NYK GROUP

# Bringing Value to Life

Nippon Yusen Kabushiki Kaisha

## NYK Report 2013

Financial, Social, and Environmental Performance

2013

## Editorial Policy for *NYK Report 2013*

The *NYK Report 2013* 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.

Details of the Group's initiatives for the environment, society, and governance are on pages marked with the icons below, which correspond to the seven core subjects of the ISO 26000 standard.

Organizational governance | Human rights | Labour practices | The environment | Fair operating practices | Consumer issues | Community involvement and development

Available as a PDF file at the NYK Group's website and as a booklet, the *NYK Report 2013* focuses on points we would particularly like to communicate to stakeholders. Supplementing the report's PDF and printed versions, the NYK Group's website includes more detailed information.

**Website**

**General business activities**
Corporate website
http://www.nyk.com/english/

**Financial information**
Website section: Investor Relations
http://www.nyk.com/english/ir/

**Non-financial information**
Website section: CSR
http://www.nyk.com/english/csr/

NYK Report (PDF)

**Publications**

NYK Report (this booklet)

Fact Book

### Questionnaire

As a reference for future business activities and report preparation, the Group would be grateful for the submissions of frank opinions and impressions via its website.

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

### Scope of Report

**▶ Reporting period**
April 2012 to March 2013
(In some cases, information from April 2013 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 2013 [Previous publication: August 2012; Next publication: August 2014 (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

### Inclusion in Socially Responsible Investment Indexes

NYK is actively involved in sustainability efforts in such areas as environmental preservation and compliance. Reflecting high evaluation of these initiatives, such major indexes as the Dow Jones Sustainability Indexes and the FTSE4Good Index include NYK.

Dow Jones Sustainability Indexes Member 2012/13
FTSE4Good
ROBECOSAM Sustainability Award Bronze Class 2013
2013 WORLD'S MOST ETHICAL COMPANIES WWW.ETHISPHERE.COM
MS-SRI モーニングスター社会的責任投資株価指数 Morningstar Socially Responsible Investment Index
LRQA Business Assurance

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**NYK Report 2013** Financial, Social, and Environmental Performance




**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

Information the Group wants to highlight

**Snapshot**
Focus: Past – Present
Learn about the NYK Group today.

**Growth Strategy of the NYK Group**
Focus: Present – Future
Learn about the NYK Group going forward.

**Growth Strategies by Business**
Focus: Present – Future
Learn about business segments going forward.

**Driving the NYK Group's Growth Strategy**
Focus: Past – Present – Future
Learn about CSR-based management indispensable for growth.

**Business Management System**
Focus: Past – Present
Learn about foundations supporting efforts to realise the NYK Group Mission Statement.

**Facts and Figures**
Focus: Past
Learn about business results.

# Overriding Management Policy

## NYK Group Mission Statement

### Basic Philosophy

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

### Management Policy

#### Together with Our Customers

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

#### Together with Our Shareholders and Investors

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

#### Together with Society

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

#### Together with All Staff Members in the NYK Group

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

Bringing Value to Life

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

Passing on the values that make up the essential character of NYK, formed over the course of our 120-plus year history, as well as instilling the outlook and approach that we need in order to achieve our NYK Group Mission Statement

#### Integrity

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

#### Innovation

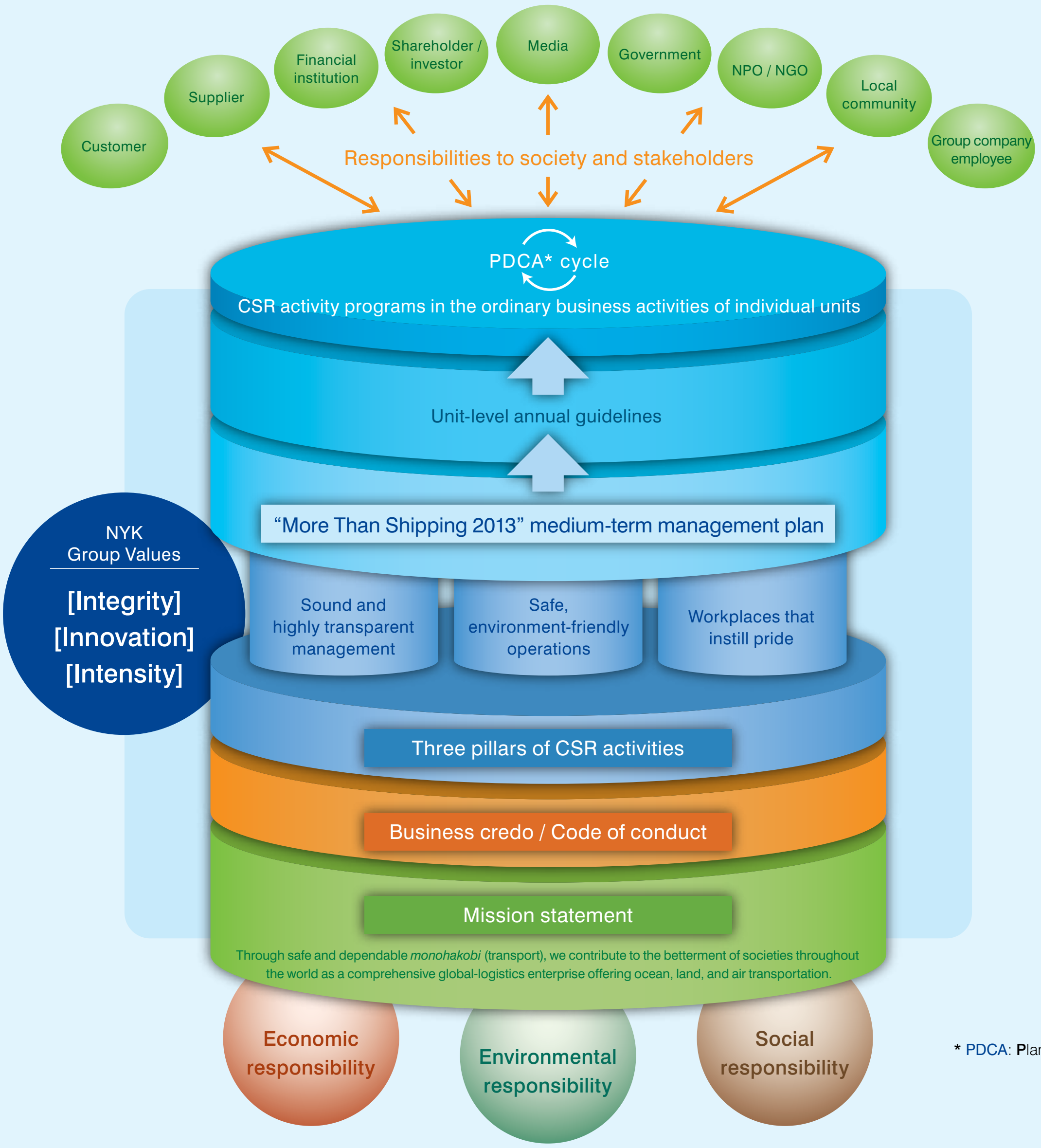
Continually think of new ideas for improvement, even when conditions appear satisfactory.
Remain open to betterment.

#### Intensity

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

## The NYK Group's CSR Management

There are three concepts at the core of CSR in the NYK Group: "economic responsibility," "environmental responsibility," and "social responsibility." We believe that the way to increase our corporate value is for each and every NYK Group employee to go about his or her ordinary duties, keeping in mind the perspectives of economy, environment, and society and endeavoring to carry out the "More Than Shipping 2013" medium-term management plan.




* PDCA: **P**lan, **D**o, **C**heck, **A**ct

### Business credo / Code of conduct

The business credo and code of conduct contain guidelines for day-to-day activities that all officers and employees of the NYK Group are expected to adhere to in their duties. We designate one month of each year as "comprehensive compliance checkup month," and at this time we conduct a survey to evaluate the degree to which compliance awareness has penetrated the organisation.



# The NYK Group— Taking on Challenges and Innovating Tirelessly

Since its foundation 128 years ago, the NYK Group has always been ahead of the times. The NYK Group Values—*integrity, innovation*, and *intensity*—have underpinned these pioneering efforts. To remain a corporate entity beneficial to the world, the Group will continue contributing to customers in all logistics areas with *integrity, innovation*, and *intensity*.

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

**1893**
Launches Japan's first long-distance liner service on the Bombay (Mumbai) route.

*Hiroshima Maru*

**1896**
Establishes liner services to Europe, North America, and Australia; ranks alongside Western shipping companies.

**1926**
Merges with Dai-ni Toyo Kisen Kaisha.

**1929~**
Lifts curtain on age of luxury passenger liners by introducing to North American and European routes series of passenger liners, eventually including *Asama Maru II, Chichibu Maru*, and *Hikawa Maru*.

*Asama Maru II*

**1939**
Merges with Kinkai Yusen Kaisha Ltd.

**1959**
- Launches Group's first crude carrier, *Tanba Maru II.*
- Launches Group's first heavy load carrier, *Mitaka Maru.*

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

*Tobata Maru II*

**1964**
- Launches world's first wood-chip carrier, *Kure Maru.*
- Merges with Mitsubishi Shipping Co. Ltd.

**1968**
- Takes delivery of Japan's first fully containerised ship, *Hakone Maru II.*
- Begins container services on major shipping routes.

*Hakone Maru II*

**1969**
Launches Group's first car carrier, *Toyota Maru No. 5.*

**1976**
Introduces crews comprising Japanese and non-Japanese members to car carrier *Polar Bear* to begin internationalising personnel.

**1978**
Establishes Nippon Cargo Airlines Co. Ltd. (NCA).

**1983**
Begins LNG transport.

**1985**
- Celebrates centennial.
- Begins developing comprehensive global logistics business, incorporating ocean, land, and air transportation.

**1989**
Establishes manning company in the Philippines to recruit seafarers, NYK-Fil Ship Management Inc.

**1990**
Receives delivery of cruise ship *Crystal Harmony* and resumes cruise business.

**1991**
Merges with Nippon Liner System Co. Ltd.

**1995**

**1997**
Sees large tanker *Diamond Grace* spill crude oil in Tokyo Bay.

Learning from this accident, in 1998 the Group introduced its own strict safety management system for vessel operations based on international regulations, NAV9000. The Group enforces safety in day-to-day vessel operations rigorously by auditing the whole fleet—including chartered vessels, shipowners, and ship-management companies—based on 600 safety requirements.

**1998**
Merges with Showa Line Ltd.

**2000**

**2001**
Establishes ship-management company in Singapore, NYK Shipmanagement Pte. Ltd.

**2002**
- Receives appointment as operator of deep-sea drilling ship *Chikyu.*
- Initiates Global NYK Week (currently, The Global NYK/YLK Week).

Tasked with furthering understanding of the NYK Group Mission Statement, the NYK Group Values, and the Group's business strategies, this training programme targets mid-career employees working at overseas Group companies. It includes direct discussions with the president and lectures on the Group's history.

**2004**
Establishes Monohakobi Technology Institute (MTI).

The Group established this institute with the aim of responding to global operational needs that are developing rapidly and diversely by conducting a variety of research and development in relation to safe vessel operations, the environment, energy saving, and new technologies for logistics. Also, it administers the Group's personnel training programmes and helps to enhance the quality of and add value to the services the Group provides customers.

**2005**
Assigns first female officer to a Group vessel.

**2006**
Accepts candidates for Japan's first in-house seafarer training programme.

**2007**
- Sets out *integrity, innovation*, and *intensity* as the NYK Group Values.
- Establishes NYK-TDG Maritime Academy (NTMA) in the Philippines.

The Group established this merchant marine academy in the Philippines to train officer candidates. Instruction emphasises developing students' management capabilities and mastering practical knowledge and skills required in frontline shipping operations. In 2011, it became one of the first three maritime academies to gain accreditation under a certification programme created by Japan's Ministry of Land, Infrastructure, Transport and Tourism for overseas maritime academies.

**2009**
- Enters offshore business by participating in drillship project.
- Begins personnel exchanges among comprehensive global logistics Group companies.

**2010**
- Celebrates 125th anniversary.
- Integrates logistics division and former company Yusen Air & Sea Service Co. Ltd.

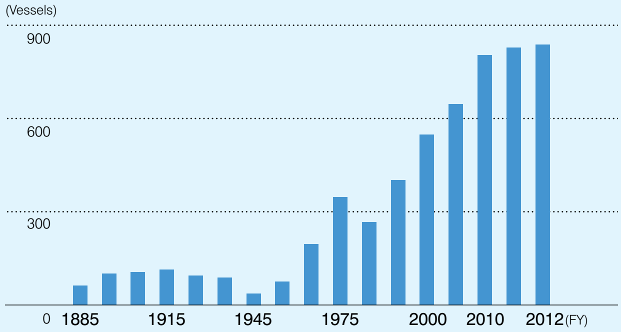
**2011**
Enters FPSO* business in Brazil.

* FPSO: **F**loating **P**roduction, **S**torage and **O**ffloading system

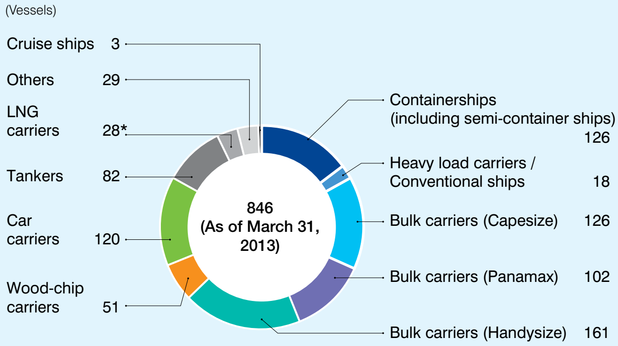
This refers to floating facilities at offshore oil or gas fields that produce and store crude oil or gas, which is offloaded directly into shuttle tankers.

**2012**
Participates jointly in Wheatstone LNG project in Australia.

### Operating Vessel Numbers




### Number of Operating Vessels




* Including vessels owned through joint ventures, the Group owned 66 LNG carriers as of March 31, 2013.



# Delivering Diverse Commodities Essential for Everyday Life

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

## Materials and raw materials

**Main Cargoes**

Energy
Crude oil, naphtha, natural gas, etc.

Resources
Iron ore, coal, nickel, bauxite, wood, wood chips, etc.

Food
Soya beans, wheat, corn, etc.

**Transport Services**

Crude carriers, LNG carriers, dry bulk carriers

## Intermediate materials, intermediate products

**Main Cargoes**

Intermediate materials and products
Jet fuel, steel, stainless steel, aluminium, pulp, paper, semiconductors, etc.

Other
Construction machinery, railcars, plant, etc.

**Transport Services**

Semi-container ships, heavy load carriers, air freighters

## Finished products

**Main Cargoes**

Food, wine, apparel, newspapers, magazines, furniture, gas oil, paraffin, automobiles, household electrical appliances, etc.

**Transport Services**

Containerships, trucks, air freighters, car carriers

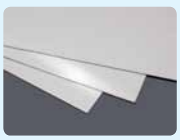
Iron ore

Steel

Automobiles

Food

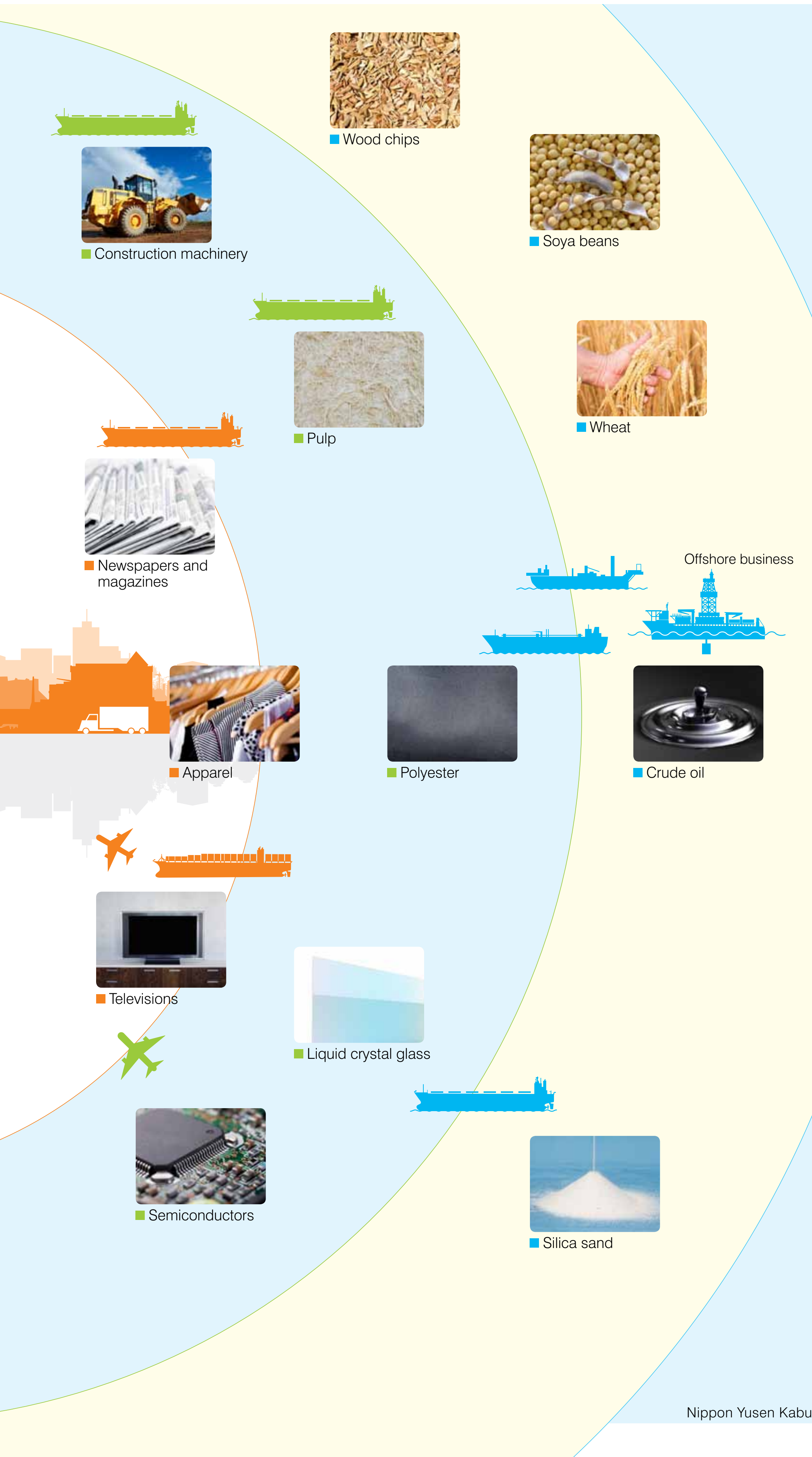
Town gas



Stainless steel

Nickel

LNG




## Diverse Transport Services

Containerships

Trucks

Terminals

Air freighters

Dry bulk carriers

Tankers, LNG carriers

Car carriers

Cruise ships

# Fiscal 2012 Topics

## Business Topics

**April 2012**

**Containerships:** Aiming to realise optimised and extremely economic vessel operations, the Innovative Bunker and Idle-time Saving (IBIS) Project begins in earnest.

IBIS Project

**May 2012**

**Energy:** Petroleo Brasileiro S.A. (Petrobras), of Brazil, begins operation of ultra-deepwater drillship for pre-salt fields.

**June 2012**

**Energy:** The Group participates in the Wheatstone LNG project, a joint project between private and public sectors in Australia.

**July 2012**

**Cruise ships:** Readers of U.S. travel magazine *Travel + Leisure* vote Crystal Cruises Inc. World's Best Large-Ship Cruise Line for the 17th consecutive year. Also, in November readers of *Condé Nast Traveller* choose the company as the Best Cruise Line (mid-size) for the sixth year in a row.

**Bulk carriers:** The Group launches the coal carrier *Soyo*, which is equipped with an air-lubrication system.

**October 2012**

**Car carriers:** The Group decides to build four next-generation car carriers, which are scheduled for completion in 2014 and 2015.

**Bulk carriers:** The Group launches iron ore carrier with the maximum loading capacity permitted at ports in Western Australia, the 250,000 DWT *Shagang Sunshine*.

**December 2012**

**Energy:** The Group and the Thai Oil Group agree to terms for the long-term charter of the VLCC *Tateyama*.

**Business management:** Consolidated subsidiaries NYK-Hinode Line Ltd. and NYK Global Bulk Corporation begin merger preparations.

**January 2013**

**Energy:** Shuttle tanker business introduces vessel that will engage in shuttle transport of crude oil produced off Brazil for five years based on a new time-charter contract.

**February 2013**

**Containerships:** An integrated consortium in container liner shipping, the G6 Alliance, to which the NYK Group belongs, decides to extend scope of cooperation to include shipping routes between Asia and North America's East Coast.

## CSR Topics

**July 2012**

**Environment:** NYK becomes the first corporate entity in the shipping industry to comply with Scope 3 of the Greenhouse Gas Protocol. NYK receives third-party verification and assurance for its greenhouse gas emissions data.

