



**Hitoshi Nagasawa**

President,  
Representative Director,  
President and  
Chief Executive Officer

 MESSAGE

# In fiscal 2021, the first official year of ESG management at the NYK Group, we will take a great leap forward by making a strong commitment to changing our mindset.

## Turning a “Lost Decade” into a “Decade of Preparation”

In the past 10 years, NYK’s share price has recovered from a low point of around ¥1,000 at one stage to approach the ¥6,000 mark. The industry structure of our main maritime shipping business makes it highly susceptible to the balance of vessel supply and demand, which had cast a longstanding shadow over the appeal of the business to investors. Now, however, we feel that the business can meet expectations for profitability. Considering the price-to-earnings ratio and the price-to-book ratio, the current share price is by no means excessively high.

The year 2008 marked a turning point, when the dry bulk market experienced soaring prices. Then, over these past 10 years, despite favorable performance in certain businesses—such as energy transportation and car transportation—the liner trade, air cargo transportation, and dry bulk businesses have struggled to overcome difficulty in raising revenues as supply outstripped demand. Moreover, trust in the Company’s level of compliance was also shaken by an infringement of the Antimonopoly Act in the car transportation business and safety issues in the air cargo transportation business, as the Group

encountered various issues in Japan and overseas. As we faced these challenges and reflected on these issues seriously, every Group employee used all means possible to achieve results one by one. These past 10 years have not been a “lost decade” but a “decade of preparation,” which the NYK Group has seized as an opportunity to work together as one to prepare for a leap forward.

Furthermore, the past year has been extremely adverse, with the spread of COVID-19 causing a sharp, temporary drop in cargo volumes and difficulties in conducting crew changes. Our frontline workers have put their heads together and made a combined effort to resolve issues with the understanding of our customers. However, with the appearance of mutant strains of COVID-19, the situation has become even more difficult, and it is ongoing. This has been a year for reaffirming the importance of our mission to be a lifeline for the world and a support for industry at sea, in the air, and on land as well as the necessity of maintaining the safety and health of our employees, who are committed to “keeping the logistics lifeline open” through their work in transportation.

Structural reforms of the dry bulk business are ongoing, and I mentioned in last year’s NYK Report that, “Once these

reforms reach a certain stage, we will be able to formulate a long-term strategy for the next leap forward.” In fiscal 2020, we achieved record profits and gained experience through the COVID-19 pandemic, and thus I am pleased to say that we have truly succeeded in preparing for that next leap forward.

## Changing a Highly Volatile Business into a Sustainable One

Fiscal 2020 was a mix of both the expected and the unexpected amid a high level of uncertainty due to the COVID-19 pandemic. In the Liner & Logistics segment, our container vessels were expected to see a considerable drop in cargo volumes due to the pandemic. In fact, while that did happen in the first quarter, volumes rebounded sharply from summer onward. Partly due to shipping companies’ adoption of flexible vessel assignments, while a decrease in demand conventionally translates into a decrease in freight rates, in this case freight rates did not fall, and revenues grew. In the air cargo transportation business of Nippon Cargo Airlines Co., Ltd. (NCA), we had expected freight rates to increase due to limited cargo transportation space on

## Creating an organization where economic yardsticks and ESG yardsticks permeate

passenger services, which had been reduced; however, the rate increase was greater than expected as congested ports prompted some senders to transport their cargoes via air instead of by sea to ensure timely delivery. Meanwhile, logistics business operator Yusen Logistics Co., Ltd. (YLK) also achieved strong earnings resulting from an improvement in the profit margins of its forwarding business for both marine and air cargoes, in addition to a solid performance in contract logistics. We recognize that these trends occurred under special circumstances and both should return to normal levels later. Nevertheless, in the container shipping business, Ocean Network Express Pte. Ltd. (ONE) realized business integration synergies by enhancing its efficiency in a myriad of ways, such as employing best practices. Therefore, it is unlikely that we will be exposed to the kind of fiercely competitive environment experienced in the past. Beyond benefiting from improved profit margins due to rising freight rates, YLK has succeeded in implementing structural reforms, including strengthening its management foundation. With regard to NCA, it is finding new business opportunities, such as vaccine transportation, although these are subject to international passenger transport trends. That being said, firm transportation demand is expected to continue in the near term.

Meanwhile, in the Bulk Shipping segment, the energy transportation business, which mainly comprises long-term contracts, continues to perform solidly, and the car transportation business securely recovered cargo volumes from the second half of the

fiscal year under review, following a steep drop in the volume of cars for transportation. Overall, the segment has achieved steadily improving results. The dry bulk business had been an unresolved issue, but we finally managed to make some headway toward implementing structural reforms by accelerating the return of high-cost vessels. I think it is a notable achievement that we managed to return the dry bulk business to a profitable state using cash generated without selling assets or depleting our financial base.

