Corporate Data

(As of March 31, 2015)

Established

September 29, 1885

Paid-in Capital

¥144,319,833,730

Employees

Consolidated: 33,520 (NYK and consolidated subsidiaries)

Non-consolidated*: 1,580 (Land: 1,273; Sea: 307)

* The non-consolidated number of employees includes employees currently assigned to the domestic and overseas Group companies.

Headquarters

3-2, Marunouchi 2-chome,
Chiyoda-ku, Tokyo 100-0005, Japan
Telephone: +81-3-3284-5151
Website: http://www.nyk.com/english/

Common Stock

Number of authorised shares:

2,983,550,000 shares

Number of issued and outstanding shares:

1,696,001,566 shares (excluding treasury stock: 4,549,442)

Stock Exchange Listings

First Section of the Tokyo Stock Exchange
and the Nagoya Stock Exchange

Share Registrar and Special Management of Accounts

Mitsubishi UFJ Trust and Banking Corporation
Head Office: 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
100-8212, Japan
Contact Information: Transfer Agency Department, 10-11,
Higashisuna 7-chome, Koto-ku, Tokyo
137-8081, Japan
Telephone: +81-3-6701-5000

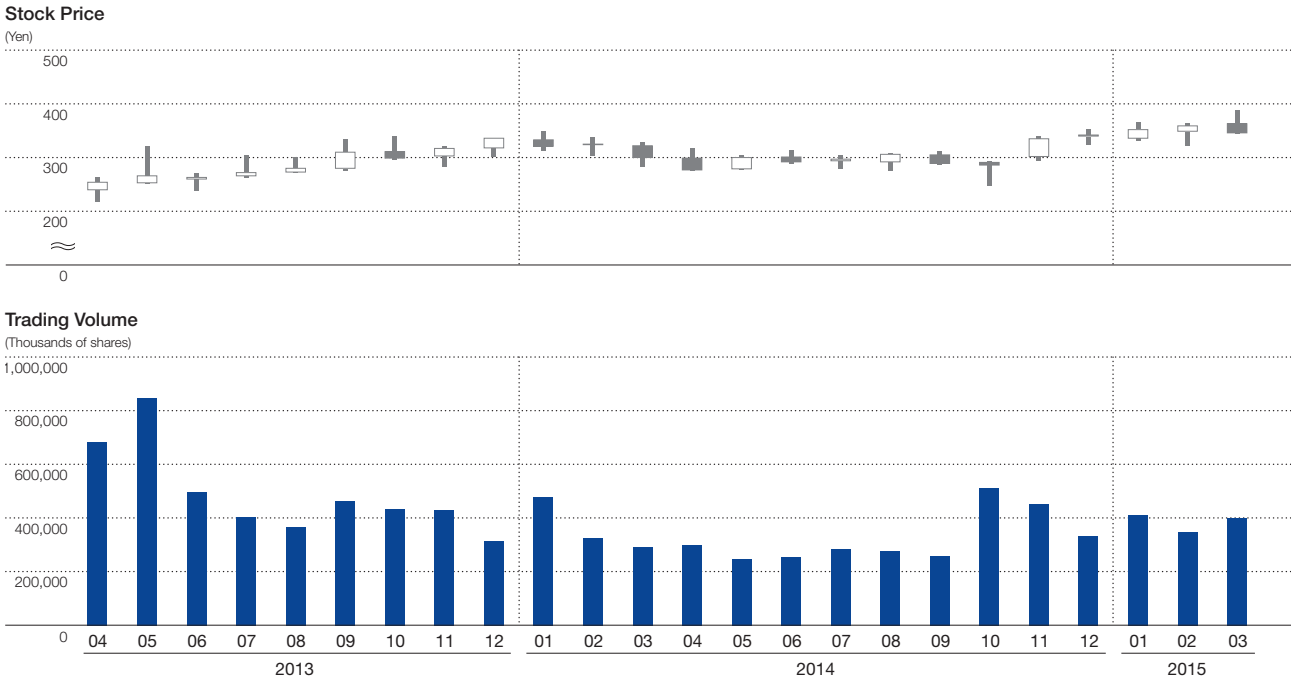
Method of Public Notice

The Company's public notices are available through electronic distribution.
Website: http://www.nyk.com/koukoku/
However, in the event that electronic distribution is impossible, due to an accident or other unavoidable circumstances, the Company's public notices will appear in the *Nihon Keizai Shimbun*, published in Tokyo, Japan.