**September 2012**

**Index:** The Dow Jones Sustainability Indexes, globally recognised socially responsible investment indexes, continue to include NYK.

Dow Jones Sustainability Indexes
Member 2012/13

**Personnel development:** The NYK-TDG Maritime Academy (NTMA) in the Philippines graduates its second class, 118 students. Furthermore, as the only institution in which all students passed the nationwide Maritime School Assessment Program examination in the Philippines, NTMA receives commendation for outstanding education.

**October 2012**

**Environment:** NYK earns the highest marks in the shipping and logistics industries in a survey conducted by the Carbon Disclosure Project, an NPO representing 655 institutional investors worldwide.

**November 2012**

**Social contribution:** The cruise ship *Asuka II* offers Tohoku Restoration Support Cruise.

**December 2012**

**Environment:** The Group receives Minister of the Environment Award for the promotion of measures to address climate change.

**Social contribution:** Following on from 2011, the Group sends volunteers to Rikuzentakata in Iwate Prefecture.

**February 2013**

**Index:** The CSR rating of RobecoSAM AG places NYK in the Bronze Class. NYK is the only corporate entity in Japan's industrial transportation sector included in the evaluation, which covers 3,000 major international corporations.

ROBECOSAM
Sustainability Award
Bronze Class 2013

**Environment:** NYK receives the highest rating on Sumitomo Mitsui Banking Corporation's Environmental Assessment Loan for a third consecutive year.

**March 2013**

**Award:** The NYK Group's *CSR Report 2012* receives award for excellence at the 16th Environmental Communication Awards.


**Index:** NYK earns selection as one of the "World's Most Ethical Companies" for the sixth straight year. Also, the FTSE4Good socially responsible investment index includes NYK again.

2013 WORLD'S MOST ETHICAL COMPANIES
WWW.ETHISPHERE.COM

FTSE4Good

# Growth Strategy of the NYK Group

NYK Group President Yasumi Kudo addresses fundamental questions about issues the Group faces and how it will overcome them. He discusses competitive advantages and the appropriateness of the Group's growth strategy.



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1

# 10-Year Summary against Backdrop of Management Plans

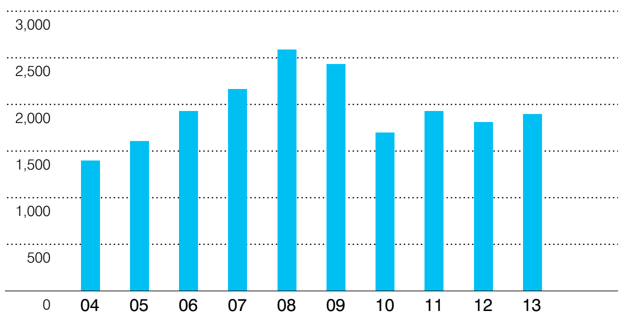
Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries

| | NYK21 Forward 120 | | New Horizon 2007 | | | |
|---|---|---|---|---|---|---|
| | | | | | Millions of yen | |
| Fiscal years ended March 31 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| **Results of Operation:** | | | | | | |
| Revenues | ¥1,398,320 | ¥1,606,098 | ¥1,929,302 | ¥2,164,279 | ¥2,584,626 | ¥2,429,972 |
| Costs and expenses | 1,158,352 | 1,283,769 | 1,594,598 | 1,840,784 | 2,128,849 | 2,054,595 |
| Selling, general and administrative expenses | 148,034 | 160,953 | 194,222 | 218,553 | 253,698 | 230,463 |
| Operating income (loss) | 91,933 | 161,375 | 140,481 | 104,941 | 202,079 | 144,914 |
| Net income (loss) | 34,810 | 71,326 | 92,058 | 65,037 | 114,139 | 56,151 |
| Capital expenditures | 143,353 | 193,569 | 193,568 | 271,948 | 501,330 | 417,555 |
| Depreciation and amortization | 65,689 | 66,814 | 73,814 | 80,487 | 92,400 | 100,124 |
| **Financial Position at Year-end:** | | | | | | |
| Total assets | 1,376,664 | 1,476,226 | 1,877,440 | 2,135,441 | 2,286,013 | 2,071,270 |
| Interest-bearing debt | 654,480 | 630,054 | 766,024 | 890,754 | 1,022,197 | 1,077,956 |
| Shareholders' equity | 358,044 | 427,770 | 575,366 | 657,088 | 637,962 | 544,121 |
| **Cash Flows:** | | | | | | |
| Operating activities | 111,360 | 175,507 | 138,732 | 86,229 | 199,525 | 150,474 |
| Investing activities | (88,089) | (135,066) | (170,511) | (178,043) | (292,510) | (170,253) |
| Financing activities | (34,862) | (41,374) | 40,339 | 97,363 | 146,829 | 29,571 |
| | | | | | Yen | |
| **Per Share Data:** | | | | | | |
| Basic net income (loss) | ¥ 28.27 | ¥ 58.12 | ¥ 75.04 | ¥ 52.99 | ¥ 92.93 | ¥ 45.73 |
| Equity | 292.88 | 350.10 | 471.05 | 534.90 | 519.51 | 443.16 |
| Cash dividends applicable to the year | 10.00 | 18.00 | 18.00 | 18.00 | 24.00 | 15.00 |
| Dividend payout ratio | 35.1% | 30.8% | 23.9% | 34.0% | 25.8% | 32.8% |
| **Managing Indicators:** | | | | | | |
| Return on equity (ROE) | 10.8% | 18.2% | 18.4% | 10.6% | 17.6% | 9.5% |
| Return on assets (ROA) | 2.6% | 5.0% | 5.5% | 3.2% | 5.2% | 2.6% |
| Return on invested capital (ROIC) | 5.8% | 10.4% | 7.5% | 4.7% | 7.8% | 5.9% |
| Debt-equity ratio (DER) (times) | 1.83 | 1.47 | 1.33 | 1.36 | 1.60 | 1.98 |
| Shareholders' equity ratio | 26.0% | 29.0% | 30.6% | 30.8% | 27.9% | 26.3% |
| **Environment, Society, and Governance (ESG) Data:** | | | | | | |
| Number of employees (NYK and consolidated subsidiaries) | 20,660 | 23,232 | 25,732 | 29,872 | 31,369 | 29,834 |
| NYK fleet $CO_2$ emissions (thousands of tons) | 12,725 | 13,433 | 14,642 | 15,922 | 16,969 | 16,739 |
| NYK fleet fuel consumption (thousands of tons) | 4,092 | 4,319 | 4,708 | 5,069 | 5,444 | 5,373 |

Note: U.S. dollar amounts represent the arithmetical results of translating yen to U.S. dollars using the exchange rate prevailing at March 31, 2013, which was ¥94.05 to US$1.00. Such dollar amounts are solely for the convenience of readers outside Japan and are not intended to imply that the yen amounts have been or could be readily converted, realised, or settled in dollars at that or any other rate of exchange.

### Revenues

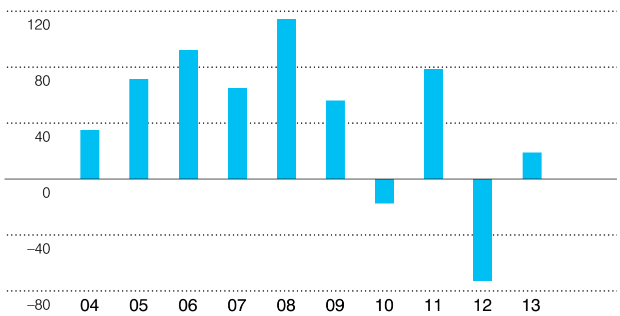
(Billions of yen)




(Years ended March 31)

### Net Income (Loss)

(Billions of yen)




(Years ended March 31)

For analysis of business results by business segment, please see page 85.



| New Horizon 2010 | | More Than Shipping 2013 | | Thousands of U.S. dollars |
|---|---|---|---|---|
| 2010 | 2011 | 2012 | 2013 | 2013 |
| ¥1,697,342 | ¥1,929,169 | ¥1,807,819 | ¥1,897,101 | $20,171,200 |
| 1,520,932 | 1,622,045 | 1,661,112 | 1,704,591 | 18,124,309 |
| 194,504 | 184,777 | 170,831 | 175,075 | 1,861,514 |
| (18,094) | 122,346 | (24,124) | 17,434 | 185,376 |
| (17,447) | 78,535 | (72,820) | 18,896 | 200,917 |
| 237,969 | 278,570 | 309,288 | 307,050 | 3,264,758 |
| 98,019 | 100,198 | 100,857 | 97,522 | 1,036,925 |
| 2,207,163 | 2,126,812 | 2,122,234 | 2,430,364 | 25,841,198 |
| 1,081,870 | 981,972 | 1,067,125 | 1,292,191 | 13,739,404 |
| 661,232 | 684,627 | 579,342 | 651,056 | 6,922,450 |
| 62,105 | 174,585 | 29,837 | 93,951 | 998,947 |
| (43,706) | (162,781) | (139,402) | (135,566) | (1,441,430) |
| 137,396 | (100,161) | 72,159 | 177,966 | 1,892,251 |
| | | | | U.S. dollars |
| ¥ (12.71) | ¥ 46.27 | ¥ (42.92) | ¥ 11.14 | $0.12 |
| 389.46 | 403.46 | 341.54 | 383.83 | 4.08 |
| 4.00 | 11.00 | 4.00 | 4.00 | 0.04 |
| — | 23.8% | — | 35.9% | |
| (2.9)% | 11.7% | (11.5)% | 3.1% | |
| (0.8)% | 3.6% | (3.4)% | 0.8% | |
| (0.4)% | 4.6% | (0.6)% | 1.1% | |
| 1.64 | 1.43 | 1.84 | 1.98 | |
| 30.0% | 32.2% | 27.3% | 26.8% | |
| 31,660 | 28,361 | 28,498 | 28,865 | |
| 13,991 | 14,525 | 14,749 | 14,695 | |
| 4,491 | 4,662 | 4,734 | 4,716 | |

**Full-Year Forecast for 2014**

Revenues
**¥2.09 trillion**

Operating income
**¥45.5 billion**

Net income
**¥27.0 billion**

DER (Shareholders' equity)
**1.79 times** (¥670.0 billion)

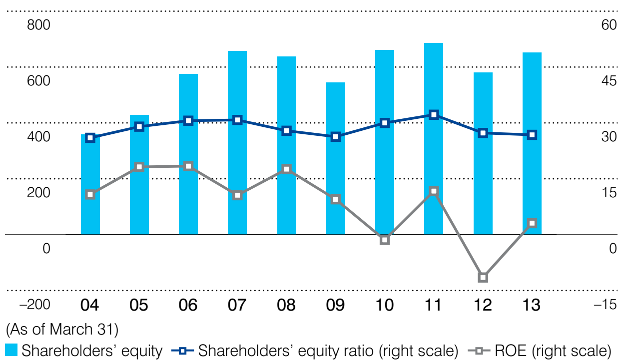
ROE
**4%**

Cash flows: Operating activities
**¥105.0 billion**

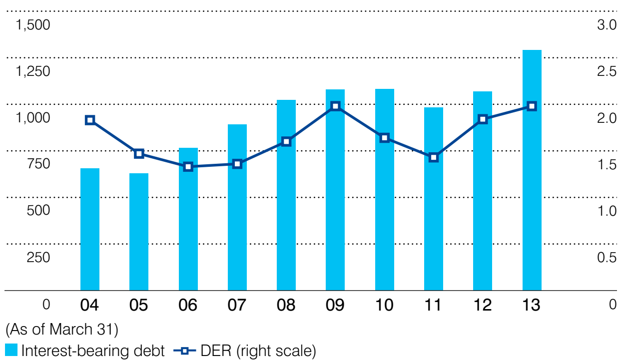
Cash flows: Investing activities
**–¥100.0 billion**

Assumptions:
Average exchange rate ¥90/US$
Average bunker oil price US$650/MT

### Shareholders' Equity / Shareholders' Equity Ratio / ROE




### Interest-Bearing Debt / DER



# Accelerating Our "More Than Shipping" Strategy

The medium-term management plan "More Than Shipping 2013" has been in effect for two years.
Is the NYK Group still adhering to the plan's main strategy?
What progress has it made, and how will it deploy resources going forward?



## Basic Business Management Strategies of President Yasumi Kudo

### 1. Group's Growth Strategy

**The NYK Group cannot survive through shipping alone. Creating added value beyond the traditional shipping business is the way to win in the face of global competition.**

A significant gap between supply and demand continues to plague the shipping industry. Excluding Europe, demand for ocean transport is trending upward overall. In North America, demand has surpassed its levels prior to the collapse of Lehman Brothers and the start of the global recession in 2008, and demand is on track for recovery in Asia and resource-rich countries. However, the shipping industry still has not closed the supply-demand gap. This is attributable to the after-effects of fleet expansion that catered to a spike in demand before the global recession.

The lead time from ordering a vessel until its completion is several years. Even if demand decreases during this period, shipping companies cannot cancel an order. Assuming this risk, shipping companies have actively developed fleets in response to their customers' requirements. However, due to the speed and magnitude of the downturn in seaborne trade following the start of the global recession, the shipping industry was unable to rightsize sufficiently. Consequently, a supply-demand gap opened up immediately, and profitability deteriorated. Until these after-effects dissipate, the NYK Group will face extremely challenging business conditions.

In response to these business conditions, the NYK Group prepared its "More Than Shipping 2013" medium-term management plan with a view to realising sustained growth. Due to the fierceness of price competition, the earnings we can secure from shipping business alone are limited. With this in mind, the plan sets out developing comprehensive capabilities as a winning strategy. Using the peaks and troughs of freight rates to generate earnings has never been part of our business management approach. Instead, our strategy has been to curb fluctuation risk by moving towards a light-asset business model. This entails reducing the number of owned vessels while increasing the number of chartered vessels among containerships and other fleets facing large supply-demand gaps. At the same time, we have been establishing a competitive advantage by combining traditional shipping with value-added strategies and using our ability to provide solutions. Moreover, securing stable earnings by tapping into the growth in transport demand among emerging economies centred on Asia has proven an astute strategy.


Yasumi Kudo
President, President Corporate Officer

## 2. Liner Trade Segment and Volatility

### The liner trade segment represents the NYK Group's foundations.

The liner trade segment recorded a deficit of ¥9.4 billion in fiscal 2012, ended March 31, 2013, and a deficit of more than ¥40.0 billion in the previous fiscal year. Some observers have suggested withdrawing from this business, but I have no intention to do so. A major reason is that when we roll out new services based on other vessel types, the network of the liner trade segment plays a critical role. This worldwide network includes containership operations and bases. Today, we transport resources, automobiles, and energy around the globe. However, without the network the liner trade segment has built, I do not think we would have been able to participate in any of these businesses.

## 3. Harmony between Growth Strategy and CSR

### The NYK Group's growth strategy and corporate social responsibility (CSR) initiatives follow parallel courses. By fulfilling its obligations as part of society's infrastructure, the Group becomes stronger.

Shipping and logistics are integral parts of society's infrastructure; they are the global economy's arteries. In our view, by operating a shipping business, we are fulfilling a CSR. No country can sustain its economy without the export and import of commodities. This is why transporting commodities safely and reliably at competitive prices is our CSR. Interruption of these operations could not only significantly affect the Group's business results but also the global economy. As for the environment, although ocean transport is markedly more efficient than other transport modes, vessels consume large amounts of fossil fuels and as a result generate large amounts of $CO_2$. Accordingly, I believe we must develop businesses in light of environmental burden. Our recent implementation of slow-steaming operations to reduce fuel consumption is contributing significantly to effective energy resource use and $CO_2$ emissions reduction. Further, given the engagement of our business with society, to achieve sustained growth we must develop corporate governance that earns stakeholders' trust. In other words, we cannot function as a company without consideration for the environment, society, and corporate governance.

Of course, as a corporate group NYK has to secure a certain level of earnings. For this reason, I want to make realising sustainable business management based on consideration for the environment, society, and corporate governance a source of competitiveness that furthers our growth strategy. In this sense, our growth strategy and CSR initiatives go hand in hand. For example, amid current bunker oil price hikes, the previously mentioned slow-steaming operations have contributed to earnings by achieving major cost reduction benefits while reducing $CO_2$ emissions. Moreover, the implementation of slow-steaming operations while delivering consignments on time and meeting customers' needs calls for ingenuity based on extensive expertise. Thus, the abilities of each employee are critical.

Created by catering to the expectations of customers and society, the NYK Group's multifaceted operations are an ideal place to heighten such abilities. In this way, by facing CSR squarely, we can heighten competitive advantages even further. I think we are approaching an era in which it will become increasingly difficult for companies to survive if society does not view them as necessary.



## Progress under the Medium-Term Management Plan

In this section, President Kudo discusses progress towards curbing fluctuation risk and generating stable earnings—key tasks of the medium-term management plan.

### 1. Curbing Fluctuation Risk
### The NYK Group's measures to curb fluctuation risk were successful and improved profitability dramatically.

Unfortunately, eliminating the containership supply-demand gap—the widest among all vessel types—is liable to take several years because even now the completion of new vessels is continuing. Containership operators appear to have reacted by laying up surplus vessels and introducing slow-steaming operations. Nevertheless, even if vessels are laid up, fixed costs remain, and I think this is making balancing income and expenditure challenging.

Immediately after the start of the global recession, we moved towards a light-asset business model for containerships, which was the correct response to demand volatility. Further, in the fiscal year under review we exploited IT and other innovations to enable rigorous cost reduction, shrinking our deficit in the liner trade segment significantly, from more than ¥40.0 billion to ¥9.4 billion—an impressive achievement.

### 2. Generating Stable Earnings
### Through the effective use of such assets as personnel and vessels, the NYK Group steadily accumulated long-term contracts.

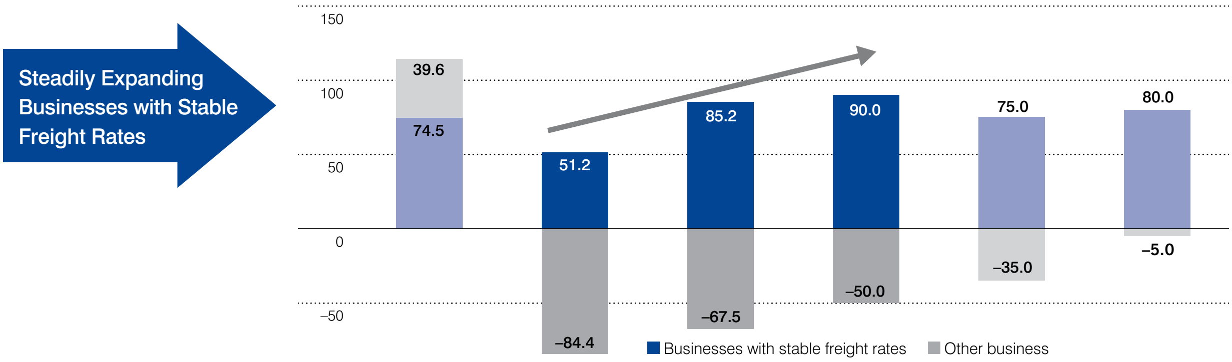
Mainly through the LNG transport business and the shuttle tanker business, which transports crude oil from offshore installations to onshore facilities, we continuously secured long-term contracts. Amid the growing shale gas revolution in North America, the LNG transport business is seeing a rise in the number of Japanese companies interested in importing unconventional natural gas extracted from gas-rich shale. In response, the NYK Group plans to add between 30 and 40 operating LNG carriers to its fleet. In addition, we became the first Japanese shipping company to acquire an equity interest in a natural gas development project in June 2012. I feel this is a milestone not only because of the LNG transport opportunities it presents us but also because it will contribute to the stable supply of energy to Japan.

Also, we have been steadily gathering more long-term contracts for dry bulk carriers. As with containerships, a substantial gap remains between supply and demand for dry bulk carriers, which transport iron ore, coal, and other cargoes. In acquiring these long-term contracts, vessels in our fleet that do not have long-term contracts, so called free vessels, play a very important role. Bearing in mind the possibility of sudden downturns in iron ore demand, our customers do not conclude long-term contracts for all of the iron ore they plan to import. Instead, they allocate the transport of a certain amount to vessels that the shipping company has readily on hand if needed. In other words, acting as a buffer between customers and supply-demand conditions earns customers' trust, which helps us acquire long-term contracts. In this way, by maintaining a certain number of free vessels that in some cases are unnecessary, we have increased long-term contracts for Capesize bulk carriers, which mainly transport iron ore, from about 30 vessels at the beginning of the 2000s to 80 vessels at present. Our Capesize bulk carrier fleet currently comprises approximately 120 vessels, of which roughly 40 are free vessels. With the recent softening of China's growth, this is perhaps slightly too many free vessels. However, we can redeliver surplus chartered vessels within a few years. Moreover, we expect business negotiations currently under way in relation to projects in India and other countries will enable us to accumulate further long-term contracts.