Under the current medium-term management plan ending in fiscal 2022, we originally targeted consolidated recurring profit of between ¥70.0 billion and ¥100.0 billion by the final year of the plan; however, we achieved this target ahead of schedule in fiscal 2020. Moreover, we have been able to prepare a foundation for achieving earnings above that target in fiscal 2021 and onward as well. The changes in business conditions will create fluctuations in the financial results of each business, but I am increasingly confident in the earnings capacity of the Group, which is more stable than ever.

### Promoting Integrated Thinking In-House to Take ESG Management to the Next Stage

In February 2021, the NYK Group issued the NYK Group ESG Story. Rather than setting out specific strategies and targets in the manner of the medium-term management plan, the ESG Story presents the Group's vision and intended direction for the

future. Up until now, our decision-making criteria have been centered mainly on economic viability; however, with the addition of ESG yardsticks, we are working to become a Sustainable Solution Provider that will continue to be the preferred choice of society in the future. By promoting the most advanced ESG management in the maritime shipping and logistics industries, my aim is to position the Group so that customers will consider it an essential component for increasing the competitiveness of their own supply chains. As long as the Group is the preferred choice, our business opportunities will increase and our growth and differentiation strategies will become more sophisticated, thereby enabling us to continuously generate profits. Moreover, the Group has several resources for generating new value inspired by ESG, such as the Technical Headquarters. I am confident that joining forces with competent partners in Japan and overseas, to make the fullest use of these resources, while also incorporating digital transformation (DX) and technology, we will be sure to produce good results.

Each front line and business entity in the Group will have specific discussions about measures to contribute to ESG, centered on the ESG Story. At this stage, we have made full-fledged starts on various new businesses, such as our offshore wind power-related business and MarCoPay Inc. In addition, the Automotive Transportation Headquarters has launched the ESG brand "Sail GREEN" project and extensively sold environmentally friendly, total logistics services as part of a value chain, focusing on the LNG-fueled pure car and truck carrier Sakura Leader. This brand has been highly

praised for providing a quantitative visual representation of the environmental impact associated with transportation, enabling information about the amount of CO<sub>2</sub> emissions reductions to be shared with customers.

Furthermore, when considering ESG management, rather than treating its individual components—"environmental," "social," and "governance"—separately, it is important to consider them as mutually interactive. For example, regarding the issue of conducting crew changes in the face of the COVID-19 pandemic, being highly sensitive to the "social" aspect gave rise to a company culture that avoids asking crews to assume heavy workloads. Doing so enabled us to maintain and increase frontline motivation and, as a result, we ensured crew safety and prevented accidents, which have a major impact on the marine environment, thereby contributing to the "environmental" aspect as well. "Governance" was also involved as encouraging employees to constantly act and make decisions with ESG yardsticks helps prevent compliance infringements, leading to trust from employees and other stakeholders, which in turn contributes to the "social" aspect.

Viewed in this light, ESG management can be thought of as nothing less than a reformation of awareness. It takes time to effect a complete change in the awareness of an entire organization, but such a development should result in dramatic changes to all areas of the Group. For example, when business divisions previously provided an explanation of an investment, the main focus was on profitability. Now, however,



ESG-related aspects are always considered as well, such as contributions to reducing CO<sub>2</sub> emissions. If stage one of the Group's ESG management has been the period up to the formulation of the ESG Story, then we have now moved into stage two, in which our integrated thinking combining economic viability and ESG will take shape in one form after another. We will ensure that Group employees around the world have a firm understanding of ESG in their respective positions and that they demonstrate it through their actions. The accumulation of these actions will produce excellent results in every location where the Group operates, ultimately giving rise to a sustainable society and environment that are truly rich and worth living in. I look forward to the realization of this goal.

### Ready to Accelerate ESG Management

Our efforts to reform awareness in the NYK Group will not stop at the front lines. Discussions among the management team are gradually beginning to show a greater awareness of the medium- to long-term

perspective. Over the past few years, our key themes have included the improvement of the shareholders' equity ratio and structural reforms, but the discussion thereon has always tended to veer back to the short term. Since the prospect of achieving structural reforms is now in sight and the shareholders' equity ratio has improved to nearly 40%, we have been able to take a medium- to long-term view in our discussions. In terms of our structure, riding on the momentum from the 2019 establishment of our Governance Committee, in April 2021 we established the ESG Management Committee, of which I am the chair. Executive Officer Yuko Tsutsui, who plays a central role in promoting ESG management, has been appointed as the vice chair of the committee. Among the members of the committee are seven executive officers representing each headquarters as well as the head of the Environment Group. We have also invited Daigo Shimizu, general manager of the Business Development Department of Goldman Sachs Japan Co., Ltd., to create a team that will enhance the effectiveness of ESG management. Currently, these headquarters are discussing setting key performance indicators (KPIs) for accelerating ESG management, and an overview thereof

is to be prepared during fiscal 2021. We will be reporting on our progress on specific set targets and indicators in these NYK Reports.