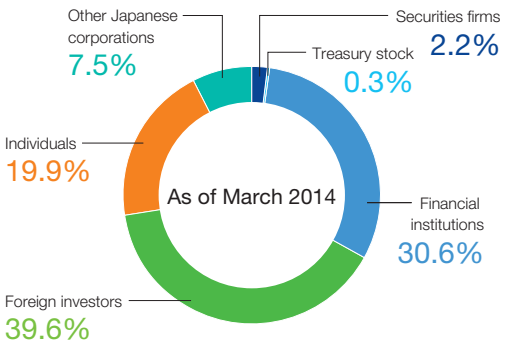
American Depositary Receipts

Symbol: NPNYY
CUSIP: 654633304
Exchange: OTC
Ratio (ADR: shares of common stock): 1:2
Depositary: The Bank of New York Mellon
101 Barclay Street, New York, NY 10286,
United States
Toll-free: Within the United States: +1-888-BNY-ADRS
(+1-888-269-2377)
From overseas: +1-201-680-6825
Website: http://www.adrbnymellon.com/

Stock Price Range and Trading Volume



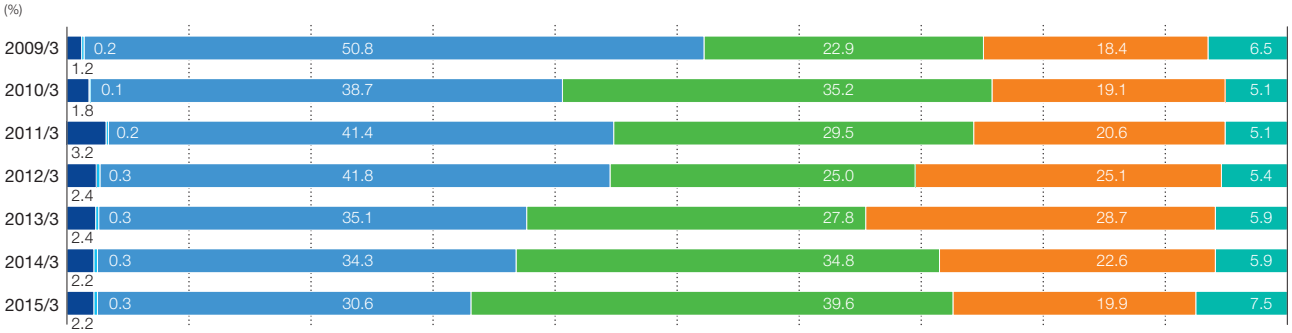
Shareholder Composition



Principal Shareholders

Name	Number of shares held (Thousands)
The Master Trust Bank of Japan, Ltd. (Trust Account)	98,125
Japan Trustee Services Bank, Ltd. (Trust Account)	92,149
Mitsubishi Heavy Industries, Ltd.	41,038
Meiji Yasuda Life Insurance Co.	34,473
Tokio Marine & Nichido Fire Insurance Co., Ltd.	32,443
State Street Bank and Trust Company 505223	25,202
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	24,546
The Bank of New York Mellon SA/NV 10	21,183
State Street Bank Wet Client – Treaty 505234	20,108
State Street Bank and Trust Company 505225	19,066

Shareholder Composition



About This Report

Scope of Report

▶ Reporting period

April 2014 to March 2015
(In some cases, information from April 2015 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 2015
[Previous publication: August 2014; Next publication: August 2016 (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

3-2, Marunouchi 2-chome,
Chiyoda-ku, Tokyo 100-0005, Japan
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