In addition, we have been able to use very large crude-oil carriers (VLCCs) that were beginning to become surplus to conclude new long-term contracts in Thailand and other parts of Southeast Asia. While this region has demand for transport, its shipping industry has not yet matured. Accordingly, we want to support Southeast Asia's economic growth by providing services through partnerships with major local companies.

**Recurring Profit and Loss**

(Billions of yen)




| | | FY2010 (result) | FY2011 (result) | FY2012 (result) | FY2013 (plan) | FY2012 (plan) (original) | FY2013 (plan) (original) |
|---|---|---|---|---|---|---|---|
| Recurring profit and loss (Billions of yen) | | 114.1 | –33.2 | 17.7 | 40.0 | 40.0 | 75.0 |
| Currency exchange rate (¥ / $) | | ¥86 | ¥79 | ¥82 | ¥90 | ¥80 | ¥80 |
| Bunker oil price ($ / MT) | | $484 | $666 | $673 | $650 | $730 | $730 |
| Liner trade (freight rates)*1 | Asia ➡ North America | 104 | 100 | 104 | 107 | 115 | 115 |
| | Asia ➡ Europe | 100 | 73 | 80 | 77 | 82 | 82 |
| Bulk and energy carriers*2 | Cape*3 (4TC*4) | $26,895 | $15,347 | $7,370 | $11,250 | $17,000 | $25,000 |
| | VLCC | $33,918 | $18,705 | $16,360 | $17,000 | $22,500 | $30,000 |

*1. Figures are indexed: FY2008, Q1 = 100
*2. $ / day (market per vessel, spot charterage)
*3. Bulk carriers (Capesize)
*4. Average of four shipping routes

The Group's medium-term management plan sets out ¥100 billion as the earnings target for businesses with stable freight rates. In fiscal 2012, these businesses generated earnings of approximately ¥85 billion, and we expect them to earn ¥90 billion during the current fiscal year. Although this is slightly below target, I feel the steady accumulation of earnings testifies to concrete progress.

## 3. Reasons for Successful Accumulation of Long-Term Contracts

## A track record of commitment to meeting customers' expectations has built the NYK Group's strong reputation.

There are two reasons why we have been able to accumulate long-term contracts.

The first is that we have reliable resources. For example, in LNG transport, while securing vessels is important, recruiting highly professional seafarers is much more important. Mindful of this, we have been taking far-sighted measures to foster crew members that have advanced professional skills and strong safety awareness. As part of these efforts, we have been operating a maritime academy in the Philippines since 2007. Graduates from this academy are playing an increasingly important role in the NYK Group. Furthermore, in Singapore we have established a ship-management company, which supplies crew members and manages vessels. This company has established a branch in the Philippines, thereby giving crew members employment opportunities onshore. Providing such opportunities attracts talented crew members and is conducive to long-term employment. Although inconspicuous, such foundations give us confidence in the safety and reliability of the transport services we offer customers.

Another factor underlying our accumulation of long-term contracts is that we have continued to cater to customers' needs near their operational sites. Automotive manufacturers entered Thailand and China very rapidly, and in these markets we developed logistics networks and terminals indispensable for transporting finished vehicles. I think customers appreciate such all-out efforts to support them, and this has helped us win ocean transport contracts.

## 4. Logistics Segment

## These operations are on the cusp of realising the synergy benefits of integration and showing their real value.

In fiscal 2012, the logistics segment posted lower earnings year on year, with recurring profit decreasing to ¥4.7 billion, compared with ¥9.2 billion in fiscal 2011. Since integrating the logistics division and former company Yusen Air & Sea Service Co. Ltd. in 2010, the logistics business has focused efforts on expanding the NVOCC (Non-Vessel Operating Common Carrier) business. This business has set its sights on reaching the medium-term management plan's target of one million TEUs (twenty-foot equivalent units) for seaborne cargo handling volume. One reason for the deterioration of profitability was that in certain operations revenue earned was less than transport space procurement cost, which increased due to a rise in container freight rates from the beginning of 2012. However, the main reason for worsening profitability was a slump in demand for air cargo. Due to a marked downturn in air cargo exports from Japan, annual cargo movements, which had been around the one-million-ton level, fell to 850,000 tons in fiscal 2012. This drop in volume affected the logistics segment significantly.

Despite this setback, the logistics segment belongs to a growth industry that will expand as the population increases. Moreover, air cargo exports from Japan will probably pick up to some extent, and air cargo from Asia is rising steadily at present. Gaining market recognition as a capable forwarder, Yusen Logistics Co. Ltd. is now working in earnest to realise the synergy benefits of integration. Therefore, I am sure it has a promising future.

## Fiscal 2013 Outlook and Management Strategy

In fiscal 2013, the year ending March 31, 2014, the NYK Group is targeting recurring profit of ¥40 billion, based on an exchange rate of ¥90 to US$1. While we hope freight rates stay at fiscal 2012 levels, we are assuming they will worsen slightly. Whatever transpires, our first priority for the current fiscal year is to entrench the profitability achieved in the fiscal year under review. This makes moving the liner trade segment into the black an urgent task.

### 1. Global Logistics Business
### Reducing cost while taking advantage of surplus as an opportunity

Because a significant gap remains between supply and demand, cost reduction will determine the competitiveness of the liner trade segment. Cost reduction will depend on uncompromising efforts to eliminate wastefulness, irregularity, and unreasonableness under the Group's 3M (*Muda, Mura*, and *Muri*) Elimination Project. By not ordering new vessels and scrapping, we have already eliminated most "*Muda*" vessels. Also, we expect the outstanding fuel efficiency of four leading-edge 13,000 TEU containerships, which we have chartered for three years, will make a steady contribution to our cost reduction efforts. A further deciding factor in these efforts will be our ability to eliminate *Muda, Mura,* and *Muri* from vessel operations. In fiscal 2013, our cost reduction efforts will not only focus on vessels. We will advance a cost reduction project focused on analysing and managing the profitability of individual containers.

On the other hand, surplus vessels present an opportunity. The resulting low charterage fees and

transport space procurement cost provide an opportunity to improve the profitability of the NVOCC business. While the NYK Group's liner trade segment will continue to advance operations unstintingly, Yusen Logistics, which operates the NVOCC business, aims to expand its customer base and grow handling volume rapidly.

3M

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

### 2. Bulk Shipping Business
### Accumulating further long-term contracts while eliminating *Muda*

The Group expects Capesize bulk carriers—the area of the Dry Bulk Carrier Division that struggled most in 2012—will see growth of only a few percent in iron ore cargo movements, which remains below the level of a full-fledged recovery in fiscal 2013. Meanwhile, the annual net increase in vessels, which is scrapped vessels deducted from new vessels delivered, will finally slow down during fiscal 2013, and this will curb shipping capacity growth to a few percent. As a result, the supply-demand situation should improve gradually towards the end of 2013. Over the next three years, the NYK Group will be able to redeliver vessels with high charterage fees that were previously introduced to cater to customers during a surge in cargo movements. Until we return these vessels, as I mentioned earlier, they will serve as bargaining chips in business negotiations aimed at accumulating long-term contracts.

The Tanker Division will probably face very challenging supply-demand conditions. Supply is set to grow approximately 10% due to the delivery of numerous new vessels. Meanwhile, although crude oil cargo movements for China and India are solid, North America's crude oil import volume is declining due to the exploitation of shale oil and shale gas. Consequently, we expect crude oil cargo movements will only edge up about 1%. However, these trends will not significantly affect the business results of the Tanker Division because its fleet has a small proportion of free vessels, which are susceptible to freight rate fluctuation.

As for car carriers, we expect demand to remain solid. Yen depreciation is likely to spur a recovery in the transport of finished automobiles from Japan. At the same time, we anticipate a similar rise in exports from countries that manufacturers transferred their production bases to during the period of yen strength, such as Thailand, Indonesia, and India.

As with the Global Logistics Business, the Bulk Shipping Business has to eliminate *Muda*. The main cause of *Muda* is ballast voyages, when vessels make return trips without cargo. Aiming to eliminate this source of waste, we intend to make maximum use of our global network to capture cargo while introducing further slow-steaming operations in the same way that we have for containerships.

### 3. Fleet Development

## By resisting the temptation to increase vessels speculatively, the NYK Group will develop its fleet in step with actual demand.

The NYK Group intends to continue exercising due caution with regard to investing in containerships. In the dry bulk carrier fleet, we will rectify the slight surplus that has developed among free vessels by steadily redelivering them at the end of their charter contracts. After this, we will develop the fleet to reflect customers' needs. Similarly, we do not intend to increase tankers but will pursue a strategy of using surplus tankers to capture growth in Asia. Meanwhile, we will invest aggressively in LNG carriers, for which we expect to see transport demand, and in vessels related to the offshore business, such as shuttle tankers. However, given the high price of LNG carriers and the limit on investment funds as well as the issue of recruiting seafarers, we will carefully scrutinise investment candidates before making decisions. In the car carrier business, which is the Group's largest core business, we will undertake active development of businesses related to dedicated terminal logistics and renew the fleet as needed.

## Shareholder Returns and Capital Policy

The NYK Group's basic policy for returns to shareholders is to realise a consolidated payout ratio of 25% and stable dividends. Reflecting this policy, we paid a dividend of ¥4.00 per share for fiscal 2011—despite recording a significant deficit—and also paid a dividend of ¥4.00 per share for fiscal 2012. In light of the numerous projects we are planning, investing in, and developing with a view to growth, we intend to continue investing internal reserves proactively to enhance corporate value and thereby meet the expectations of our shareholders. Accordingly, I would like to ask for understanding of our intention to continue targeting a consolidated payout ratio of 25% for the time being.

# A Message from the Chief Financial Officer

Aiming to maintain and strengthen sound financial foundations, the NYK Group will take a variety of measures focused on strategic investment to grow operational cash flows steadily.

Kenji Mizushima

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



## Outlook for the Current Fiscal Year

### Q What are the preconditions for the NYK Group to achieve recurring profit of ¥40 billion in fiscal 2013?

Recurring profit of ¥40 billion assumes an exchange rate of ¥90 to the U.S. dollar and a bunker oil price of $650 per metric ton. Rather than forecasting exchange rates, building systems that are able to respond flexibly whether the yen appreciates or depreciates is important. Bunker oil prices are extremely high compared with their level until not long ago of between $100 and $200. Looking over the medium-to-long term, I think bunker oil prices are likely to stay high. Bearing this in mind, continued fuel cost reduction efforts will be a significant component of business management.

As for freight rates, while certain vessel types are seeing signs of favourable trends, we are not expecting a significant near-term recovery. Accordingly, we intend to continue concentrating efforts on cost reduction. In fiscal 2013, we are targeting cost reduction of approximately ¥25 billion.

## Investment Policy

### Q What is the Group's investment policy going forward?

In July 2012, the Group revised its medium-term management plan's target. We reduced the amount earmarked for the six-year period from fiscal 2011 from at least ¥1.80 trillion to ¥1.54 trillion on a completed vessel basis. Further, we are reassessing this revised target in light of current business conditions and profitability and in conjunction with the preparation of our next medium-term management plan. Between fiscal 2013 and fiscal 2017, the Group expects to invest roughly ¥1 trillion on a cash flow basis. Of course, we will not invest all of this in owned vessels. The Group will shrink actual capital expenditure through a well-balanced combination of vessel procurement methods, including chartered vessels and operating leases. Our strategy of focusing investment on businesses that promise stable earnings, such as the offshore business and LNG carriers, is unchanged.

## Financial Position

### Q In fiscal 2012, why did interest-bearing debt rise ¥225 billion year on year?

It increased because the Group raised funds in advance for coming fiscal years. We decided to raise funds early to take advantage of favourable interest rates and the possibility of long-term fund-raising. We have earmarked the funds raised for ordering new vessels and investing and participating in the upstream energy business.

The NYK Group's investment in upstream areas is growing steadily. In fiscal 2012, we decided to participate in the Wheatstone LNG project in Australia, while in fiscal 2013 we plan to acquire a new equity interest in shale gas liquefaction in North America. Some commentators may see upstream investment as incurring significant risk. However, the Group will only take partial stakes in projects. Furthermore, we can expect shipping opportunities for our mainstay business. A further point to bear in mind is our partners in these projects are very experienced, meaning construction completion risk and operational risk are low. So our basic strategy will be to invest upstream while curbing investment risk as much as possible.

### Q What is the outlook for the debt-to-equity ratio?

As a result of raising funds in advance, the debt-to-equity ratio at the end of fiscal 2012 was 1.98, up from 1.84 at the end of the previous fiscal year. This is expected to decrease to 1.79 at the end of the current fiscal year due to higher shareholders' equity as profitability improves.

The medium-term management plan calls for lowering the debt-to-equity ratio to at least 1.5 by fiscal 2015, and this target will remain unchanged. To this end, the Group intends to select projects based on strict criteria, grow operating cash flows through strategic investments, and use accumulated earnings to increase shareholders' equity. At the same time, the Group will curb increases in interest-bearing debt. With this as a basic strategy, while keeping in mind overall balance, we want to maintain and strengthen financial soundness.

Meanwhile, we intend to explore new fund-raising methods that do not rely on interest-bearing debt. For example, the Group recently raised funds by listing a subsidiary of Knutsen NYK Offshore Tankers AS (KNOT) on the New York Stock Exchange. Moreover, we will use this method of fund-raising again for this business if we deem it effective.

**Investment Plan (fiscal 2011 – fiscal 2016, completed vessel basis)**

(Billions of yen)

| | | Original | | | Revised | | |
|---|---|---|---|---|---|---|---|
| | | Decided investment | Investment target | Investment total | Decided investment | Investment target | Investment total |
| Vessels | Containerships | 29 | 0 | 29 | 30 | 0 | 30 |
| | Car Carriers | 80 | 110 | 190 | 50 | 55 | 105 |
| | Large Bulk Carriers | 320 | 0 | 320 | 330 | 0 | 330 |
| | Small / Medium-Sized Bulk Carriers | 370 | 100 | 470 | 390 | 20 | 410 |
| | Tankers | 50 | 20 | 70 | 60 | 0 | 60 |
| | LNG, Offshore Business | 60 | 200 | 260 | 90 | 70 | 160 |
| | Other Shipping | 160 | 0 | 160 | 135 | 0 | 135 |
| Non-Shipping | Logistics | 1 | 30 | 31 | 5 | 25 | 30 |
| | Other Non-Shipping Investments | 230 | 40 | 270 | 260 | 20 | 280 |
| Total | | 1,300 | 500+α | 1,800+α | 1,350 | 190 | 1,540 |

Under revision

Major scheduled investments by an equity-method affiliate not included above:
Shuttle tanker (KNOT) investment = ¥50 billion

CHECK **Focal Point**

**Q. How are measures to strengthen financial foundations mentioned in last year's annual report progressing?**

**1. Strengthening Balance Sheet Management**

I mentioned that the Group raised funds in advance during the fiscal year under review. However, we did not just raise funds; we disposed of assets. In particular, responding to last year's high share prices, we sold some investment securities, which we had not been selling a lot of due to slumping share prices. To the extent that operations are not affected, the Group intends to continue such measures.

**2. Advancing Conversion of Cost into U.S. Dollars**

At present, the Group's foreign currency denominated transactions are not balanced. While approximately 90% of revenues are foreign currency denominated, only about 80% of payments are foreign currency denominated. By redressing this imbalance, we aim to become less susceptible to exchange rate volatility. When the exchange rate was less than ¥80 to the U.S. dollar, changing these percentages significantly was difficult. However, the current exchange rate makes it an opportune time to finally begin addressing this issue. For most new vessel orders, the Group has already raised funds, mainly in foreign currency denominations. Therefore, we plan to shift payments towards foreign currency denominations primarily by refinancing past investments.

**3. Bolstering Central Financing**

The Group has almost finished building a central financing system. In some cases, we may raise funds for individual vessels, but we are establishing a system that raises long-term funds when interest rates are advantageous, as I mentioned, and allocates funds to each vessel.

# Zeroing in on Value Creation

## Advancing initiatives across our value chain

The NYK Group is creating new value and competitive advantages by tackling environmental and social tasks proactively and progressively. This section features a representative selection from among our numerous initiatives in ocean transport, one of the many transport modes we provide.

### Our Ocean Transport Value Chain

INNOVATE — R&D

BUILD — Ocean Engineering

TRANSPORT — Safety / Training

**R&D / Ocean Engineering**

Improving environment friendliness and shipping capacity simultaneously, creating business opportunities through environment friendliness

For details, please see pages 24 and 25.

**Safety**

Using unified safety standards for the Group

For details, please see page 26.

**Training**

Fostering personnel that underpin high-quality ocean transport

For details, please see page 27.

### Ocean Transport

Ocean transport grows proportionally to population increases. Because the world's population is expected to rise from 7.1 billion at present to 9.0 billion by 2050, seaborne trade is likely to trend upward. Moreover, ocean transport is a key part of the economic infrastructure of Japan, accounting for 99% of its imports and exports.

### Major Tasks

Environment: Vessels engaged in international shipping produce 870 million tons of $CO_2$ annually. This amount is equivalent to 3% of the world's total emissions or Germany's total emissions. By 2050, rising transport of goods is projected to increase shipping $CO_2$ emissions between 1.5 and 2.5 times above current levels.

Safety: Failure to follow procedure, lack of safety awareness, and other human factors are the main causes in roughly 70% of near misses, which can lead to major accidents.

Recruiting seafarers: Given the growth in the transport of goods worldwide, recruiting seafarers is a pressing task for all shipping companies. Furthermore, there is an increased need for crew with technical skills to transport such fuels as crude oil and LNG safely.

RECYCLE

Fuel Cost Reduction

## Scrapping

Improving fuel efficiency to the utmost

For details, please see page 28.

Ensuring safety and environment friendliness after decommissioning

For details, please see page 29.

## Creates Benefits for

**Customers**

- Safe, reliable transport
- Advanced environmental responsibility

**Global Environment**

- Lower environmental load

**NYK Group**

- Greater competitiveness
- Customer base expansion
- Heightened loyalty and motivation

### Opportunities for the NYK Group

Environment: Curbing fuel consumption is the key to reducing $CO_2$ emissions. Also, curbing fuel consumption reduces cost significantly and heightens profitability.

Safety: Our zero-tolerance approach to marine accidents earns customer trust, creating further business opportunities.

Recruiting seafarers: Our independent training programme for Filipino students not only contributes to high-quality ocean transport but also heightens loyalty, thereby lowering employee turnover. In addition, the programme promises to create local employment.

# INNOVATE

## R&D

## Improving environment friendliness and shipping capacity simultaneously

### Value Creation

- Identifying on-site needs, reflecting them in technology development efforts

### Competitive Advantages

- Having own R&D capabilities through the Monohakobi Technology Institute (MTI)
- Excelling in R&D close to and focused on operational sites

ISO 26000 Core Subjects

Organizational governance | The environment | Consumer issues


*Auriga Leader*

Currently, we are building four next-generation car carriers, slated for completion in 2014 and 2015. As well as making us the first Japanese company to operate car carriers with capacity for 7,000 vehicles, this vessel type will showcase the latest energy-saving technologies—lowering the fuel cost per finished vehicles transported by roughly one-third compared with that of existing car carriers.

In this development initiative, we have our sights set on the likely continued solid demand for the transport of finished vehicles worldwide and the widening of the Panama Canal in autumn 2014. To develop car carriers with capacity for 7,000 vehicles while remaining within Japan's limit on the total vessel length, we went back to the drawing board, taking as our starting point the largest car carrier, which has capacity for 6,500 vehicles. We believe post-Panamax car carriers with capacity for 7,000 vehicles will become the new standard vessel type worldwide and replace car carriers with capacity for 6,500 vehicles. Therefore, we plan to establish them at the core of our fleet.

In addition to enhancing transport efficiency by virtue of greater size, the new vessels will include a range of leading-edge technologies, most of which are new to car carriers. We have developed these technologies through collaboration with shipbuilders and marine machinery manufacturers in Japan. Furthermore, we will include a performance-monitoring system that has enabled major reductions in the fuel cost of containerships. Also, our development initiative for the new car carrier includes a full range of environmental technologies that address issues other than energy saving, such as a ballast water management system and technology compliant with NOx and SOx regulations. We intend to hone these technologies while operating the new car carriers. Ultimately, our goal is to incorporate them in all new vessel types.

### Post-Panamax Car Carriers to Become Mainstay

Until now, the ceiling capacity for car carriers has been 6,500 vehicles due to Japan's regulations stipulating that vessel length must be less than 200 metres. However, without changing the length of car carriers, we have increased their capacity roughly 10% by adding three or four metres to the traditional 32-metre width of car carriers. Viewing these car carriers as a vessel type for the next generation, we will replace vessels with capacity for 6,500 vehicles with those that can carry 7,000 vehicles.