In addition, my idea of ESG management does not end with setting KPIs to enhance effectiveness. Before we decide on our current ESG management initiatives, we started preparing our long-term scenarios and worked backward to formulate our next medium-term management plan. Thus, ESG management is thoroughly woven into our plans for every time frame: our vision (long term), our medium-term management plan (medium term), and our business policies (short term). As part of this, in conjunction with the establishment of the ESG Management Committee, we established a Sustainable Growth Task Force. The task force discusses the vision for the Group under various scenarios envisaging the business environment in 30 years' time, making reference to the latest technological

trends and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Sustainable Growth Task Force also comprises the seven executive officers mentioned above. In fiscal 2021, they will thoroughly discuss the long-term scenarios, and in fiscal 2022 we intend to have them work on formulating a proposal for the next medium-term management plan.

Companies with businesses that rely heavily on fossil fuels face a sense of crisis that these businesses may be eliminated. However, we seek to transform this into a prime opportunity to identify major differentiation strategies. I want to rebuild the Company from the ground up and, as we move forward, enable Group employees to play a major role. This strong desire of mine is gradually taking shape, and now is the time to fully implement it. Simply making environmental adaptations to existing

vessels and launching LNG-fueled vessels will not be enough to achieve carbon neutrality and zero emissions by 2050. We need considerable innovation, including the development of vessels fueled by ammonia and hydrogen. We must also acquire a much deeper knowledge of carbon pricing, such as emissions trading schemes. Finally, since LNG-fueled vessels are more expensive than conventional ones, while naturally making every effort to control costs on our side, we must also strive to convince customers to bear some of the increased costs. Regarding coal, which has been the main scapegoat for environmental problems, it is difficult to suddenly switch all of the world's electricity generation over to renewable energy sources at the same time. Furthermore, considering that there are certain industries still in need of coal and customers with the desire to transport it, as a logistics company we will engage in coal transportation by innovating to achieve the most environmentally friendly methods of transportation we can. ESG management is not about whitewashing. We are ready to blaze a trail as a front-runner in ESG management while emphasizing constant efforts to gain the understanding of our stakeholders, including customers, and have sincere dialogues with them.



## Continuing to be a company that contributes to society

### In Conclusion

Amid the prolonged aftermath of the collapse of the maritime shipping bubble from 2008 onward, since my appointment as president in June 2019, I have been working hard to transition the Group to a sustainable business structure as quickly as possible by conducting structural reforms in the dry bulk business, rebuilding governance, and thoroughly reinforcing our financial foundation. Even as ESG management continues to advance gradually, I do not intend to relax my efforts targeting these issues by one iota.

To further accelerate ESG management going forward, I plan to increase my own engagement with our front lines. I would like to make greater use of this and subsequent NYK Reports by asking all Group employees to read them and provide feedback regarding how we might give form to integrated thinking combining economic viability and ESG in frontline operations. In addition, diversity and inclusion is an essential part of achieving ESG management. Our workforce in the future needs to have diverse perspectives and values, and to create such a workforce we have started reforming the human resource system so as to provide more opportunities for experiencing demanding jobs and frontline operations to employees. We will also look at personnel exchanges between our Group companies ONE and YLK and the head office. As well as a human resource system that enables employees to acquire a broader perspective through job rotation, it is also good to allow people to hone their expertise in a particular division. I want our

organization to be one where diverse human resources of any nationality or gender can grow in a global context and make full use of their capabilities in their own way.

In addition to our front lines, management must make even greater changes. Beyond establishing the ESG Management Committee, we have made an effort to further raise the effectiveness of the Board of Directors by increasing the number of meetings of the Nomination Advisory Committee and Compensation Advisory Committee, while adequately making time to explain all information openly at each meeting. Doing so enables discussions to be properly compartmentalized between the management and business execution functions. The feedback so far in this regard has been positive, with members indicating that it increases effectiveness. Furthermore, we will examine all options for strengthening governance and increase transparency, including a structure that separates the two abovementioned functions.

At the beginning of this message, I said that we have completed our preparations. We have finished preparing for full-scale ESG management, and fiscal 2021 is set to be our first official year of ESG management. As we give full play to the strengths and achievements that we have cultivated to date, I expect you will see the NYK Group continue to evolve into a corporate group with an unrivaled presence in ESG, guided by our mission statement, "Bringing value to life." Thank you for your continued support.