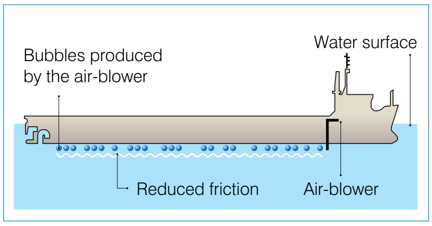
### Post-Panamax Car Carriers—Energy-Saving Technologies

| Energy-saving technologies | Energy saving |
|---|---|
| Enlarging, redesigning vessels | Approx. 20% |
| Air-lubrication system | Approx. 10% |
| Latest low-friction hull coating | |
| Hybrid turbocharger | |
| Inverter control of cooling-water pump | |
| Water-emulsion compatible boiler | |
| Performance-monitoring system | |

### New Onboard Technology

#### Air-Lubrication System

Our air-lubrication system reduces friction between the hull and seawater by generating air bubbles at the bottom of the vessel. By incorporating this system in our module carriers *Yamato* and *Yamatai* and conducting proving tests for two years, we have confirmed that this technology reduces energy consumption by about 6%. Moreover, we saw energy-saving benefits of between 4% and 8% during sea trials* of the coal carrier *Soyo*, which also incorporates the system and was completed in July 2012.




* The testing of newly built vessels at sea

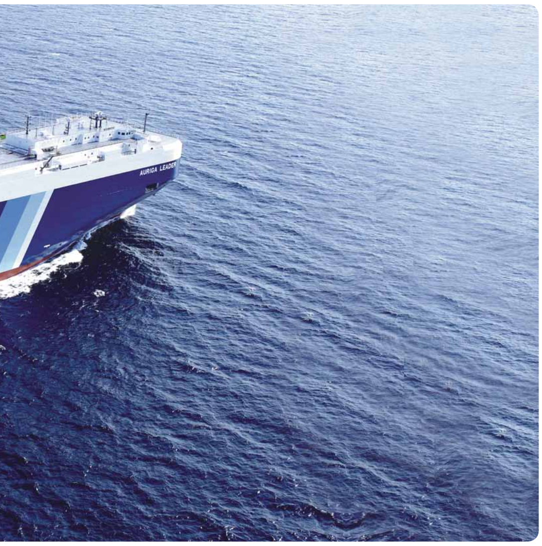
### Monohakobi Technology Institute (MTI)

In 2004, we relaunched the NYK Logistics Technology Institute as the Monohakobi Technology Institute (MTI). As the NYK Group's think tank, MTI's R&D encompasses a wide range of areas that include new technologies for operational safety, the environment, energy saving, and logistics.

Monohakobi Technology Institute

For MTI's fiscal 2012 research themes, please see below.

Web http://www.monohakobi.com/en/research/2012/



# BUILD

Ocean Engineering

## Creating business opportunities through environment friendliness

**Value Creation**

- Pioneering environment-friendly initiatives
- Reflecting insights gained from vessel operations in new vessels

**Competitive Advantage**

- Building cost-competitive vessels with outstanding fuel efficiency

ISO 26000 Core Subjects

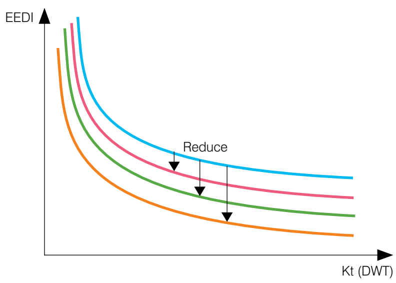
Organizational governance

The environment



### $CO_2$ Emissions Regulations for International Shipping

Under new regulations, the EEDI value of a new vessel must achieve the reduction rate stipulated for each vessel type relative to the average EEDI value for existing vessels built during the previous 10 years. Applying to vessels with contracts concluded on or after January 1, 2013, these regulations will take effect in four phases. For example, in phase one (2015 – 2019) bulk carriers with DWT (deadweight tonnage) of 20,000 tons or more must reduce their EEDI values by at least 10%.




Phase 0: 2013 – 2014 Reference line
Phase 1: 2015 – 2019 10% reduction
Phase 2: 2020 – 2024 20% reduction
Phase 3: 2025 – 30% reduction

### Technology Jointly Developed with Shipbuilders Claims Award

Our development of an onboard electric-supply system that incorporates a hybrid turbocharger—which became the first system of its kind fitted in an operating vessel—received the Japan Society of Naval Architects and Ocean Engineers Award in May 2012. NYK and Group company MTI jointly developed the system with Universal Shipbuilding Corporation and Mitsubishi Heavy Industries, Ltd.

For details about the hybrid turbocharger, please see page 63.

Under new international regulations, when building new vessels, shipbuilders have to meet specified reductions for each vessel type's $CO_2$ emissions. The regulations measure these reductions using the energy efficiency design index (EEDI), which shows $CO_2$ emissions per ton-mile. Thus, the new regulations use the EEDI to set out objective figures for speed and fuel efficiency, attributes that shipowners and shipbuilders previously decided themselves. The EEDI can create new business opportunities because it enables shipbuilders to highlight the superior performance of their vessels versus those of competitors. For example, if two vessels have the same cargo capacity and the same service speed, the one with the superior EEDI value tends to sell more favourably.

For shipping companies, complying with the new international regulations incurs cost. On the other hand, seeking vessels with superior EEDI figures enables shipping companies to realise benefits over and above achieving regulatory compliance. As well as lessening environmental load, lowering $CO_2$ emissions ultimately reduces cost for shipping companies because it curbs fuel consumption. Also, further incentives are emerging, such as lower registration fees or port usage fees for vessels surpassing EEDI $CO_2$ reduction benchmarks.

For a number of years, we have been using the EEDI as a benchmark for evaluating shipyards when ordering vessels. When selecting a shipyard, we obtain EEDI data from shipbuilders in advance. After analysing and evaluating this data and consulting with our sales division, we choose a shipyard. At the same time, we are helping change attitudes in the shipbuilding industry and marine machinery industry by consistently emphasising to those industries the importance of developing vessels based on environmental awareness.

### View from the Frontline

**We aim to differentiate our vessels by reducing their $CO_2$ emissions ahead of the regulatory schedule.**

When the International Marine Organization (IMO) was preparing a proposal on EEDI regulations in 2010, we checked the status of our vessels in advance using the EEDI. Based on the results, we set out target EEDI values for new vessels.

Simply following the schedule set out in regulations is not going to differentiate us from other shipping companies. In our view, as well as providing environmental benefits, procuring vessels with better EEDI values will give us an even greater competitive advantage.

Mitsuhiko Sunouchi
General Manager,
Technical Group
Nippon Yusen Kabushiki Kaisha

# TRANSPORT

## Safety

## Using unified safety standards for the Group

### Value Creation

- Advancing semi-permanent PDCA cycles, pursuing long-term grassroots efforts steadily

### Competitive Advantages

- Furthering safety measures in close collaboration with ship-management companies and shipowners we charter vessels from
- Training in-house crew members who underpin safety

ISO 26000 Core Subjects

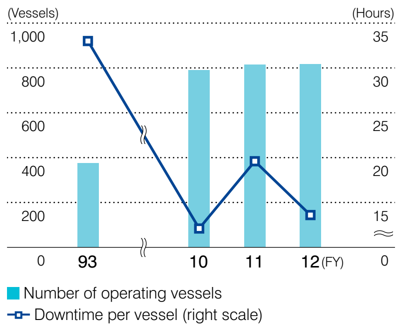
Organizational governance | Labour practices | Fair operating practices | Consumer issues

We take a zero-tolerance approach to marine accidents, which can have significant effects on the environment and economic development. As a company entrusted with customers' valuable cargo, we have a basic policy of ensuring uncompromising safety management for all vessels. Reflecting this policy, we have been operating our original safety management system, NAV9000, since 1998. Furthermore, we disclose our requirements for safe vessel operations not only for owned vessels but also for chartered vessels to crew members, shipowners, and ship-management companies. We seek their compliance with these requirements and undertake integrated management of their safety standards and our own.

Based on requirements set out in international agreements, NAV9000 comprehensively covers measures to prevent the recurrence of accidents as well as customers' requirements. Full-time auditors visit vessels, shipowners, and ship-management companies to check that they are following our safety standards on-site. If there are any shortcomings, the auditor asks the shipowner or ship-management company to submit a remediation plan, checks the progress in implementing it, and provides advice as needed. A striking feature of our auditing is that it is not a one-way process. We realise improvements for safe vessel operations by encouraging close mutual communication between auditors and the companies they audit.

Another advantage of these activities is that they help underscore our vessels' safety during business discussions.

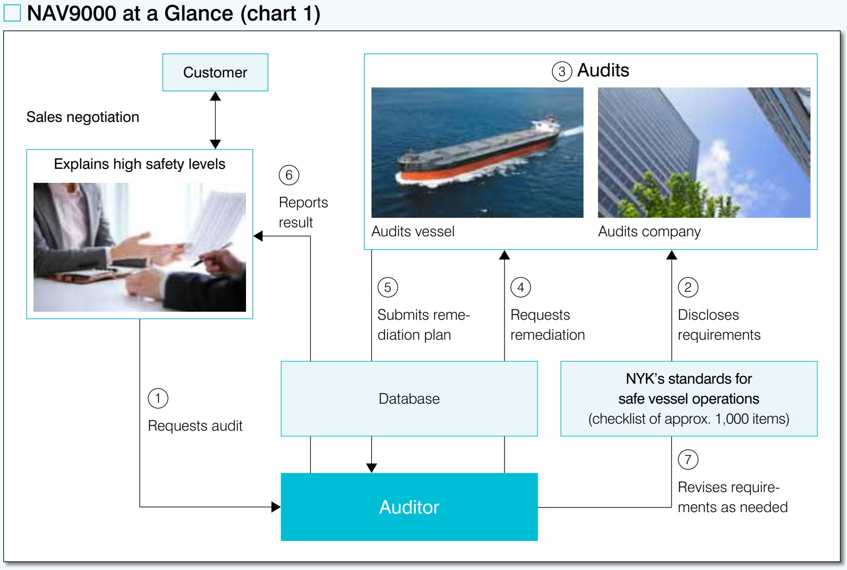
### Downtime Data




### Breakdown of NAV9000 Improvements (requests)

| (FY) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Ship audits | 306 | 298 | 292 |
| Company audits | 38 | 37 | 35 |
| Improvements | 1,306 | 1,220 | 1,260 |

### NAV9000 at a Glance (chart 1)




### Explanation of Chart 1

#### Safety Management System

1. The auditor receives a request from the sales division to audit safety management, including the cause of delays or whether or not there are any failings, or to conduct an audit in response to a customer request.
2. Based on the checklist or a customer request, the auditor prepares the special audit items requested by the sales division and takes them to the site.

Audit items include:
- Is this ship-management company safe?
- What is the status of this vessel's safety standards?
- Is cargo being transported safely?

3. The auditor conducts a company audit, which checks if the shipowner or ship-management company is managing and directing vessels appropriately, or a vessel audit, which checks if the vessel is complying with directions from the shipowner or ship-management company or checks management of the vessel.
4. The auditor requests remediation if defects are identified.
5. The audited company submits a remediation plan.
6. The auditor notifies the sales division of the result.
7. The auditor revises requirements as needed.

# TRANSPORT

## Training

## Fostering personnel that underpin high-quality ocean transport

### Value Creation

- Leveraging training system to foster personnel with uniform capabilities
- Integrating personnel training from undergraduate level upward

### Competitive Advantage

- Securing crew members with outstanding capabilities and loyalty

ISO 26000 Core Subjects

Organizational governance | Labour practices | Community involvement and development

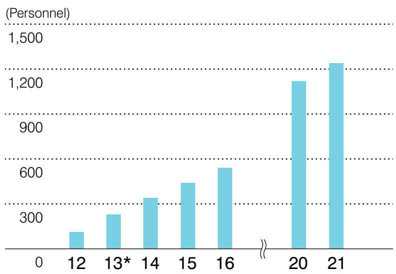
In recent years, shipping capacity has grown worldwide, while the pressure on shipping companies to meet safety-related and environmental responsibilities has increased. As a result, demand for competent crew members is rising rapidly. In response, we are focusing on a strategy of fostering future crew members by educating them during their student years. We provide these trainees with rigorous onshore and onboard training and a full set of self-study tools. Although requiring time and money, this training is indispensable for securing crew members who understand our policy on safe vessel operations and have a strong sense of loyalty towards us.

One of the pillars of our training strategy is the NYK-TDG Maritime Academy (NTMA).We founded this academy in June 2007 in the Philippines, the home nation of many of our crew members. The training methods of NTMA reflect the experience and innovations we have accumulated by training crew members in Japan.

From the NTMA's first batch of students, 116 graduated in 2012, while the class of 2013 produced 118 graduates. All these graduates have become NYK Group personnel. Already, the institution has earned favourable recognition as a maritime academy. In August 2011, it became one of the first three maritime academies to gain accreditation under a certification programme created by Japan's Ministry of Land, Infrastructure, Transport and Tourism for overseas maritime academies.

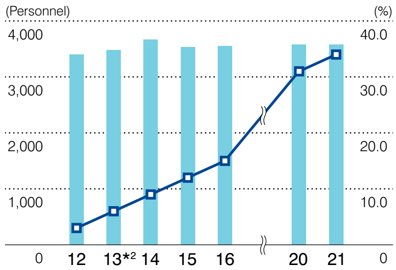
Furthermore, after new personnel assume their posts, we provide them with an extensive range of training programmes. These include on-the-job training onboard vessels, courses at training centres in regions worldwide, and opportunities to experience different duties onshore. In this way, we have established systemic integrated personnel training that allows crew members, regardless of nationality, to realise their potential to the utmost in a wide range of areas.

### Number of NTMA Graduates among Personnel




* Figures from 2013 onward are estimates as of March 31, 2013.

### Percentage of NTMA Graduates among Total Personnel




Total number of personnel*1

Percentage of NTMA graduates (right scale)

*1. Personnel of NYK's wholly owned ship-management companies: NYK Shipmanagement Pte. Ltd., NYK LNG Shipmanagement Ltd., and NYK LNG Shipmanagement (UK) Ltd.

*2. Figures from 2013 onward are estimates as of March 31, 2013.

### Aim of NTMA

The NYK Group began providing university-level education in the Philippines with the primary goal of fostering excellent crew members. Although the number of NTMA graduates among personnel has been increasing, this is a secondary result of the initiative rather than the Group's primary goal.

### View from the Frontline

#### The NYK Group is utilising Filipino officers onboard its vessels.

At present, approximately 1,500 Filipino officers work in the NYK fleet through NYK Shipmanagement Pte. Ltd., headquartered in Singapore. And we aim to utilise Filipino officers more in our fleet. Naturally, each year NTMA graduates account for a larger proportion of the Filipino officers working on vessels that we operate. The impressive results NTMA students have achieved in the nationwide Maritime School Assessment Program examination in the Philippines testify to the effectiveness of the academy's curriculum. Furthermore, we expect NTMA graduates who have received higher-level training at the academy to become core personnel in NYK, working as captains or chief engineers onboard a variety of vessels, including those that carry high-risk cargoes—such as LNG carriers, crude carriers, and large containerships.

Tomoyuki Koyama
Chief Executive Officer
NYK Shipmanagement Pte. Ltd.

# TRANSPORT

## Fuel Cost Reduction
## Improving fuel efficiency to the utmost

### Value Creation

- Leveraging corporate culture conducive to rigorous discussion among specialists from various fields
- Forming organisation-wide project teams that gather diverse expertise and work towards goals unstintingly

### Competitive Advantage

- Achieving breakthroughs through lively debate among personnel with diverse opinions and experience

ISO 26000 Core Subjects

Organizational governance

The environment



Bunker oil price hikes are the main cause of profitability deterioration. Therefore, we are pursuing optimal economic vessel operation by reducing containerships' fuel consumption through the Innovative Bunker and Idle-time Saving (IBIS) Project. This project enables onshore and onboard operations to coordinate closely by sharing a wide variety of information in real time. We have introduced onboard broadband and an operation-monitoring system by using communications satellites. In addition, we have developed a new dedicated portal site, which includes information ranging from details of each vessel's navigation plan and operational status to forecasts of weather and sea conditions and ocean current data. By strengthening the monitoring of vessels' navigation data in these ways, we have been able to integrate the management and control of vessels. As a result, based on a vessel's status, we can select the optimal shipping route and speed in response to events during vessel operations, such as encountering stormy weather, approaching typhoons, or changing tidal currents, and thereby optimise fuel consumption and save energy in vessel operations.

For example, a vessel sometimes ends up drifting offshore because of port congestion, despite having accelerated to arrive on schedule at a calling port. In such situations, the vessel instantly sends onshore operations such operational data as speed, course, and wind strength. By working together to adjust the vessel route plan or arrival time immediately, the vessel and onshore operations can avoid wasting bunker oil.

Currently, we are steadily drawing on the expertise and know-how gained from the IBIS Project to optimise the operations of other vessel types and operations in various conditions.

## Our Performance

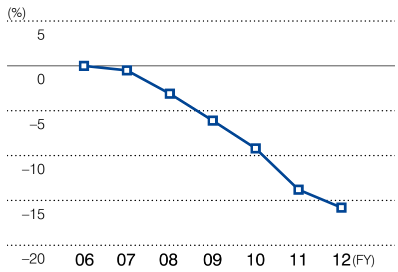
**Environmental Management Indicator for Certain Types of Vessels**

| Types of vessels | Environmental management indicator (g $CO_2$ / ton-km) | | |
|---|---|---|---|
| | FY2006 | FY2010 | FY2012 |
| VLCCs | 3.40 | 3.11 | 2.99 |
| Car carriers | 56.98 | 47.55 | 45.56 |
| Containerships | 14.66 | 11.17 | 10.18 |

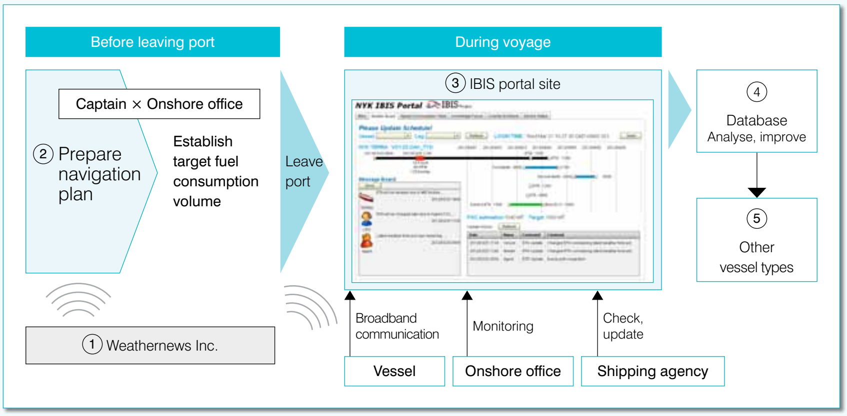
| Types of vessels | Reduction rate | |
|---|---|---|
| | Versus FY2006 | Versus FY2010 |
| VLCCs | 12.1% | 3.9% |
| Car carriers | 20.0% | 4.1% |
| Containerships | 30.6% | 8.7% |

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

**Rates of Improvement**




### Sharing Data to Optimise Speed (chart 2)




**Explanation of Chart 2**

### IBIS System

1. The company sends data on weather, sea conditions, and ocean currents.
2. Based on this data, the system automatically projects the time of arrival, fuel consumption, and $CO_2$ emissions. The captain prepares an optimal navigation plan.
3. The vessel and onshore operations share real-time vessel operational data constantly. As needed, they revise the navigation plan to optimise fuel consumption.
4. Acquired data or cases useful for future reference are included in the database.
5. We are extending this system to include dry bulk carriers, tankers, car carriers, and other vessels.

# RECYCLE

## Scrapping

## Ensuring safety and environment friendliness after decommissioning

**Value Creation**

- Adhering to our safe, environment-friendly scrapping policy consistently

**Competitive Advantage**

- Securing scrapping locations reliably, ensuring environment-friendly scrapping

ISO 26000 Core Subjects

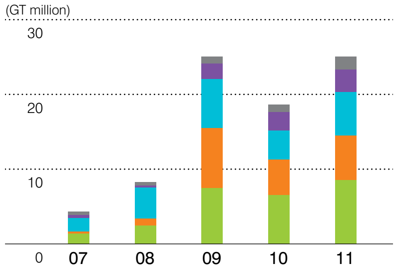
- Organizational governance
- Labour practices
- The environment
- Fair operating practices

**Percentage of Vessels Scrapped at Yards in Compliance with International Standards (fiscal 2012)**

100%

In fiscal 2012, the NYK Group scrapped 16 vessels. All these vessels were dismantled at yards in compliance with international standards.

**Scrapping Volume Worldwide**




Reference: IHS Fairplay

Capable of transporting a large volume of cargo in a single voyage, vessels are an environment-friendly transport mode. After decommissioning vessels, we have an obligation to dismantle them in an environment-friendly way. With this in mind, we have established an independent scrapping policy based on securing scrapping locations reliably and ensuring environment-friendly scrapping.

Prior to scrapping, we prepare lists of the volumes and locations of hazardous substances onboard, and we put these lists onboard the vessel. Also, following our scrapping policy, we prepare a short-list of yards that comply with international standards, emphasise work safety, and are able to dispose of the hazardous substances appropriately. After giving overall consideration to pricing and availability, we choose a yard. Consequently, we have most of our vessels scrapped at designated yards in China that are internationally recognised.