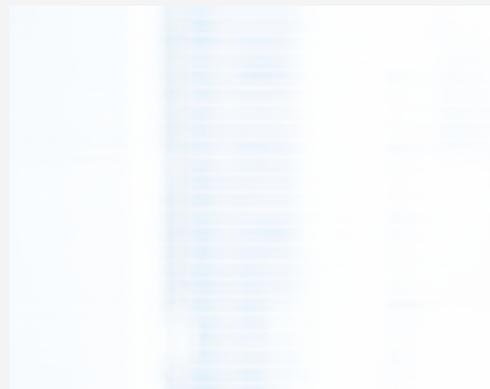
### Hitoshi Nagasawa

President, Representative Director,  
President and Chief Executive Officer

# The Leaders Driving ESG Management



## DIRECTORS



## Expertise and Experience of Directors (as of June 18, 2021)

The expertise and experience of the directors have been disclosed and communicated to all investors since 2018.

	Age	Number of Years as Director	Portrait	Expertise and Experience														
				Academia / Education	Business Ethics	Business Head / Administration	Corporate Governance	Environment / Safety	Investment	Financial Expertise / Literacy	Government / Public Policy	Foreign Affairs / Geopolitics	Business Assignment Overseas*	Marketing / Sales	Risk Management	Legal / Marine Insurance	Media / Corporate Social Responsibility	Talent Management
<b>Tadaaki Naito</b> Chairman, Director, Chairman and Executive Officer	65	13			●	●	●	●	●	●			Germany	●	●		●	●
<b>Hitoshi Nagasawa</b> President, Representative Director, President and Chief Executive Officer	63	10			●	●	●	●	●				U.K.	●	●		●	
<b>Hiroki Harada</b> Representative Director, Senior Managing Executive Officer	60	2			●	●	●		●				U.K. / Belgium	●				●
<b>Yutaka Higurashi</b> Director, Managing Executive Officer	57	1			●	●	●						U.K.		●	●		●
<b>Hiroshi Kubota</b> Director, Managing Executive Officer	55	-			●	●	●		●	●			U.S.	●				
<b>Yoshihiro Katayama</b> Independent Outside Director Chief Outside Director	69	5		●	●		●					●			●		●	●
<b>Hiroko Kuniya</b> Independent Outside Director	64	4		●	●		●	●					U.S.		●		●	
<b>Eiichi Tanabe</b> Independent Outside Director	67	2			●	●	●		●	●			U.K.		●			

\* Includes overseas experience at other companies



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**I expect top management to communicate its commitment to the entire Group and take the lead in fulfilling it.**

The NYK Group ESG Story has sent a message to break away from short-term economic thinking. It has done an excellent job of indicating the Group's vision to enhance its sustainability and value creation by focusing on solving social and environmental issues with a long-term perspective. Without initiatives to promote the planet's sustainability, the NYK Group will not be able to create a vision for its future and proceed toward it. To realize this vision, it will be essential for top management to communicate its strong commitment to the entire Group and take the lead.

The most important challenge for the Group in implementing its ESG Story is how to combine the maximization of profit with ESG yardsticks and actually execute it in the operation and management. It is necessary to identify key areas related to sustainability, clarify issues and set key performance indicators in order to manage the Group's progress. Allocation of necessary human resources and budget will be necessary.

At Board of Directors' meetings, I have repeatedly shared the seriousness of global warming and the accelerating speed of decarbonization around the world and emphasized the need for the NYK Group to ambitiously reduce its GHG emissions.

I have also communicated the importance of diversity at the decision-making level, in order to promote innovation and strengthen

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**The NYK Group ESG Story should serve as a type of infrastructure.**

I admire the decision of the NYK Group's senior management to take bold action to address key environmental, social, and governance (ESG) issues. Furthermore, I also think it highly commendable that the Group has adopted a process of carefully creating its ESG Story with an emphasis on the exchange of opinions with employees on the front lines, instead of through a top-down approach. The front-line dissemination of the NYK Group ESG Story is of key importance. Rather than a mold into which employees and the organization must



organizational governance.

Moving forward with the ESG Story, I would like to contribute toward strengthening management by looking at whether 1) ESG yardsticks are properly reflected in decision-making at the Management Meeting, 2) investment proposals are assessed in the appropriate process, and 3) business ideas by the younger generation are evaluated fairly and are given opportunities for business creation. I believe discussions by the ESG Management Committee will be a valuable reference for deepening discussions by the Board.

Profile

**Hiroko Kuniya**

Independent Outside Director

fit, the ESG Story should serve as a type of infrastructure supporting the organization and employees as they autonomously engage in their work, based on the Group's philosophy and basic management policy. If there have been any divisions hiding in the shadows, I hope that they will use this ESG Story as an opportunity to become more active.