Furthermore, our agreements for the sale of vessels for scrapping reflect our rigorous commitment to safety and the environment. These original agreements require the purchaser to ensure appropriate work safety and environmental protection and permit on-site inspections of scrapping by the NYK Group. Based on these sale agreements, after delivering a vessel we conduct on-site inspections to check safety and environmental measures as needed.

Because it contains few impurities, the iron used in vessels can often be recycled into high-value-added products. Moreover, recycling iron rather than discarding it reduces $CO_2$ emissions.

### Scrapping Process

Conclude sales agreement → Deliver vessel → Dismantle → Sort by resource → Recycle or reuse

"NYK Standards" sales agreement

Normal sales agreement

+

- Work safety
- Environmental protection
- Permission for inspections by NYK Group

Dismantling a vessel's bow

Conducting a thorough on-site inspection

# INTERVIEW

## An Interview with the Chief Executive of Technical Headquarters

Because technological capabilities drive value creation, technology empowers sales.

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



### Q What do "technological capabilities" mean to the NYK Group?

The NYK Group Mission Statement calls on us to support people's day-to-day lives stably through safe, reliable transport. Accordingly, to provide diverse transport services stably even amid market volatility, our medium-term management plan emphasises combining shipping with value-added strategies. Under this approach, we are furthering differentiation from competitors and concentrating on building a foundation that is less susceptible to freight rate fluctuation. Developing technological capabilities is one of our value-added strategies. Further honing the technologies we have accumulated will enable us to provide even more advanced transport and realise even greater differentiation. Better technological capabilities heighten our sales capabilities by giving us a variety of ways to achieve even larger reductions in fuel cost. And, fuel cost accounts for the majority of vessel operation cost. Therefore, I think technological capabilities will be a mainstay of the NYK Group's development going forward.

### Q What motivates the NYK Group's technological innovation?

In relation to building corporate value, we see ensuring safety and protecting the environment as critical tasks. If we really want to support people's day-to-day lives over the long term, we must tackle safety and the environment sincerely and proactively in adherence with the NYK Group Mission Statement. I believe this kind of strong commitment leads to technological innovation.

Another important driver of technological innovation is that we have the world's largest operational site. As well as a fleet of 846 operating vessels, we have more than 2 million square metres of warehousing in 38 countries and harbour terminals in 45 locations worldwide. Having operational sites around the world where we can test and hone a variety of technologies and ideas is an advantage other companies do not enjoy.

### Q Which technology is the NYK Group's primary focus at the moment?

Our main focus right now is the Innovative Bunker and Idle-time Saving (IBIS) Project. Based on the experience and real benefits gained from introducing IBIS to containerships, we are introducing it to dry bulk carriers and other vessel types. Moreover, we hope accumulating useful data will lead to further breakthroughs. In addition, a related issue is ensuring we build a culture conducive to breakthroughs. With this in mind, I want to stress to technical personnel that, rather than acting as "support personnel," they should play a key role in advancing the Group's growth. Through intensive communication among divisions, I want the technologies of the Technical Headquarters to dovetail with the needs of our sales divisions.

For further information on IBIS, please see page 28.

### Q Recently, the NYK Group has been focusing more on advancing intellectual properties. How did this come about, and what does the Group hope to achieve?

With the spread of the Internet, goods and services are becoming commoditised in the blink of an eye. Given the greater importance of differentiation at present—and with a view to unearthing and leveraging potential capabilities within the Group—we wanted to identify everyday operations and the business models as intellectual properties.

Aiming to leverage such capabilities, in 2012 we formed the Intellectual Property Promotion Team. The team is tasked with identifying, categorising, and managing processes as intellectual properties and spreading them across the Group. Our goal in promoting intellectual properties in this way is to instil an awareness among personnel that in everyday operations creative innovations, no matter how seemingly small or insignificant, can be valuable.




Special Interview

# Outside Directors Discuss the NYK Group's Integrated Report

While many companies separate reporting on business and CSR strategy, the NYK Group has decided to prepare an integrated report. The Group's outside directors frankly evaluate the merits of this approach and tasks going forward.

**Q** What are your views on the recent spread of preparing integrated annual and CSR reports?

**Q** How should companies establish a corporate culture that simultaneously pursues economic value, social value, and environmental value to create "shared" value?

**Q** What governance issues do you see going forward?

**Q** What is the importance of the NYK Group Mission Statement? Also, do you think the Group has instilled it in employees sufficiently?

**Q** Fiscal 2013 is the final year of the medium-term management plan. What advice do you have for the Group with respect to its further growth?

**Q** Finally, what message would you like to address to the NYK Group's stakeholders?

Interviewer: Yoko Wasaki, Corporate Officer

To a greater extent than other companies, I think the NYK management team's strategic thinking takes into account balancing economic value, social value, and environmental value over the long term. In this regard, the NYK Group already has a platform that will enable an integrated approach to business management.

Yukio Okamoto

Outside director of NYK
(part-time, independent director)
President of Okamoto Associates Inc.
Outside director of Mitsubishi Materials Corporation
Outside corporate auditor of Mitsubishi Motors Corporation



## Q What are your views on the recent spread of preparing integrated annual and CSR reports?

**Okamoto:** I believe integrated reports are a very good way for companies to tell stakeholders about unquantifiable assets that significantly affect business results. A company explaining its long-term vision while organically linking it with financial reporting is important. However, this is not an easy task. The preparation of an integrated report puts a company's capabilities to the test I think.

Companies have a range of important intangible assets, including technological capabilities, brand power, the abilities of their management team, and intellectual property. In the NYK Group's case, I think one such asset is personnel. NYK personnel deal with the ocean, engendering a broad perspective and the mettle to face rough seas. Also, they naturally develop long-term outlooks because earnings reflect the success or failure of investments in vessels with 20-year service lives. Having employees with long-term vision and insight is in itself one of the strengths of a company. When comparing the NYK Group to other corporate entities, I feel this is one of its marked advantages.

**Okina:** When I visited a Canadian public pension fund, I was struck by the fact that their approach to investment encourages investees' efforts in relation to the environment, society, and governance (ESG). When selecting investees, they consider the effect of ESG factors on long-term risk and return. I think combining financial and nonfinancial information in an integrated report serves the needs of long-term investors, such as this pension fund, and is therefore a timely measure.

Integrated reports do not just communicate information efficiently; they are an important way for companies to show how they think. Emphasising to investors that management is committed to focusing on ESG as part of its efforts to enhance corporate value is extremely important. For example, until now governance has been an area overseas investors have checked conscientiously. Recently, however, investors in Japan have begun paying more attention to this area. The implementation of ESG initiatives may result in short-term cost, but over the long term it heightens corporate value steadily.

## Q How should companies establish a corporate culture that simultaneously pursues economic value, social value, and environmental value to create "shared" value?

**Okamoto:** To a greater extent than other companies, I think the NYK management team's strategic thinking takes into account balancing economic value, social value, and environmental value over the long term. In this regard, the NYK Group already has a platform that will enable an integrated approach to business management. However, I think in-house meetings should discuss qualitative themes and issues more vigorously. This is because it is very important for business managers to show clearly how qualitative management issues link to corporate value.

A good example of this is transport's future. If 3-D printing improves and becomes ubiquitous, we could manufacture products on the spot by receiving the relevant data. Such a development would lead to a society with less need for transport. In the energy transport sector, the Group has to analyse in depth how transport roles and formats will alter as LNG demand grows or when a hydrogen-based society emerges.

Integrated reports do not just communicate information efficiently; they are an important way for companies to show how they think. The implementation of ESG initiatives may result in short-term cost, but over the long term it heightens corporate value steadily.

Yuri Okina
Outside director of NYK
(part-time, independent director)
Research Director of the Japan Research Institute Ltd.



**Okina:** In my view, the Group should enable each employee to be more aware that its mainstay business benefits society. Shipping performs a social mission by transporting such commodities as fuel and food that are essential for everyday life. International shipping is designated as one of the industries that has to continue even if there is a pandemic in Japan. This is how important a role shipping plays. I feel employees should be more aware of this value and emphasise it more to the outside world. A lot of the NYK Group's operations are business-to-business, making it difficult for the general public to get a real sense of shipping's importance. However, investors fully understand this point.

## Q What governance issues do you see going forward?

**Okamoto:** Governance also calls for a long-term perspective. I often say we must not interpret governance narrowly as only meaning compliance with laws and regulations. Laws evolve because the types of justice or values society seeks are forever changing. Therefore, it is not enough for companies seeking sustainable growth to comply with the laws and regulations of the day; they must anticipate tomorrow's social justice.

**Okina:** The NYK Group operates globally, so it must explain its governance to investors worldwide convincingly. Adopting a Western-style governance structure alone will not increase corporate value. To heighten corporate value, explaining to investors the appropriateness and effectiveness of governance rigorously is a critical point.

## Q What is the importance of the NYK Group Mission Statement? Also, do you think the Group has instilled it in employees sufficiently?

**Okamoto:** I think the NYK Group Mission Statement is exemplary. However, the Group should keep in mind that even corporate philosophies change due to social trends or business conditions.

Inculcating the NYK Group Mission Statement depends on education. In my view, the Group should further instil its vision in employees through in-house training programs. That said, free discussion, rather than senior management, must drive such activities. In particular, I would like to see more discussion among young employees.

**Okina:** Corporate philosophies play an important role in determining the attitudes of individuals to their job. Also, it is important to hire people with potential. Many people want to play a useful part in society by working for a business serving a significant public interest. For such people, the NYK Group Mission Statement's emphasis on supporting society by working for the Group is attractive.

When I speak with NYK Group employees, I am left with an impression of strong loyalty to the Group. However, I wonder if employees at operational sites have a sense of progress under the medium-term management plan "More Than Shipping 2013," which gives concrete form to the NYK Group Mission Statement. With this in mind, the Group may need to innovate so that employees have a real sense their day-to-day work is helping realise the goals of the medium-term management plan and the NYK Group Mission Statement.

## Q Fiscal 2013 is the final year of the medium-term management plan. What advice do you have for the Group with respect to its further growth?

**Okamoto:** Only in-house efforts heighten corporate value. Planning and ideas contribute 30% to the success of initiatives, the remaining 70% depends on implementation. No matter how good an idea a person has, it will not succeed unless the person who came up with the idea follows it through to implementation. Mindful of this, I want to help the Group's employees put their ideas into practice and develop operations by, as much as possible, offering insights and an outlook that differ from theirs.

Similarly, through advice and discussion, I would like to encourage young employees to acquire a flexible way of thinking that appreciates various viewpoints and thus provide the spark that accelerates their growth.

**Okina:** Shipping is an extremely volatile industry, making risk management all the more important. Rather than just being aware

of risk, preparing in advance is crucial. For this reason, I think the Group should review whether its finance risk hedges are watertight.

Moreover, the Group should disclose identified risks through its integrated reports. It should be mindful of explaining not only the location of risk but also the level of exposure and countermeasures. Unfortunately, the NYK Group's risk disclosure has room for improvement. In addition to ESG information, by explaining assumed risks and countermeasures, the Group will further investors' understanding of its operations and thereby foster long-term investors.

## Q Finally, what message would you like to address to the NYK Group's stakeholders?

**Okamoto:** Japan finds itself in a challenging and unprecedented situation. It once accounted for approximately 17% of the world's GDP. Now, it only represents about 8%. Taking into consideration the growth of emerging economies, this is likely to fall to 5%. By extension, 95% of Japan's business opportunities will be outside Japan. Therefore, I think that how companies engage with the world is going to seal their fate. Those most deeply engaged with the world will thrive. I would like stakeholders to view the NYK Group as such a company.

**Okina:** Numerous awards testify to the NYK Group's extremely strong focus on CSR activities. The Group aims to heighten corporate value through a commitment to increasing earnings and benefiting society. Being a global entity gives the NYK Group many opportunities to sustain growth. Further, its workforce is becoming more diverse, and the opportunities for female employees to work overseas are increasing. I hope the Group continues to promote women in this way. In their relationship with the NYK Group, I would urge stakeholders to adopt a long-term viewpoint.

# Growth Strategies by Business

Focusing on the future, the NYK Group explains the outlooks, tasks, and growth strategies of its Global Logistics Business, Bulk Shipping Business, and cruises segment.

For the fiscal 2012 business results of each segment, please see page 85.

CONTENTS





2

# Global Logistics Business Growth Strategies

For analysis of business results, please see page 85.



## At a Glance

### Operational Assets (As of March 31, 2013)

**Containerships 126** (including semi-containerships)

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

**Container Terminals 23**

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

**Air freighters 10**

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

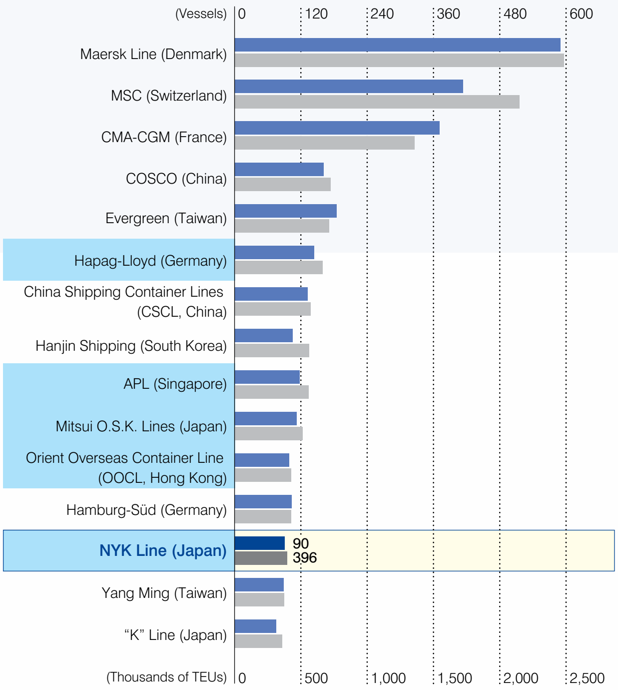
**Warehouses 233** worldwide

**Logistics bases 447** worldwide

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

### Top 15 Full Containership Operators by Fleet Size

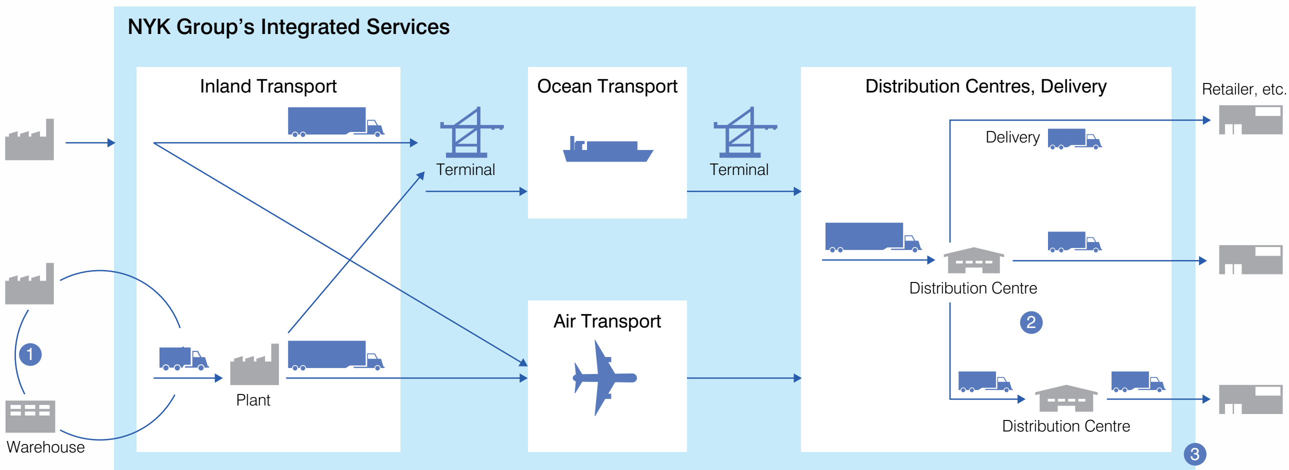
(As of December 31, 2012)




Source: Compiled by the NYK Research Group, based on the January 2013 edition of *MDS Transmodel*

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

## Services Flow Chart




### High-Value-Added Services

**1 Milk Run**
In this service, we heighten transport efficiency by having a single truck pick up parts at multiple plants and warehouses.

**2 Cross-Docking**
At warehouses in ports where cargo is unloaded, in accordance with delivery instructions from customers, we transfer cargo from containers to trucks organised by destination.

**3 Transport Tracking and Inventory Management System**
By incorporating the latest technologies, such as RFID tags, to visualise inventory in transit and in warehouses, we help customers to optimise inventory and work out accurate production and sales planning.

> The highest-priority task for the Global Logistics Business is reducing exposure to freight rate fluctuation. Our basic strategy is to capture rising cargo movements through the liner trade segment and the forwarding segment while heightening cost-competitiveness through the restructuring of our fleet and other measures.

Hidetoshi Maruyama
Chief Executive of Global Logistic Services Headquarters
Director, Managing Corporate Officer
Responsible for liner trade segment, terminal and harbour transport segment, and logistics segment

## Global Logistics Business Strategies

### Q NYK has set ordinary income of ¥17.5 billion as the Global Logistics Business's target for fiscal 2013. How does the business intend to achieve this?

Having recorded a ¥44.7 billion ordinary loss in the previous fiscal year, the Global Logistics Business reduced this significantly to ¥9.4 billion in fiscal 2012. In the current fiscal year, our overriding goal will continue to be establishing stable profitability. To this end, the business is taking a range of uncompromising measures to reduce cost. The NYK Group no longer entrusts its fate to freight rates. In particular, we are strongly focused on achieving profitability for the liner trade segment on a non-consolidated basis. At the very least, we want the liner trade segment and the terminal and harbour transport segment to achieve profitability on an aggregate basis.

Cargo handling volume has been rising steadily each year in the logistics segment, particularly in the ocean forwarding market. And, the NYK Group's presence has been growing in the logistics area. Going forward, we will increase cargo handling volume further while strengthening profitability.

## Liner Trade

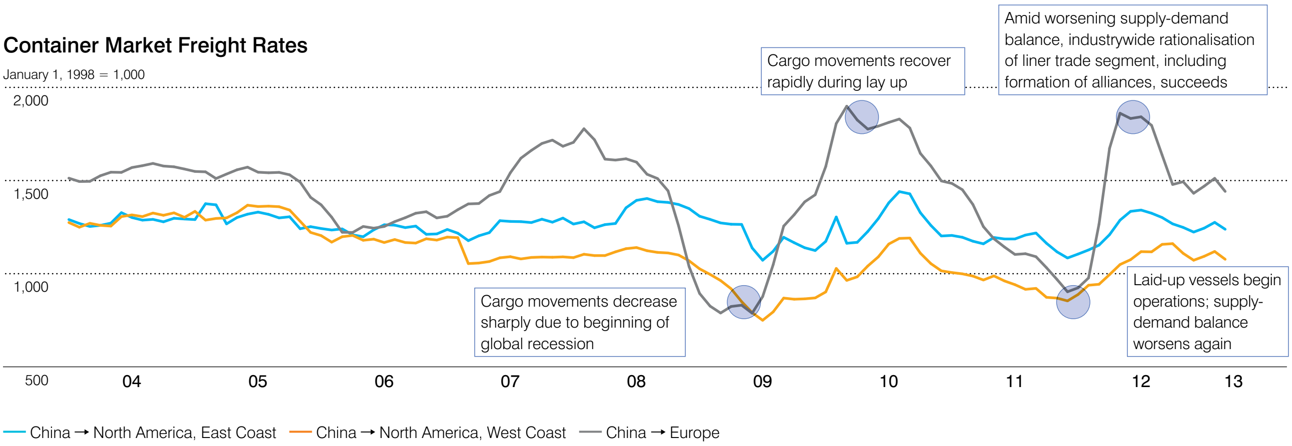
### Q What are the segment's projections for freight rates and supply and demand?

Even allowing for scrapping and postponing acceptance of new vessels scheduled for completion, the general view is shipping capacity will increase between 7% and 8% year on year in 2013. On the other hand, we only expect between 3% and 4% growth in overall demand because Asia–Europe routes—which will see demand unchanged year on year at best—are likely to hinder growth.

There is still a very large gap between supply and demand. Looking back at 2012, even though a similar sized gap arose for the perennial reason—the introduction of new large vessels—we detected slight changes in the supply-demand situation. One such change is attributable to the widespread adoption of slow-steaming operations in the shipping industry. Some observers believe the effect of slow-steaming operations on supply going forward will be limited because the industry has already implemented them to a considerable degree. However, I believe slow-steaming operations could lower shipping capacity further. For example, on long-distance European routes, which large vessels service, shipping capacity would probably decrease about 2% if shipping companies seek further benefits from slow-steaming operations when they add a vessel to one of their loops.