To give the ESG Story validity, each employee must be fully convinced by it. In addition to providing training opportunities, it is important to achieve daily communication with management and employees using ESG yardsticks. At the same time, it is also necessary to proactively disseminate information to encourage suppliers, customers, shareholders, and other stakeholders to come on board with the NYK Group's philosophy and management policy regarding ESG. In this regard, it is essential to adopt a stance linking environmental and social initiatives with improvements in productivity and profitability, rather than using such initiatives to excuse deteriorations

in performance and earnings capability. Doing so requires the organization and employees to exercise their creative originality each day, and it is important that management should encourage this. The precious ESG Story must not be allowed to remain only in name. I hope that the NYK Group will take care to ensure that it maintains the flexibility and decision-making capabilities to constantly monitor the direction of social and economic trends and respond appropriately to change.

#### Profile

### Yoshihiro Katayama

Independent Outside Director  
Chief Outside Director



## We need to act with a broader perspective than ever.

In today's world, companies can no longer grow without dealing appropriately with ESG issues. This is mainly due to the global nature of society, with its large-scale and complex issues as a result of economic development and technological progress. Companies that have optimized themselves within the scope of their own activities must now act with a wider perspective than ever, and a leading example of this is the global environment. The NYK Group has always coexisted with the sea and supported transportation infrastructure. I would therefore like to see the NYK Group leverage its capabilities not only in response to climate change but also in areas such as maritime safety, improved working environments, and the education of young employees. To ensure that ESG does not become simply a buzzword, companies must take a frontline-focused approach using their proprietary technologies. Fortunately, an environment is forming in the Group where young employees are taking the lead in proposing a number of innovative ideas. I have strong expectations that the Group will harness such capabilities and advance them steadily.

With regard to governance, there have been several incidents of misconduct in the past; however, the NYK Group has directly addressed these incidents and its operating companies and employees have been making a laudable effort to create a corporate culture of acting correctly. While I am of the opinion that diversity is significant in itself, I think it is particularly important for creating an



environment where minorities can voice their opinions easily. Outside directors are intended to bring diversity, as their name suggests, and I seek to bring an elevated perspective to the role as I undertake it.

I would like to see management create a company that balances its ESG objectives with financial returns and provides a motivating environment for its employees.

#### Profile

### Eiichi Tanabe

Independent Outside Director

# The Goals of ESG Management

Since our goal is to be a Sustainable Solution Provider that remains essential to society and industry going forward, our first step is to have every Group employee begin to use the “ESG yardsticks\*” in addition to the existing economic yardsticks for measuring business efficiency and scale.

If rigorous analysis based on ESG yardsticks reveals that a business will help the NYK Group to remain essential to society, we will focus management resources—namely, talent, assets, investments, and data—on these businesses over the long term.

We are confident that this will further strengthen our business foundations and increase the Group’s corporate value.

\* The new ESG evaluation standards that measure contributions to the resolution of social and environmental issues

TOPIC  
01

## The NYK Group’s Framework for Promoting ESG Management

In order to build a system that actively reflects feedback from diverse stakeholders in business management and promote greater management soundness, transparency, and efficiency, the Group established the ESG Management Promotion Group in January 2021 and set up the ESG Management Committee, chaired by the president, in April of the same year.

In addition, we are working to establish a governance system that will accelerate ESG management at NYK, for example, by including ESG factors in the discussions of the Nomination Advisory Committee and the Compensation Advisory Committee.

### Toward the Development of Governance That Accelerates ESG Management

- Maintain and enhance the expertise and diversity of members of the Board of Directors
- Deliberate ESG issues at meetings of the Board of Directors
- Incorporate ESG evaluations into officer compensation
- Reflect ESG perspectives in the risk management system

### Framework for Promoting ESG Management (April 1, 2021)



### → ESG Management Committee

With the ESG Management Promotion Group as its secretariat, the ESG Management Committee is chaired by the president and includes executive officers representing each headquarters. We have invited an external expert with extensive knowledge and experience of capital markets and a strong track record in awareness-raising activities regarding ESG and the SDGs to serve as an advisor, to ensure that the committee’s discussions are productive. At its meetings, the committee shares ESG as a Companywide issue to be addressed, eliciting and discussing relevant topics for each headquarters and taking the following actions. The results and status of progress on these actions are regularly reported to the Management Meeting and the Board of Directors four times per year.

- Make ESG management policy and define targets and KPIs
- Manage and evaluate progress on agreed KPIs and action plans
- Promote internal integration of ESG management

### Committee Members

Chair	President Hitoshi Nagasawa
Vice Chair	Executive Officer Yuko Tsutsui
Advisor	Daigo Shimizu, Goldman Sachs Japan Co., Ltd.
Members	Seven executive officers of each headquarters General Affairs Headquarters, Management Planning Headquarters, Liner & Logistics Headquarters, Car Transportation Division, Dry Bulk Division, Energy Division, Technical Headquarters
	General Manager of the Environment Group

History of ESG Management Promotion



C O L U M N



Profile

**Yuko Tsutsui**

Executive Officer  
Vice Chair of the ESG Management Committee

**Strengthening Corporate Governance to Support the Promotion of ESG Management**

I believe that constant efforts to strengthen corporate governance belong at the core of ESG management promotion activities. Corporate governance is a touchstone for judging whether the direction of growth strategies for the future is correct. At the same time, solid governance is essential for helping Group employees to deepen their understanding of ESG yardsticks while visualizing their own activities, and sharing them with stakeholders. Moreover, I would like to incorporate systems that provide each employee with a sense of excitement about their own role in realizing ESG management. Looking ahead, we will not shrink from the challenge of self-transformation as we aim to become a Sustainable Solution Provider offering even more valuable logistics services while pursuing ideal forms of governance.