**Container Market Freight Rates**

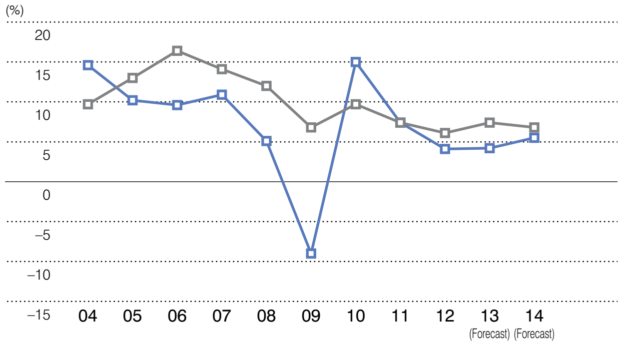
January 1, 1998 = 1,000




Source: China (Export) Containerized Freight Index

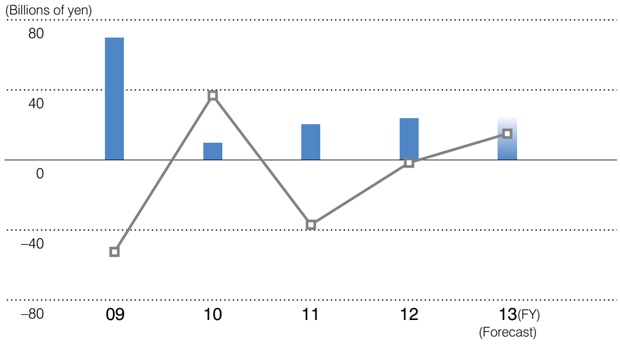
Growth Strategies by Business

**Container Cargo Movements and Shipping Capacity (year-on-year percentage changes)**




Percentage change in container cargo movements
Percentage change in container shipping capacity
Source: Drewry Maritime Research, 2013

**Ordinary Income (Loss) of Liner Trade Segment**




Ordinary income (loss) ■ Liner trade segment reduces operating cost
* From fiscal 2013, the terminal and harbour transport segment is included in the liner trade segment. All figures are based on the new segmentation.



A further change affecting the supply-demand situation is laying up, which has also become fairly widespread in the shipping industry. In addition to the established measure of laying up completely, recently we have seen shipping companies laying up temporarily by cancelling port calls or sailings. It might be more appropriate to call such measures "idling" rather than laying up. Let me give a simple comparison. At the height of idling in 2012, laying up accounted for shipping capacity of 800,000 TEUs (twenty-foot equivalent units). In 2013, if idling rises to 1 million TEUs, shipping capacity will decline about 1%.

Thus, at this juncture, a significant gap remains between supply and demand, and emerging trends are difficult to predict. I think the key to supply and demand in fiscal 2013 will be whether the emerging trends we may have identified in 2012 continue, or even become more pronounced, in 2013.

### Q Although it is taking time to close the supply-demand gap for shipping capacity, the segment was able to achieve a significant deficit reduction in fiscal 2012. How did it manage this?

The main reason was the greater-than-expected benefits that resulted from cooperation on European routes through the G6 Alliance, which we belong to along with five other shipping companies. The G6 Alliance has made it much easier to adjust shipping capacity, through the rationalisation of routes and slow-steaming operations, as well as share terminals. In fiscal 2013, the NYK Group will continue reorganising shipping routes under the CRANE Project. Using European routes as a successful example, we plan on rationalising shipping routes to North America, South America, and Africa.

Another contribution came from fuel cost reduction. In fiscal 2007 before the global recession, our containerships' total annual consumption of bunker oil was approximately 2.6 million tons. We reduced this to roughly 2.3 million tons in fiscal 2008 and 1.7 million tons in fiscal 2012. It is a source of pride that we achieved these reductions not only through slow-steaming operations but through steady efforts under the Innovative Bunker and Idle-time Saving (IBIS) Project, which we launched in fiscal 2012 to curb fuel cost. The personnel of the liner trade segment—which has completely transferred its headquarters to Singapore—are doing a fantastic job leading this project. Through such efforts, we achieved a ¥35.3 billion year-on-year reduction in ordinary loss.

CRANE: **C**omprehensive **R**eengineering of **A**lliance of **Ne**twork
This project aims to improve profitability by developing or rebuilding services (shipping routes) to make them more cost-competitive. With limited fleet resources, we will optimise each service by verifying and introducing the most suitable vessel type and stepping up cooperation with partners for vessel allocation and the exchange of transport space.

### Q Is there further scope for fuel cost reductions?

Under the IBIS Project, we set out five specific tasks with a view to reducing fuel cost by about ¥3.3 billion in 2012. We surpassed this to achieve a ¥4.1 billion reduction. In 2013, we have added five new tasks, and through these we want to reduce fuel cost by a further ¥3.6 billion.

Given the extent to which we have already implemented slow-steaming operations, we are seeing returns gradually diminish in terms of reduction benefits. However, I think this makes it all the more important to continue working hard. In other words, while new reduction initiatives are important, we need to show stamina and continue implementing existing day-to-day initiatives with unflagging energy.

## Q What measures will the segment take to strengthen cost-competitiveness?

In addition to the IBIS and CRANE projects, we plan to launch the EAGLE (EQC Aspiration for Global Efficiency) Project, a cost reduction initiative aimed at optimising management on a container-unit basis. This project will improve the profitability of each container through container yield management. If the IBIS Project is the "lower body," this new project represents the "upper body" in that it deals with cost fluctuation due to cargo volumes. In fiscal 2013, while strengthening the "lower body," we intend to check and reform the "upper body."

Currently, the NYK Group manages 750,000 TEUs. And we transport approximately 3.5 million TEUs annually. Improving profitability US$10 per container would improve profitability ¥3 billion. Therefore, we will reduce cost to the utmost through painstaking management of container movements to reduce wasteful container transport.

However, we will not succeed simply by reforming systems. As with the IBIS Project, we need to change the mindset at operational sites. To this end, we will break down barriers between departments and radically revamp the way we think and do things. This initiative will be very challenging because we will fundamentally change practices evolved during our long history. However, because the IBIS Project has made personnel amenable to tackling cost reductions in day-to-day operations, I think the time is ripe to go through with this initiative now.

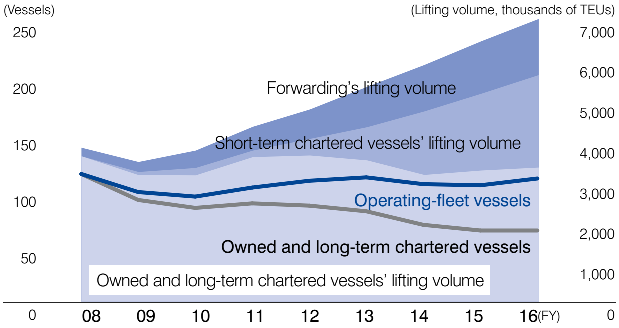
EQC: **Eq**uipment **C**ontrol
Management and transport of empty containers

## Q During the global recession, the liner trade segment moved towards a light-asset business model. Could you please explain the aim of this strategy and how the segment will develop it going forward?

Our strategy of moving towards a light-asset business model does not seek to reduce fleet size. Rather, it aims to capture the growth in demand for container cargo expected mainly in Asia by combining the "assets" of the liner trade segment and the "nonasset" operations of the forwarding business. Furthermore, our "assets" have a two-layer structure made up of short-term chartered vessels and our fleet of owned and long-term chartered vessels. By combining them, we are able to build a fleet that we can adjust flexibly in response to changes in cargo movements.

For example, "asset" and "nonasset" operations currently transport a combined total of 4 million TEUs annually, with "asset" operations accounting for 3.5 million TEUs and "nonasset" operations accounting for 0.5 million TEUs. In other words, the ratio of "asset" to "nonasset" operations is 7:1, or 87.5% versus 12.5%. In the near future, however, if "asset" operations were to increase to 4 million TEUs and "nonasset" operations to 1 million TEUs, we would achieve an 80%–20% breakdown. We can think about the fleet as comprising owned and long-term chartered vessels, which give us greater stability, and short-term chartered vessels, which give us greater flexibility. Based on these categories, if short-term chartered vessels were 25% of the fleet, they would account for 1 million of the 4 million TEUs. Thus, transport providing greater flexibility would comprise this 1 million TEUs and the 1 million TEUs of "nonasset" operations. This would give flexible transport a total of 2 million TEUs, or 40% of the 5 million TEU total. In light of the continuing uncertainty about freight rates, I believe combining vessels we operate, that is to say "asset," and those that other companies operate, in other words "nonasset," as well as mixing long-term and short-term chartered vessels in this way is critical.

**Transition to Light-Asset Business Model, Expand Forwarding Business**




**CHECK** Containership Investment Policy

**Q. The segment concluded a charter contract for a 13,000 TEU containership. Does it have any plans to own this type of vessel?**

Of course, we need large vessels. However, we should decide on how to hold them based on a careful examination of the cargo and vessel markets as well as rapidly advancing fuel-saving technologies.

## Terminal and Harbour Transport

### Q What are the business strategies of the terminal and harbour transport segment?

To begin with investment plans, we will take investment decisions carefully in light of rigorous analysis of demand trends and the value of terminals, mainly in Asia. Ultimately, terminals are only entrances between the ocean and the land. They have almost no value without hinterland communications infrastructure. Fortunately, as a shipping company and therefore a terminal user, we have an insight into the viability of candidate terminals. This is a major advantage of terminals that shipping companies operate.

Next, for shipping-company terminals, I think there are two extremely important points about the relationship between a terminal business and a containership business. The first point is that the wild fluctuation in freight rates that is the main cause of volatility in a containership business has hardly any effect on a terminal business because shipping companies are able to operate it based on handling volume. Therefore, we can say that providing stability is a role shipping-company terminals have played. The other point is that a terminal business is largely exempt from other major risks that significantly affect the profitability of a containership business. Having become conspicuous recently, these include risk inherent in the selection of vessel types—which the trend towards ultra-large containerships symbolises—as well as risk associated with vessel allocation formats, such as the use of direct services or feeder services. For a terminal business, whether it handles large direct-service vessels or small feeder vessels does not matter; as long as it secures sufficient handling volume, it will perform stably.

## Logistics

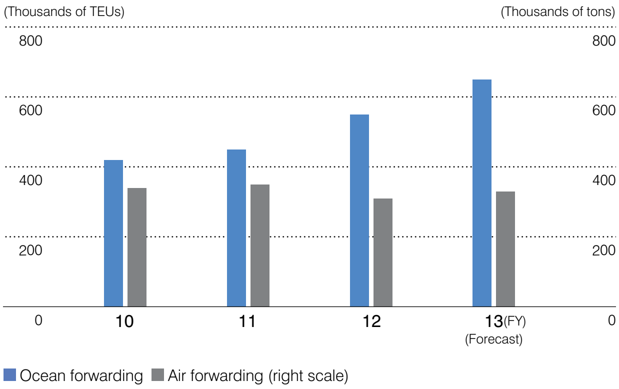
### Q There was a series of downward revisions of forecasts for the logistics segment during fiscal 2012. Why did this business struggle?

The primary reason for the downward revisions was a slump in the airfreight handling volume of the air forwarding market. Looking back at worldwide trends, although seaborne cargo volume was up year on year, airborne cargo volume shrank between 3% and 4%. As a result, in fiscal 2012 our airfreight handling volume was 310,000 tons, 110,000 tons below our target of 420,000 tons.

Meanwhile, the ocean forwarding market struggled in relation to profitability due to the effect of market fluctuation. In this respect, it resembled the liner trade segment but perhaps was even more susceptible to volatility. Nevertheless, cargo handling volume grew 30% year on year, which I think was a praiseworthy performance. Unfortunately, the ocean forwarding market may reach the 1 million TEU target set out in the medium-term management plan one or two years behind schedule. However, the target itself has not changed.

In the past one or two years, I have had a real sense that we have been steadily heightening our presence in both the air forwarding and ocean forwarding markets. In addition, in contract logistics, we have been gradually broadening the scope of our efforts to develop business in regions worldwide. Looking at the recent trends in general cargo logistics, the line separating winners from losers is becoming whether a company can get closer to consumers and identify needs. With this in mind, the logistics segment must be able to detect emerging needs rapidly in as many areas as possible. Moreover, this capability is an important asset to the NYK Group's other business segments. To enhance this capability further, Yusen Logistics Co. Ltd., which handles the forwarding business and contract logistics, will need to develop its operations even more proactively.

**NYK Group's Cargo Handling Volume (export)**



We are steadily moving towards the completion of a fleet of highly competitive new aircraft. With Japan unlikely to see significant increases in cargo imports and exports, we will accelerate overseas business development by leveraging these new aircraft and developing tie-ups with major local partners.

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

### Q Following profitability in the previous two fiscal years, what caused the ordinary loss of ¥4.8 billion in fiscal 2012?

We believe the loss stemmed from extremely unusual business conditions. In particular, Japan's air cargo imports and exports were worse than expected. When we achieved profitability in fiscal 2010 and fiscal 2011, cargo movements were around one million tons. In fiscal 2012, they dropped roughly 15%, to 850,000 tons.

Looking back at recent cargo movements, they decreased steeply after the global recession. However, this was temporary. Overall, they have been on a solid growth trend. In fact, cargo movements from the Middle East and Africa are continuing to increase. In light of such trends, the extent of the downturn in cargo movements in Asia, particularly in Japan, forces us to recognise that the slump is not due to temporary factors but structural problems.

Over the past several years, the rigorous cost reductions we have realised at Nippon Cargo Airlines Co. Ltd. (NCA) have made us more confident about our ability to achieve profitability. Unfortunately, we were not able to offset a drop in cargo movements of this magnitude. Nevertheless, our strong focus on cost reduction—which has become firmly embedded in our mindset—helped minimise the loss. For example, we achieved an impressive year-on-year reduction in operation cost per hour.

### Q What is the outlook for supply and demand, and what measures will the Air Freighter Business Group take in response?

In Japan, cargo imports and exports are probably not going to recover soon. Based on discussions with various customers, I estimate cargo movements will pick up steadily from around the second half of fiscal 2013.

Even if cargo movements recover, however, we will not be able to sustain growth through operations centred on Japan. We have to expand our overseas network, including our network covering emerging countries. NCA has been working on this task gradually since becoming a consolidated subsidiary of the NYK Group. Given recent business conditions, I want us to step up the pace of these efforts.

In fiscal 2012, we established scheduled flights to Dallas in the United States as well as flights returning from the United States to Japan via Europe. The aim of this initiative is to increase aircraft utilisation rates. At present, cargo movements from the United States to Asia are limited, while those from Asia to Europe have been flagging. I should add that Atlantic routes are not a new market for us.

With respect to developing overseas business in earnest, the range of regulatory restrictions that the air cargo transportation segment faces makes establishing local bases a major problem. Joint ventures are an effective way to overcome this problem. Therefore, we are exploring tie-ups with other carriers in Europe and south Asia, although I cannot mention specific details at this point.

As for the supply side, air cargo transportation is not seeing the kind of significant oversupply currently affecting ocean transport. However, setting aside cargo freighters, the cargo capacity of passenger aircraft is an additional factor that is a little difficult to estimate. Because the latest passenger aircraft have increasingly large cargo capacities, I think we need to pay more attention to this area than previously.

### Q How will NYK configure the Air Freighter Business Group's aircraft going forward?

At present, we are in the process of replacing ten B747-400 aircraft with B747-8F aircraft. Despite having approximately 15% more cargo capacity, these state-of-the-art aircraft have much better fuel efficiency. Also, their outstanding quietness will be a major asset given the likelihood of stricter noise regulation at airports.






# Bulk Shipping Business Growth Strategies

For analysis of business results, please see page 85.



## At a Glance

### Dry Bulk Transport

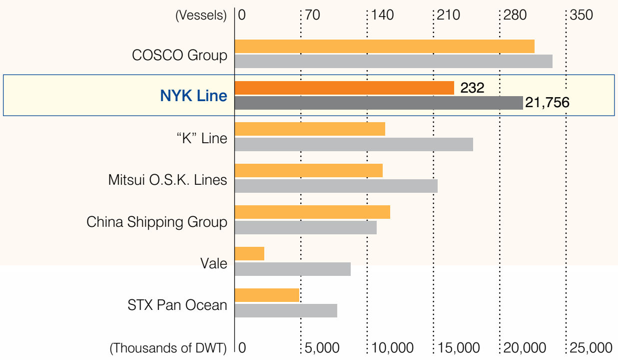
Dry Bulk Carriers **232**

World's **No. 2** in dry bulk carrier shipping capacity

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

### Bulk Carrier Fleet Ranking

(As of January 1, 2013)




Source: Clarkson database

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

### Energy Transport

Tankers **60**, including **30** very large crude-oil carriers (VLCCs)

(As of January 1, 2013)

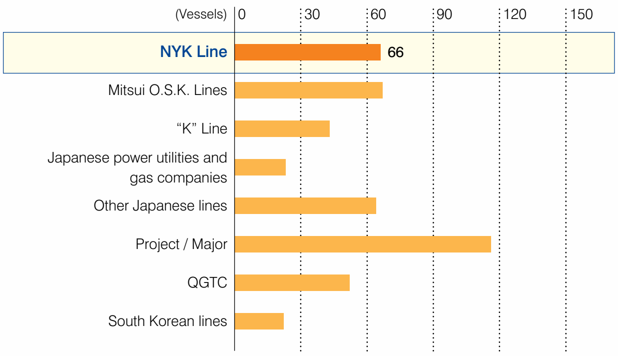
LNG Carriers **66**

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

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

### Comparison of LNG Fleets

(Volume delivered by March 31, 2013)




Source: Research by NYK Line

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

### Car Transport

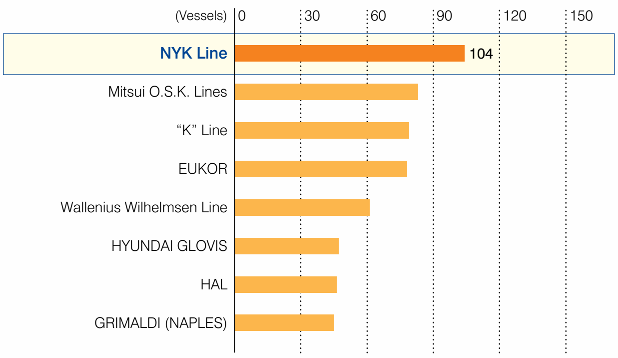
Car Carriers **104**

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

Operating 104 vessels—the world's largest car carrier fleet—we not only transport automobiles from Japan overseas but also cater to demand for transport between countries outside Japan resulting from automotive manufacturers' overseas production. We aim to develop an even stronger overall logistics system for finished vehicles that incorporates value-added services. To this end, we are establishing coastal transport networks, constructing and operating dedicated terminals for finished vehicles, developing inland transport networks, and offering pre-delivery inspection and other services at dedicated terminals.

### Global Car Transport Fleet Ranking

(As of January 1, 2013)




Source: Hesnes Shipping As, *The Car Carrier Market 2012*

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

## Dry Bulk Business

Due to the continuing significant oversupply of dry bulk carriers, we need to rightsize our fleet temporarily. At the same time, however, in the current fiscal year we will deploy personnel optimally to realise operations that anticipate and meet customer needs down to the smallest detail.

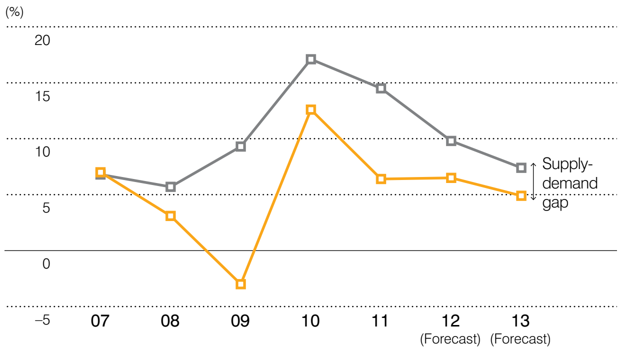
Masahiro Samitsu
Chief Executive of Dry Bulk Division
Director, Managing Corporate Officer

### Q What kind of business conditions is the Dry Bulk Carrier Division facing at the moment?

On the demand side, in 2012 China's iron ore imports, a priority area, rose 56 million tons year on year. Despite softening economic growth in China, its iron ore imports continue to grow. We expect an increase of between 20 million and 30 million tons in 2013. This rise should support year-on-year growth of about 3% in the worldwide shipping volume of iron ore in 2013, to more than 1.1 billion tons. Furthermore, the origin of exports bound for China is shifting from India to Brazil. The greater transport distance this entails is likely to grow demand for the transportation of iron ore to China roughly 5%. In addition, the shipping volume of coal—coking coal and steaming coal combined—surpassed one billion tons in 2012. In 2013, as well as a general increase in the worldwide shipping volume of coal, Indonesia, which used to export coal to China and India, is using its coal to meet demand at home and from ASEAN countries. Therefore, China and India will have to import coal from Australia, resulting in longer transport distances that are expected to create an approximate 7% rise in demand for coal transport.