## Measures for Disseminating the NYK Group ESG Story

### ➔ Disseminating the ESG Story from the Top Down and the Bottom Up

To promote ESG management, it is important for the president and management team to take initiatives and make commitments. As such, they will conduct top-down initiatives through the newly established ESG Management Committee. The issues shared and discussed within the committee are taken back to each headquarters, where everyone from the chief executive to the assigned employees think independently about what issues are relevant to their own work and how they might contribute, before putting their thoughts into action. Their results and progress are reported to the committee at its quarterly meetings.

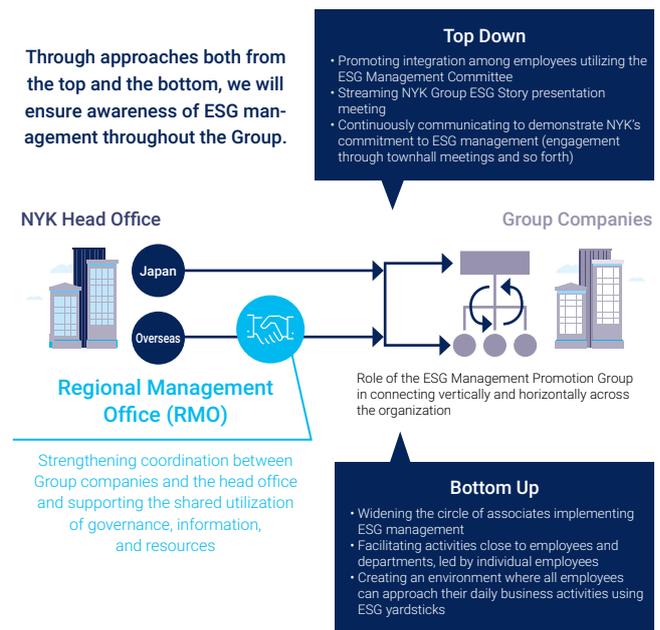
On the other hand, in ESG management we must inspire individual employees to take action and play their part in shaping the ESG Story for the sustainable long-term growth of the NYK Group; otherwise, the effort is meaningless. Therefore, we are promoting the ESG Story not only through the hierarchy of each headquarters but also through wider-ranging bottom-up reforms. To inspire independent activities, the secretariat of the committee, the ESG Management Promotion Group, will strengthen activities to promote integration of ESG management as well as activities for gathering feedback directly from the front lines, ensuring a direct route for reporting to the committee.

Through these top-down and bottom-up initiatives, the committee will be able to grasp feedback within the Group in detail and promote a repeating cycle of self-transformation. In this way, the committee will drive ESG management forward and promote a change in awareness among employees.

As a global business operator, the NYK Group is composed of Group companies based in Japan and other countries, each with varying business activities and scales. In addition to direct dialogue with Group companies in Japan, the Group maintains good communication between the head office and its regional bases, and between the regional bases, via regional management offices

(RMOs) located in the Americas, Europe, East Asia, and South Asia. Through this communication network, the Group can communicate its corporate philosophy and vision for ESG management to each of its Group companies, with the aim of increasing corporate value through responsible business activities aligned with a highly ethical perspective and social norms.

### Structure for Promoting Integration of ESG Management



### ➔ Initiatives for Promoting ESG Management Integration

#### Examples of Activities to Promote ESG Management

Details	Target	Time	Number of participants
Townhall meetings with the president	For employees of Group companies in Japan and overseas	February 2021	1,665*
Internal presentation meeting for NYK Report 2020 (integrated report)	For employees of Group companies in Japan and overseas	January 2021	172
Two keynote lectures Kenji Furuta of Neural Inc. Eiji Oishi of Minna-denryoku, Inc.	For employees of Group companies in Japan and overseas	Second half of 2020	570 in total

\* Including number of streams broadcast after the date



Townhall meeting

 MESSAGE

# Promoting ESG Management at Group Companies

## Profile

### Kaori Nagamizo

Executive Officer

Chief Business Development Officer (CBDO)

Yusen Logistics Co., Ltd.