As for supply, I do not think the gap between supply and demand will widen any further. Having bottomed at the beginning of 2013, the supply-demand balance will probably move into a phase of steady improvement from the second half of 2013. The period between 2010 and 2012 saw the annual worldwide construction of more than 200 Capesize bulk carriers for the transportation of iron ore. As a result, the total number of Capesize bulk carriers worldwide reached 1,500 vessels at the end of December 2012. However, taking into account that the number of newbuilt vessels is forecast to drop to about 100 and allowing for scrapping, in 2013 shipping capacity is only expected to rise by 50 vessels. This represents a year-on-year increase in supply of 5%—lower than the growth rate for demand.

**Increase in Seaborne Trade and Fleet Tonnage**




Dry bulk seaborne trade   Bulk carrier fleet tonnage
Source: Clarkson Dry Bulk Trade Outlook (March 2013)

But there is likely to be a slight lag before freight rates begin to reflect this improvement in supply and demand. Therefore, we expect freight rates to reach levels equivalent to procurement costs from 2014.

### Q What is the division's strategy for fleet development?

We will continue our basic strategy of developing the fleet in step with customer demand. In the immediate future, we do not plan to order any new Capesize bulk carriers other than those we need for major projects involving long-term transport contracts. Meanwhile, 2013 will see a steady succession of vessels that we chartered when the hire rate was high reach the end of their charter contracts. In 2014, even more charter contracts are due to expire without extension. Also, we plan to scrap unprofitable vessels and cancel charter contracts. Through such efforts, we will adjust fleet size to suit customer demand.

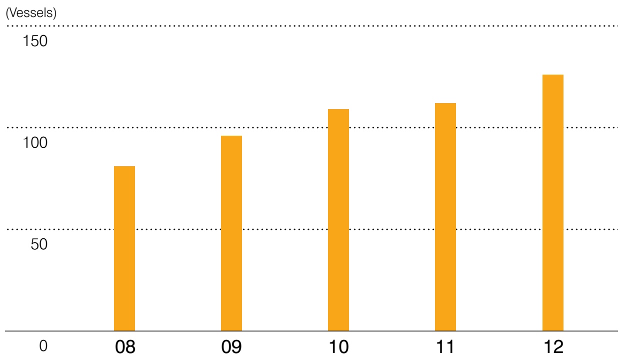
## Q Going forward, what size of fleet does the division envisage?

At the end of fiscal 2012, we had 120 Capesize bulk carriers. In 2013, we will take delivery of 10 Capesize bulk carriers. After passing the peak in 2014, however, vessel numbers will decline steadily as charter contracts expire.

Our fleet of roughly 120 Capesize bulk carriers comprises about 80 vessels with long-term contracts. The remainder are free or spot vessels. Current freight rates make rapidly disposing of free vessels—which are susceptible to freight rate volatility—seem the best course of action. However, rather than long-term contracts some of our customers prefer contracts on a voyage-by-voyage basis, known as spot contracts. Therefore, to cater to their needs, we have to keep some free vessels in hand.

In contrast to our fleet of Capesize bulk carriers, our fleet of small and medium-sized vessels, such as Handymax and Handysize bulk carriers, tends to have a high proportion of free vessels. This is because small and medium-sized vessels often have short-term contracts, handle a variety of cargo, and service diverse trading routes. While our strategy of developing the fleet in step with demand is the same as that for Capesize bulk carriers, rather than only downsizing, we will to some degree expand and contract the fleet in light of customer demand.

**Number of Capesize Bulk Carriers***




* Number of operating vessels as of March 31

## Q Oversupply has led to an unavoidable deterioration in profitability. How does NYK intend to counter this?

Although our long-term contracts generate stable earnings, freight-rate fluctuation affects free vessels significantly. Consequently, when freight rates slump the whole division's performance suffers. In response, we intend to advance three initiatives to improve profitability.

### 1. Accumulate Long-Term Contracts Promising Stable Earnings

First, we will enrich our portfolio of long-term contracts, which is indispensable to the establishment of stable earnings. Accordingly, we intend to focus efforts on concluding long-term stable contracts not only in Japan but in regions worldwide. A good example of the type of long-term relationship we want to foster is the joint venture we established in 2006 with Tata Steel Limited, of India, one of the Tata Group's main companies. Based in Singapore, Tata NYK Shipping Pty. Ltd. operates a fleet of just under 30 Capesize, Panamax, Handymax, and Handysize bulk carriers. By building solid relationships with such customers, we want to concentrate on laying foundations for stable earnings.

### 2. Reduce Ballast Voyages

Our second initiative will focus on reducing the operation of vessels without cargo, known as ballast voyages. Taking Capesize bulk carriers as an example, when demand for iron ore transport is strong freight rates generally rise on routes from Brazil to Asia, known as the front leg. Therefore, aiming to maximise earnings from the front leg by increasing the frequency of vessel operations, we return Capesize bulk carriers to Brazil as quickly as we can, even if it means operating them empty, which is called a ballast leg. On the other hand, when demand is weak freight rates for the front leg fall, making the ballast leg a greater cost burden relatively. Reducing these ballast legs as much as possible is one of the tasks we are tackling at the moment.

With this in mind, we are focusing on cargo for India. Our business collaboration with the Tata Group, which I mentioned, is enabling us to capture demand in India. Ballast voyages from India to Brazil after transporting cargo to India take less time than direct ballast voyages from ports in other Asian countries to Brazil. In other words, capturing cargo for India reduces waste and strengthens our competitiveness. Therefore, I want to adjust the balance of our transport contracts with a view to realising even more efficient vessel allocation.

Further, through the recently announced merger of NYK-Hinode Line Ltd. (Hinode) and NYK Global Bulk Corporation (NGB), scheduled for October 2013, we will pursue synergies and grow sales by using optimal vessel types to transport combinations of the companies' diverse cargo. Hinode has particular competence in transporting such cargo as steel from Asia. In contrast, NGB boasts an impressive track record in the transport of raw materials for Asia. They complement each other well. The companies have been sharing shipping capacity for some time. By merging them, however, we will intensify this cooperation and realise transport that maximises the space utilization of each vessel.

### 3. Reduce Fuel Cost

Third, we plan to curb fuel cost for dry bulk carriers by actively introducing slow-steaming operations currently used for containerships. As well as improving profitability by reducing fuel cost, slow-steaming operations help eliminate surplus shipping capacity.

Rather than simply using slow-steaming operations, we will introduce our Innovative Bunker and Idle-time Saving (IBIS) to dry bulk carriers from 2013. Because dry bulk carriers have low steaming speeds, the savings on fuel cost for each vessel will not be as great as those for containerships. However, the dry bulk carrier fleet is much bigger than the containership fleet. So saving even small amounts of bunker oil in the Dry Bulk Carrier Division will result in significant fuel cost reduction. To enable this initiative, we are steadily introducing broadband communications equipment, which is indispensable for the real-time sharing of various information between onboard and onshore operations. Also, we are advancing the staged introduction of a range of energy-saving equipment that helps reduce fuel cost.

## Tanker Division

**Firmly committed to providing transport services with exceptional safety and quality, the Tanker Division has entered a phase in which the seeds it has sown are beginning to produce earnings. Fiscal 2013 will be the division's "first year of growth," which the LNG transport business and the offshore business will drive.**

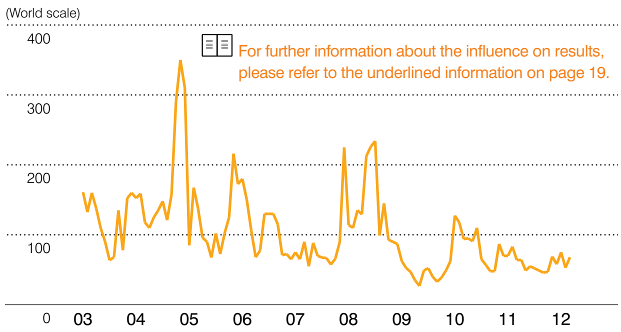
Hitoshi Nagasawa
Chairman of Tramp Shipping Strategy Committee
Chief Executive of Energy Division
Representative Director, Senior Managing Corporate Officer

### Q Is the division making good progress towards accumulating long-term contracts less susceptible to freight rate volatility?

Yes, we are doing very well in this regard. Our priority businesses, the LNG transport business and the offshore business, are on the verge of concluding contracts in many of their projects. So we expect to add more contracts to our portfolio in the current fiscal year. Also, I am really looking forward to upcoming business discussions about new projects that will take shape over the next few years.

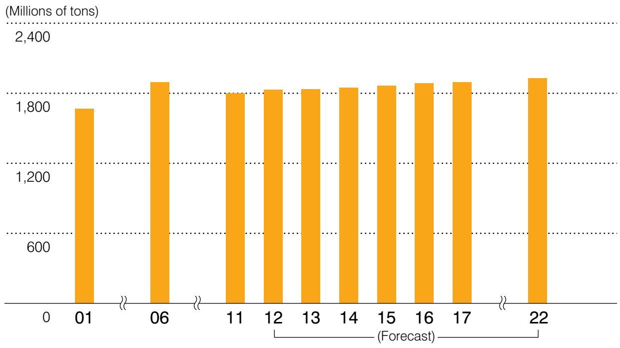
While keeping the LNG transport business as a mainstay, we want to make forays into a variety of profitable upstream projects. For example, in a new initiative, we have become the first Japanese shipping company to participate in an upstream LNG business by acquiring interests in the Wheatstone LNG project in Australia. Specifically, we have a 10% equity interest in gas-field

**Oil Tanker Market (Middle East → Japan)**




For further information about the influence on results, please refer to the underlined information on page 19.

**Volume and Forecast of Crude Oil Seaborne Trade**




Source: 2001, 2006: Clarkson Shipping Review & Outlook (Spring 2012); after 2011: NYK Research Group development, an 8% equity interest in an LNG plant business, and sales rights for some of the project's LNG output. In addition, as we recently announced, we hope to acquire an equity interest in a shale gas liquefaction business in North America.

Meanwhile, in Asia our competitiveness is capturing demand. In this region, the crude oil transport business has been accumulating long-term contracts, despite facing fierce competition, and reducing free vessels to streamline its fleet in step with demand. Testifying to the strong reputation our expertise in vessel management and crew-member training are establishing in Asia, we were able to introduce a second very large crude-oil carrier (VLCC) for the transportation of crude oil to the oil refiner Thai Oil Public Co. Ltd. in December 2012.

### Q What is NYK's investment strategy for LNG carriers going forward?

Currently, the NYK Group has a fleet of 66 LNG carriers, 38 of which it manages directly. By 2020, we want to expand this to a fleet comprising 100 LNG carriers, 60 or 70 of which we manage directly. LNG carriers must have crew members who have experience and skills commensurate with the strict safety standards for these vessels. Because training crew members takes time, we do not intend to overstretch ourselves. In other words, we will expand the fleet in a practical way that does not compromise our zero-tolerance approach to marine accidents.

As well as crew-member training, fund-raising is a key task. LNG carriers are expensive, costing about ¥20 billion each. We intend to raise funds for new vessels mainly through project finance, a method that only requires the NYK Group to assume an equity share. Nevertheless, ordering more new vessels will increase our investment burden. Bearing in mind our financial position, decisions about whether or not to order new vessels will be very difficult.

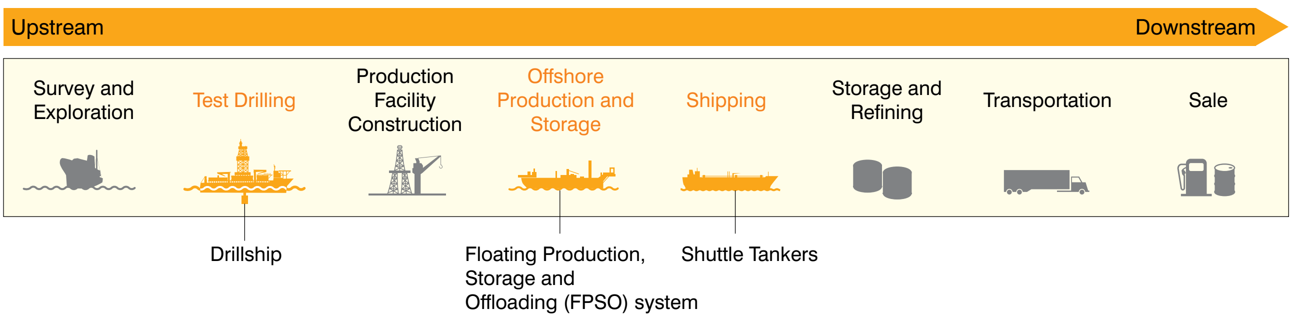
LNG transport is certainly a business with great potential. However, we do not intend to become actively involved in projects that, due to fierce competition, would result in contracts lacking long-term promise. Accordingly, we will continue making prudent investment decisions that take into account such issues as the best ownership format for vessels and which projects we should tackle.

### Q Could LNG transport become embroiled in the kind of price competition the crude oil transport business has seen?

No, I do not think so. My impression from talking with customers is that they are not simply focused on price and are not indifferent to quality. In fact, recently an international oil major chose us for a two-year transport project because safety and quality were higher priorities than price. Customers fully grasp the enormous effect an accident could have on their LNG supply chains.

Similarly, we must avoid being caught up in price competition that focuses on winning more contracts but results in mediocre service.

**Offshore Business Value Chain**




**Main Medium-to-Long-Term Contracts**

| Beginning | Contract Period | |
|---|---|---|
| 2012 April | Up to 20 years | Drillship for Petrobras, of Brazil |
| 2013 January | 5 years | Shuttle tanker for energy company Repsol YPF, of Spain |
| February | 4 years | LNG carrier for GDF Suez, of France |
| Summer | 10 years | Two shuttle tankers for ENI, of Italy |
| June | 20 years | FPSO in ultra-deepwater pre-salt field for Petrobras, of Brazil |
| 2014 January – March | 10 years | Shuttle tanker for subsidiary of ExxonMobil Exploration, of the United States |
| July – September | 10 years | Shuttle tanker for Repsol Sinopec Brasil, of Brazil |
| | 15 years | LNG carrier for TEPCO, of Japan |

**In More Detail**

Following on from its commencement of a time-charter contract with the international energy company Repsol YPF S.A., Group company Knutsen NYK Offshore Tankers AS (KNOT) concluded a 10-year time-charter contract with Repsol Sinopec Brasil S.A. in January 2013. The vessel will transport ashore crude oil produced at the Santos and Campos basins off Brazil.

Instead, we will continue pursuing the highest levels of transport quality and charging commensurate freight rates acceptable to both parties. This is the essence of our approach.

### Q Moving on from the LNG transport business, what specific measures has NYK taken in the division's other businesses recently?

Unfortunately, we have to face the fact that for the transportation of crude oil obstacles to an improvement in the supply-demand situation are significant and the areas where we can operate are shrinking. Demand for the transportation of crude oil is unlikely to grow in the immediate future because crude oil consumption has slumped among developed countries. Moreover, North America is importing less crude oil due to its exploitation of shale oil and other forms of unconventional oil. Meanwhile on the supply side, China is ordering a large number of VLCCs under a new policy that favours using its own flag vessels to transport the 250 million tons of crude oil it imports annually.

In response to these conditions for the transportation of crude oil, we have heightened the efficiency of operations in this business area. Improved efficiency has enabled us to conduct existing operations with fewer personnel and to transfer the resulting surplus personnel to operations promising growth, such as the LNG transport business and the offshore business. As part of these efforts, we consolidated the Petroleum Group and the Chemical and LPG Group to create the Tanker Group on April 1, 2013.

At the same time as reorganising operations, we have strengthened our quality control system. Aiming to improve the quality of our tanker transport services, including LNG carriers, we have established the Energy Co-ordination Group led by an experienced captain. Further, we have recruited personnel engaged for many years in quality control at oil majors to U.K. subsidiary NYK Energy Transport (Atlantic) Ltd. Already, these personnel are making valuable contributions by pointing out aspects of our operations we had not realised pose problems for customers.

### Q How has the offshore business been progressing since its 2008 launch?

Since it began by entering the drillship business, our offshore business has been extending its value chain to include FPSO (Floating Production, Storage and Offloading) operations and shuttle tankers. Fiscal 2011 saw our first drillship enter operations, and this ship has surpassed expectations by achieving a 99% utilization rate. Meanwhile, our FPSO system began operating in June 2013, and we expect to conclude a new FPSO contract during the current fiscal year. Furthermore, given the large number of unexploited natural gas fields, we are confident FPSO for LNG is set to increase. In this area, we can develop businesses by taking advantage of our LNG transport technology and expertise.

As for shuttle tankers, we have concluded five contracts during the two years since we entered this area by investing in Knutsen NYK Offshore Tankers AS (KNOT). Each of these contracts covers periods of between 5 and 10 years. And, we hope to add one or two contracts during the current fiscal year. Also, listing KNOT's subsidiary on the New York Stock Exchange has put us on track with regard to strengthening the company's financial position, which was an issue. In addition, we are applying KNOT's technology to develop businesses outside the shuttle tanker area. For example, we are collaborating with an oil major to realise chemical injection operations, which increase crude oil production volume through the pressurised injection of an environment-friendly chemical into offshore oil fields. Because it is a "blue ocean" strategy that focuses on an area where there are few competitors, our initiative in this business area promises to be extremely profitable.

### Q What is the outlook for earnings in the Tanker Division?

We want to generate earnings steadily with the LNG transport business and the offshore business as mainstays. As energy transport is one of the NYK Group's core businesses, we are planning to invest several hundred billion yen in the period through 2020. Further, if freight rates are favourable, we expect higher earnings from VLCCs and product tankers. As a result, these four business areas combined could increase our earnings roughly ¥10 billion by 2020. On the other hand, for the VLCC and LPG fleets, we intend to keep investment to the minimum needed for renewal while maintaining our relationships with customers based on long-term contracts.

#### CHECK Switching to LNG Fuel

**Q. What kind of unique initiatives is the Tanker Division pursuing?**

While LNG carriers use LNG as fuel, most other vessels use bunker oil. Preparing for future environmental regulations, we have been conducting research since 2011 on switching from bunker oil to LNG. In 2013, we want to create a vessel that will provide a practical reference for changeover efforts. At present, the NYK Group uses approximately 5.3 million tons of bunker oil per year at a cost of roughly ¥290 billion. By changing to LNG, we plan to reduce fuel cost significantly and lessen our environmental burden.

## Car Carrier Division

Previously centred on Japan, the Car Carrier Division has transformed during the past 20 years. Manufacturing bases have moved from Japan to regions around the world. In response, we are supporting the automotive industry's spread and growth through solutions that combine ocean and land transport.

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

### Q Where do the competitive advantages of the NYK Group's Car Carrier Division lie?

The operations of the Automotive Transportation Headquarters come under two broad categories: car carriers, responsible for ocean transport, and automotive logistics, responsible for inland transport and dedicated terminals. We are confident both these operational arms are world-class in terms of scale and competitiveness. By combining them, we are able to provide solutions more flexible and diverse than those of competitors and thereby realise unmatched competitive advantages. In other words, we provide network solutions that transcend simple ocean transport, epitomising the "More Than Shipping 2013" concept.

### Q What is the reason for the Group's solid automobile transport volume at present?

I think this is attributable to successfully catering to demand growth worldwide. Automobile exports in 2009 were roughly half of those in 2008, dropping to about 3.6 million units. They recovered to 4.5 million units in 2010 only to slump again in 2011 to around 4.0 million units. This drop reflected the effects of the Great East Japan Earthquake and the shift of manufacturing bases overseas to counter the yen's strength. Looking at the world as a whole, demand is without a doubt growing. However, we must not overlook the accelerating trend towards industrial structures based on local production and local consumption. I believe we have been enjoying favourable results because we have been able to respond sensitively to this trend based on the "More Than Shipping 2013" strategy of transcending the boundaries of traditional ocean transport.

### Q What is the outlook for cargo movements going forward? Also, what tasks does this business face?

Worldwide automotive production, which was about 67 million units in 2008, reached 80 million units in 2012 and will likely reach 100 million units in 2017. In 2012, seaborne trade surpassed 30 million units. Taking into account seaborne trade of 30 million units that accompanied automotive production of 80 million units, we expect the production of 100 million units will generate seaborne trade of 35 million units in 2017. Based on these figures, seaborne trade will clearly not grow in step with the increase in automotive production. This is because, as I mentioned, automotive manufacturers are pursuing strategies of local production and local consumption.

This disparity does not alter the projected increase in ocean transport. Nevertheless, local production and local consumption will lead to coastal transport within regional blocs, such as Asia, the Americas, and Europe, becoming predominant and to shorter transport distances. Under these conditions, generating earnings through ocean transport alone will be difficult. Therefore, we have to extend the scope of our earnings foundations by moving rapidly to expand and improve ocean transport's related businesses, which include such high-value-added services as land transport, pre-delivery inspection, and vehicle distribution centres.