Yusen Logistics Co., Ltd. (YLK) is a global supply chain logistics company providing a range of services including air freight forwarding, ocean freight forwarding, warehousing, land transportation in 47 countries and regions around the world. Our global workforce of approximately 24,000 employees has a shared mission “to become the world’s preferred supply chain logistics company.” We aim to further refine the value that we provide in the form of “insight,” “service quality,” and “innovation” and to build closer, better relationships with our customers in order to achieve our mission.

We are facing a difficult period of supply chain confusion caused by shortages in transportation space and containers due to the sharp recovery in cargo movements driven by stay-at-home demand during the COVID-19 pandemic. Regardless of difficulty, it is YLK’s responsibility and mission to continue to provide logistics services, which are part of social infrastructure. All YLK employees work together as a team, drawing on our collective knowledge to ensure that our customers’ logistics flow remains uninterrupted. As a result, I am proud to say that we are now the preferred choice of even more customers.

Amid growing awareness of environmental and social issues, ESG and the SDGs have become important management priorities. Customers increasingly ask what

measures are being taken by YLK. To achieve sustainable growth together with our customers, we ourselves must achieve a proper understanding of ESG and the SDGs and formulate an ESG management policy that both leverages YLK’s characteristics and places the customer at the heart of our approach.

Accordingly, we held an internal seminar to create an opportunity for thinking about ESG and the SDGs at YLK. Rather than following the same format as NYK’s head office, we tailored the seminar to our business, by introducing YLK’s activities and initiatives and specific inquiries and requests from customers. The seminar drew a surprisingly large response, with around 180 employees participating from within and outside Japan. I think it provided an excellent opportunity.

Our forwarding business has no assets, making it difficult to measure the amount of our CO<sub>2</sub> emissions. Thus, there are many areas we can focus on, from visualizing the effect of reducing environmental impacts to forming alliances with leading outside partners. We must build structures that will enable us to propose more environmentally aware supply chain reforms to customers through completely new innovations.

Having begun to understand the importance of ESG and the SDGs, our employees are already taking action in areas where they can act independently. The key to

promoting ESG management throughout YLK’s wide-ranging business fields is to see how many employees can take ownership over ESG in their daily business activities. We will actively support these kinds of bottom-up activities. We will promote integration of ESG management by formulating YLK’s own version of the NYK Group ESG Story showcasing employee activities and sharing our vision with an increasing number of associates.



# Action to Mitigate Climate Change

The NYK Group recognizes climate change as an important management issue. In December 2018, we announced our support for the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and we are advancing disclosure in line with TCFD recommendations. Aiming to approach climate change issues from a medium- to long-term viewpoint and further accelerate discussions at all levels of our in-house organization, we established a new governance structure in 2021.

## Governance

The NYK Group has long had a system in place for the discussion of climate change, an important management issue. The Board of Directors has supervised such activities, while the Risk Management Committee (see page 73 for details) has identified risks and monitored the progress of risk countermeasures.

In addition to the ESG Management Committee (see page 14 for details), which was established in April 2021, we have launched new organizations that enable us to pursue our medium- to long-term environmental goals. These organizations include the GHG Reduction Task Force, comprising mainly managers, and the IBIS Challenge, comprising primarily personnel engaged in ship operations. We will make a concerted action to step up the pace of our climate change countermeasures.

### » GHG Reduction Task Force «

- Mainly comprises the managers of relevant sales divisions
- Exchanges information on and gives concrete form to greenhouse gas (GHG) reduction initiatives being tackled in collaboration with customers and partners, shares information on technology development, and discusses the possibility of introducing LNG-fueled vessels and how to balance profitability and environmental issues
- Convenes discussions at least four times a year and reports details to the ESG Management Committee

### » IBIS Challenge «

- Mainly comprises the personnel of relevant business divisions who are engaged in ship operations
- A new organization within IBIS TWO Plus,\* which pursues optimal ship operations
- Exchanges information and discusses specific measures with the aim of improving the efficiency of ship operations, which is directly linked to GHG reduction
- Convenes discussions approximately four times a year and reports details to the ESG Management Committee

\* In 2012, we began the IBIS Project with the aim of realizing optimized, economic container ship operations. In 2013, we launched IBIS-TWO to optimize the operations of ships other than container ships. In 2019, we renamed the project IBIS TWO Plus and extended the scope of the project's activities.

### Relationships between the New Organizations and the ESG Management Committee

System for sharing information on policies and progress



### Group Medium- to Long-Term Environmental Targets (GHG Reduction Targets)

	2016	2017	2018	2019	2020	2030 (Target)	2050 (Target)
Ships	-0.5%	-1.6%	-2.4%	-2.8%	-3.9%	-30%	-50%
Aircraft							

Note 1: CO<sub>2</sub> emissions per ton-kilometer (base year fiscal 2015)

Note 2: Since June 2018, these targets have been recognized as science-based by the international Science Based Targets (SBT) initiative.



## Strategies and Risk Management

### Internal Carbon Pricing

In fiscal 2020, the NYK Group introduced an internal carbon pricing scheme, which can be used as a reference for making decisions at meetings of the Investment and Credit Council and the Management Meeting.

We determine the applicable prices by referring to the European Union Emissions Trading System (EU ETS) and other prices. While keeping abreast of the latest social conditions, we review the prices as necessary.

## Scenario Analysis

The NYK Group is factoring climate change into its original forecasts on transportation demand, in addition to taking steps to manage risks and grasp opportunities based on socially plausible scenarios. The Company uses the World Energy Outlook (WEO) presented by the International Energy Agency (IEA) as a reference point for future energy-related trends and analyzes the IEA's main Stated Policies Scenario (STEPS) and Sustainable Development Scenario (SDS), which assume the Sustainable Development Goals (SDGs) of the

United Nations will be fulfilled. Further, to enable responses to future changes in scenarios, we have introduced a new management method that entails monitoring events by fixed-point observations. We have begun said scenario analysis measures in the Energy Division. We are also considering the introduction of such analysis to other business divisions. In light of the details revealed by scenario analysis, we will proceed to disclose our long-term profile and resiliency.

## Major Potential Risks and Opportunities from Climate Change

The NYK Group is working to understand the various risks and opportunities that may arise from climate change. The Risk Management Committee monitors the risks facing the Group and its responses thereto and meets annually to confirm the impact of climate change on the Group's businesses from a long-term perspective.

### Potential Risks and Opportunities

Potential risks and opportunities		Impact on the Group	
Transition Risks	Policies, laws and regulations	<ul style="list-style-type: none"> <li>• Stricter environmental regulations (EEDI, GHG reductions)</li> <li>• Restrictions on the use of heavy oil, fuel conversion, obligatory use of renewable energy</li> <li>• Adoption of market-based measures (MBMs)</li> </ul>	<ul style="list-style-type: none"> <li>• Increased capital expenditure, ships become stranded assets</li> <li>• Reduced service capabilities</li> <li>• Increased costs to purchase credits</li> </ul>
	Technology	<ul style="list-style-type: none"> <li>• Response to new technologies and investments</li> </ul>	<ul style="list-style-type: none"> <li>• Higher R&amp;D expenses to develop new technologies</li> <li>• Existing technologies or technologies under development become obsolete</li> </ul>
	Market	<ul style="list-style-type: none"> <li>• Changes in logistics market (local production and consumption, recycling)</li> <li>• Installation of renewable energy and autonomous vehicle technology</li> </ul>	<ul style="list-style-type: none"> <li>• Changes in cargo demand, reduced cargo volumes</li> <li>• Increased capital expenditures</li> </ul>
	Reputation	<ul style="list-style-type: none"> <li>• Avoidance of use of fossil fuels</li> <li>• Bidding criteria introduced for environmental performance</li> </ul>	<ul style="list-style-type: none"> <li>• Earlier conversion to new fuels</li> <li>• First-mover market capture, increased differentiation</li> </ul>
Physical Risks	Acute	<ul style="list-style-type: none"> <li>• Increased incidences of abnormal weather</li> </ul>	<ul style="list-style-type: none"> <li>• Schedule delays, increased cargo damage, and quality impairment</li> <li>• Increased risk of machinery troubles and ship-handling accidents</li> <li>• Increased ship operating costs</li> </ul>
	Chronic	<ul style="list-style-type: none"> <li>• Climate change-induced shifts in populations, regional activity</li> <li>• Ship investments to meet cargo demand trends</li> <li>• Impact on port facilities from rising sea levels</li> </ul>	<ul style="list-style-type: none"> <li>• Changes in cargo demand, reduced cargo volumes</li> <li>• Revised investment plans, increased investment costs</li> </ul>
Opportunities	Market	<ul style="list-style-type: none"> <li>• Development of new businesses</li> <li>• Development of new technologies</li> </ul>	<ul style="list-style-type: none"> <li>• Increased business related to renewable energy such as wind power</li> <li>• Increased shipping opportunities for alternative energy sources such as biomass, hydrogen, and ammonia</li> <li>• Development of new businesses using existing technologies</li> <li>• Reduced fuel consumption due to new technologies</li> </ul>

### Countermeasures for Climate Change-Related Risks (Example)

The NYK Group is moving forward with the following measures to mitigate risks related to climate change.

- Development of governance system
- Development of decision-making process for investments that factors in climate change
- Introduction of risk management methods that account for climate change and performance of scenario analysis
- Greater understanding of cargo demand, including fossil fuels, etc.
- Promotion of switch to LNG-fueled vessels (see page 29 for details)
- Development and practical application of technologies for switching to new types of fuel to power vessels (see page 49 for details)
- Acceleration of fuel conservation activities
- Stable procurement of fuel oil compliant with IMO regulations
- Active ESG engagement with financial institutions and investors (see page 59 for details)