### Q What is the Group's fleet development strategy for the future?

Currently, we operate 115 car carriers. We will take delivery of two new car carriers in fiscal 2013 and a total of four in fiscal 2014 and fiscal 2015. Given seaborne trade is likely to reach 35 million units by 2017, we believe about 120 vessels is an appropriate fleet size. Of these 120 vessels, taking into consideration 25-year service lives of car carriers, we will need to replace four or five every year. But rather than just replacing vessels, we have to think about developing our fleet in line with transport volume growth. There is a risk worldwide demand will decrease steeply as it did during the global recession. If we disposed of all our aged vessels at a stroke, during such periods of freight rate fluctuation we would not have any leeway to adjust fleet size flexibly. As a result, fleet maintenance cost would mount relentlessly. With this “regulating valve” role of aged vessels in mind, we will take steps to lengthen the service lives of vessels to some extent. At the same time, we will consider orders for new vessels cautiously.

On the other hand, we recently resumed investment in car carriers. Last year, we ordered four new car carriers, each with capacity for 7,000 vehicles. We intend to gradually introduce more of these vessels so that they eventually take over shipping responsibilities from our competitive mainstay car carriers that have capacity for 6,500 vehicles, the largest vessel type until now.

For information on the new car carriers with capacity for 7,000 vehicles, please see page 24 of the Special Feature section.

## Q What business strategies will the Automotive Transportation Headquarters focus on?

Rather than taking measures in anticipation of future market trends, we will continue our basic approach of developing operations in accordance with customers’ needs. Because our specialised vessels only transport automobiles, our business is very much dependent on customers’ wishes. By virtue of this, constant information gathering is paramount. We will continue accumulating in-depth information energetically to make sure we do not miss good opportunities.

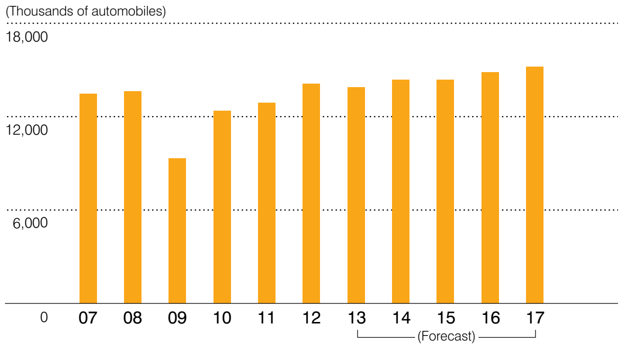
With a period of extreme strength over, the yen is weakening, but it does not necessarily follow that this will trigger rapid expansion of domestic manufacturing. Japan’s share of manufacturing relative to other countries’ may adjust a little. However, all we have been seeing recently is a correction of excessive yen appreciation. The automotive manufacturing industry’s macro trends—transferring manufacturing overseas and favouring local production and local consumption—have not changed. In the immediate future, we will pursue a two-pronged business strategy. First, we will take care over vessel allocation to avoid transport space shortages in relation to the increase in domestic manufacturing expected to result from yen depreciation. Second, we will step up the pace of investment aimed at expanding automotive logistics services overseas.

## Q Could you please outline the basic strategy the headquarters is taking to develop businesses overseas?

While we will start some business projects from scratch, this approach takes time. Therefore, the number of projects that we initiate by taking stakes in local companies will increase. For example, in 2012 we invested in the logistics company ROLF SCS, which belongs to Russia’s largest automotive retailer, the ROLF Group. Catering to Russia’s rapidly growing automotive industry, we will launch comprehensive transport services, extending from inland transport of finished vehicles and the services of the terminal business through to such high-value-added services as customs clearance and pre-delivery inspection. We are also pursuing similar projects in Mexico and Indonesia, but at this time I cannot go into details.

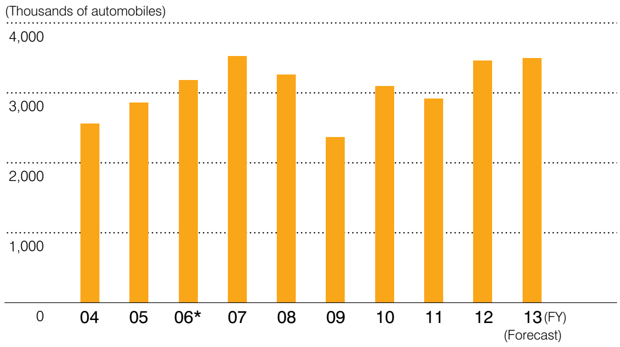
When selecting local partners, quality is the deciding factor. This is because we believe that if we do not offer quality customers will not choose us. Unlike refrigerators or televisions, which are packaged in wood or thick cardboard, automobiles are transported without packaging. Even the smallest scratch renders a vehicle unsaleable. Transporting vehicles without scratching them and delivering them on schedule, which is what I mean by “quality,” calls for a certain level of professional competence. Given the amount of care automotive logistics requires, if a partner does not share our attitude towards quality, a joint venture with them is unlikely to succeed.

**Worldwide Automobile Transport Volume (cargo movements between regions)**




Source: NYK Research Group

**NYK Group’s Automobile Transport Volume**




* Figures have been restated in accordance with changes in accounting methods.

# Cruises Segment Growth Strategies

For analysis of business results, please see page 85.

Confident in our cruises' brand appeal, we want to encourage more customers to enjoy the industry's leading brand by creating products that deliver even greater satisfaction.

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



## Q How have reservations been fairing since the beginning of 2013?

Serving Japan's market, NYK Cruises Co. Ltd. has seen a shift in sentiment thanks partly to recoveries in the domestic stock market and economy as the yen weakens. In fiscal 2012, reservations were brisk. Moreover, since the beginning of 2013 the pace at which we are receiving reservations has definitely picked up even further.

Meanwhile, our subsidiary operating in overseas markets, Crystal Cruises Inc., has also seen reservations trend upward. In fiscal 2012, the repercussions of a cruise ship running aground in Italy dealt a severe and unexpected blow to Mediterranean cruises, which had been the subsidiary's revenues mainstay. However, we have been receiving reservations for all our products at an unprecedented rate since the beginning of 2013.

Unfortunately, our cruises have been in the red for several years. In fiscal 2013, with favourable reservations as a tailwind, we intend to narrow the deficit and grow revenues as much as possible.

## Q What specific measures will the Cruise Headquarters take to move the cruises segment back to profitability?

We have revised our sales strategy in two respects. First, we have changed pricing. We lowered the launch prices of all the cruise products Crystal Cruises offers. And, we adopted a system of reviewing these prices every two months. We raise the prices of products for which reservations are favourable every two months while keeping products with soft reservations at their launch prices. This produces a synergy benefit that steadily boosts reservations for initially sluggish products because their prices appear increasingly reasonable as the prices of popular products rise. Further, we are setting prices to reflect the value of each product. For example, our new, attractively priced shorter cruises that offer the same service quality as our other cruises have become popular with customers.

The other important change in our sales strategy is a renewed emphasis on expanding sales channels. In the United States, we are expanding our network with a view to having more travel agents carry the products of Crystal Cruises. Also, in Japan we are urging travel agents that sell our *Asuka II* cruises to increase the numbers of agencies carrying the cruises and dedicated personnel. Already, this strategy is helping boost reservations.

## Q A non-Japanese cruise ship will enter Japan's market in 2013. How does NYK plan to respond?

The non-Japanese cruise ship due to enter the market this year will cater to the "mass" cruise market. Because we offer products for the "luxury" market, I do not think its entry will mean major competition for us. On the contrary, we hope this new development will broaden our customer base. The cruise market in the United States accounts for roughly 10 million people, or about 3% of its population. By contrast, Japan's market only represents 0.2% of the population. The U.S. market has matured to this extent because the participation of a variety of cruise ships has formed the market. I believe the opening of Japan's market for the first time to cruise ships targeting the general public could popularise reasonably priced cruises, which in the long term will have the beneficial effect of creating demand for luxury cruises.

On the other hand, Japanese cruise ships have less cost-competitiveness than their non-Japanese counterparts. This is because Japanese cruise ships are subject to strict regulations under Japanese law requiring annual vessel inspections, while non-Japanese cruise ships are inspected twice every five years. Furthermore, regulations limit the number of non-Japanese crew members permitted to work on Japanese cruise ships. Therefore, we want authorities to ease regulations so that Japanese cruise ships can compete on a level playing field with non-Japanese cruise ships.

# Driving the NYK Group's Growth Strategy

This section profiles the NYK Group's extensive CSR activities, which contribute to the realisation of a sustainable society and drive the Group's growth strategy.

CONTENTS



3

# Basic CSR Policy: An Interview with the Corporate Officer Responsible for CSR

Centred on the shipping industry, the NYK Group has diverse global networks that include ocean, land, and air transportation. The NYK Group's corporate social responsibility (CSR) is not only to generate earnings as a company but to tackle initiatives aimed at resolving social issues, such as the environment and human rights, thereby contributing to the realisation of sustainable societies.

Yoko Wasaki
Corporate Officer



## Q For the NYK Group, what is CSR?

### A CSR represents the management foundations that support the NYK Group's growth strategy.

Since its establishment in 1885, the NYK Group has maintained a strong sense of its mission to support and enrich everyday life around the world by providing safe and reliable *monohakobi* (transport). The NYK Group Mission Statement reflects this commitment. Further, we view CSR activities as the foundations of business management that support the NYK Group's growth strategy. Accordingly, the Group has positioned economic, environmental, and social responsibilities at the core of its business management. As a result, the Group has returned benefits to stakeholders through the business activities of its divisions, which aim to realise the NYK Group Mission Statement.

The introduction of the United Nations framework on human rights and the issuance of the ISO 26000 standard reflect the growing social pressure on companies to take the initiative in resolving society's issues. This trend has led to the amendment of the OECD Guidelines for Multinational Enterprises and the Keidanren (Japan Business Federation) Charter of Corporate Behaviour. Also, the trend is manifest in the increasing number of enquiries the NYK Group has been receiving from customers in Japan and overseas about the status of its CSR activities.

To continue to grow soundly while fulfilling its social responsibilities, the Group has balanced "defensive" and "offensive" CSR activities. "Defensive" CSR refers to basic requirements, such as compliance and risk management, while "offensive" CSR means fully realising the Group's strengths through mainstay operations that service customers' logistics needs. I think the Group's consistent inclusion in socially responsible investment indexes testifies to the favourable evaluation these unflagging efforts have earned.

## Q What is the significance of the United Nations Global Compact and ISO 26000 for the Group?

### A The Group uses its initiatives related to the Global Compact and ISO 26000 as a way of addressing global social issues.

Because the Global Compact's ten principles, covering the four areas of human rights, labour standards, the environment, and anti-corruption, agree with the NYK Group Mission Statement, the Group announced support for the Global Compact in 2006. Moreover, in 2008 NYK's chairman became a board member of a local network of the Global Compact, the Global Compact Japan Network. Also, in 2009 the Group endorsed and became a signatory to Caring for Climate, an initiative related to climate change. The NYK Group's support of the Global Compact has become one of the key symbols of the Group's commitment to CSR as an international corporation. Accordingly, to create a platform for activities aimed at further instilling the Global Compact among personnel, in 2010 the Group established the Global Compact Promotion Committee, under the control of senior management and the management of the Human Resources Group and the former CSR Coordination Group. In Japan and overseas, the committee checks Group companies' compliance with the Global Compact principles annually. In addition, we check employees' understanding of the principles through e-learning.

Issued in 2010, the ISO 26000 standard categorises a wide variety of social issues under seven core subjects: organisational governance, human rights, labour practices, the environment, fair operating practices, consumer issues, and community involvement and development. The ISO 26000 standard is ground breaking because it provides globally uniform guidance on the social issues organisations should tackle. The Group will use the standard as a tool to develop and analyse the progress of CSR initiatives and as a compass to guide decisions on their future direction.

### The Ten Principles of the United Nations Global Compact

**Human Rights**

Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2 make sure that they are not complicit in human rights abuses.

**Labour**

Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4 the elimination of all forms of forced and compulsory labour;

Principle 5 the effective abolition of child labour; and

Principle 6 the elimination of discrimination in respect of employment and occupation.

**Environment**

Principle 7 Businesses should support a precautionary approach to environmental challenges;

Principle 8 undertake initiatives to promote greater environmental responsibility; and

Principle 9 encourage the development and diffusion of environmentally friendly technologies.

**Anti-Corruption**

Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

THE GLOBAL COMPACT
WE SUPPORT

### Seven Core Subjects of ISO 26000

- Organizational governance
- Human rights
- Labour practices
- The environment
- Fair operating practices
- Consumer issues
- Community involvement and development

## Q Which CSR activities does the NYK Group emphasise?

## A As a comprehensive global-logistics enterprise, the NYK Group gives first priority to safety and the environment.

The NYK Group supports everyday life and economies worldwide by transporting diverse commodities, including energy resources, food, apparel, machinery, and automobiles. Thus, the NYK Group's business fulfils a CSR.

In particular, safety represents the foundations and the first priority of logistics business activities. To earn the trust of customers, local communities, and other stakeholders and continue to exist in society, maintaining the safety of services the Group provides is paramount. Accordingly, the NYK Group undertakes tireless, painstaking efforts to ensure safety by heightening safety awareness, checking and inspecting basic requirements, and conducting emergency response exercises. These efforts give customers peace of mind and underpin the trust they place in the Group.

Also, there is concern that the international shipping industry, which accounts for the majority of the Group's business, could significantly affect the sustainability of the global environment. As of 2007, the international shipping industry annually emits approximately 870 million tons of $CO_2$, which represents about 3% of worldwide emissions. Environmental measures aimed at minimising the increase in environmental loads accompanying business expansion are a top priority of the same order as safety measures. Therefore, we have been actively developing energy-saving technology for vessels, such as solar power generation and an air-lubrication system, and introducing methods of operating vessels more efficiently. As a result of these efforts, according to the Carbon Disclosure Project's survey, the NYK Group was the only company in the shipping and logistics industries to simultaneously obtain the highest values in two indexes: the Carbon Disclosure Leadership Index, which evaluates companies' progressive disclosure policies for climate change data, and the Carbon Performance Leadership Index, which evaluates companies' progressive initiatives in relation to climate change.

Recent years have seen calls for initiatives tackling social issues in global supply chains, such as conflict minerals. In this regard, as a group that has built a solid reputation through CSR activities, the NYK Group aims to afford customers a major advantage by playing a significant role in their supply chains. In other words, we aim to build win-win relationships with customers through CSR.

# The NYK Group's CSR Activities



## Organisations to Promote CSR Activities

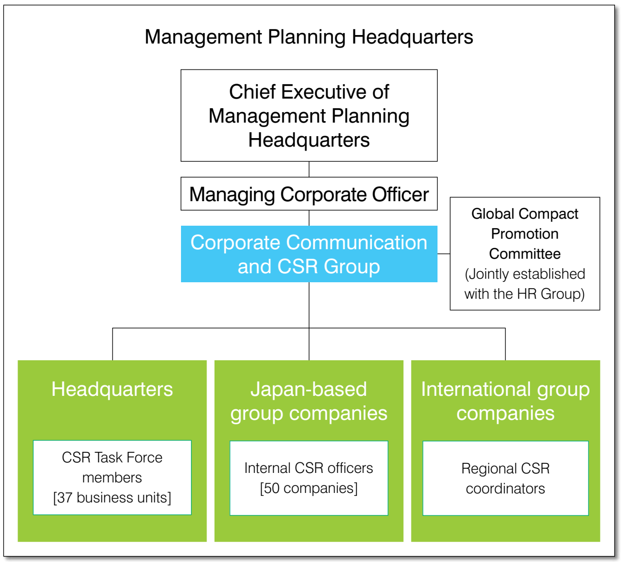
We have established the Corporate Communication and CSR Group at NYK's headquarters and appointed CSR officers at Group companies in Japan and overseas. The Corporate Communication and CSR Group coordinates, promotes, and supports all CSR activities in the NYK Group. The Corporate Communication and CSR Group is also responsible for spearheading internal reforms and communicating information both inside and outside the organisation so that the NYK Group better responds to the requirements of its stakeholders, meets the expectations of society, and earns its trust. The group's activities include preparing integrated annual and CSR reports, conducting CSR training programmes, and administering the SRI Survey.

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


*Global CSR Newsletter*

**CSR Management Chart**

(As of April 1, 2013)




The 50 main Group companies in Japan have CSR officers. Overseas, we have deployed CSR coordinators at four regional management companies and at two companies in other regions to promote CSR activities that address local concerns and issues. In Japan and overseas, CSR officers share information with NYK's headquarters and other officers as they develop and implement activities.

SRI Survey
Survey from socially responsible investment perspectives

Regional management companies
East Asia, South Asia, Europe, North America

Other regions
Oceania, Latin America

## CSR Training

We offer a wide variety of training options, including new employee training and discussion-based group training, so that employees have a basic knowledge of CSR, understand the Group's CSR concepts, and are able to put them into practice.

We have been conducting an e-learning programme that allows employees to learn at their own pace. The new programme that began in November 2011 includes information on ISO 26000, CSR supply chain management, and other recent CSR trends. In fiscal 2012, approximately 2,000 NYK Group employees in Japan participated in the programme.

ISO 26000
The first global-scale international standard for social responsibility that covers all forms of organisation.


e-learning screen

## Global Compact Promotion Committee

In 2010, we established the Global Compact Promotion Committee to spearhead our efforts 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 senior managing corporate officer responsible for 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 Compliance Chamber and Fair Trade Promotion Group lead initiatives for the anti-corruption area.

**Global Compact Promotion Process**

Global Compact education and training
↓
Status survey (Survey of personnel administration and human resources development in the NYK Group)
↓
Tabulation and analysis of survey results
↓
Global Compact Promotion Committee meetings
↓
Investigation
↓
Determination and implementation of remedial measures

## CSR Guidelines for Partners and Suppliers

NYK is responsible for bringing safe and certain *monohakobi* to its customers' supply chains, and in April 2010 we formulated "CSR guidelines for partners and suppliers" to better achieve this. The document contains guidelines related to the supply chain and covers such issues as legal compliance, fair trade, trustworthiness, safety and security, the environment, human rights, labour, and anti-corruption. Annually, we hold briefings for domestic Group companies and conduct training to spread awareness of the CSR guidelines.

### CSR Guidelines for Partners and Suppliers

As a global logistics business, the NYK Group is a part of its customers' supply chains, working with the support of a large number of stakeholders to provide safe and dependable *monohakobi*. We have formulated the CSR guidelines described below as a means of identifying and solving issues in the supply chain in areas like legal compliance, fair trade, trustworthiness, safety and security, environment, human rights, labour, and anti-corruption. We work with our partners and suppliers to encourage them to understand and practice these concepts.

**1. Legal compliance**
Awareness that the company is a member of society and, in the interest of justice and fairness, must adhere to laws and ordinances, and must also respect the praiseworthy cultures and practices of local communities and adhere to the praiseworthy ethics and mores of local societies in all corporate activities.

**2. Fair trade**
Companies must contribute to the betterment of global society engaging in fair, transparent, and free competition and conducting business activities in an appropriate manner in all regions of the world.

**3. Trustworthiness**
Companies must build relationships of mutual trust by engaging in fair, transparent transactions and observing all applicable laws, ordinances, and social codes of conduct.

**4. Safety and security**
The safety and security of services must be viewed as one of our highest priorities, achieved through ongoing efforts to improve.

**5. Environment**
Companies must endeavour to protect the global environment and prevent environmental destruction and pollution.

**6. Human rights**
Companies must respect the dignity of the individual and must not discriminate on the basis of gender, age, national origin, ethnicity, race, creed, religion, social status, etc.

**7. Labour**
Companies must endeavour to provide safe, sanitary, and healthy working environments. Companies must not engage in inhumane employment practices or forced labour.

**8. Anti-corruption**
Companies must work to prevent corruption in all its forms, on both the receiving and giving sides.

# Summary of CSR Activities in Fiscal 2012 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 2012 and goals for fiscal 2013, following the structure of the seven core subjects of the ISO 26000 standard.

| ISO 26000 core subjects | Initiatives | Fiscal 2012 targets | Fiscal 2012 programmes |
|---|---|---|---|
| Organizational governance | Strengthening of CSR management | Strengthen CSR promotion organisation within NYK Group | Hold in-house briefings and meetings of CSR officers of domestic Group companies |
| | | Step up communication of CSR information inside and outside the organisation | Develop integrated annual and CSR report through collaboration among relevant divisions and enhance website |
| | Dialogue with stakeholders | Enhance comprehensive explanations and information disclosure to investors | • Maintain frequency of individual investors' seminars at previous fiscal year's level<br>• Hold briefings and facility tours for institutional investors and analysts<br>• Continue providing support for institutional investors and analysts at overseas offices<br>• Coordinate divisions' interaction responses to ratings agencies |
| Human rights | Respect for human rights, prohibition of discrimination | Protect human rights | Conduct human rights training through NYK Business College |
| | | Improve human rights awareness | Conduct self-checks of adherence to United Nations Global Compact (UNGC) by NYK's headquarters and domestic and international Group companies |
| | Promotion of diversity | Spread United Nations Global Compact (UNGC) | Continue activities of Global Compact Promotion Committee |
| | | Monitor status at Group companies | Conduct human resources survey of Group companies in Japan and overseas; after collecting results, seek improvements from companies with problems |
| Labour practices | Support for diversity of work styles | Facilitate work-life balance | Implement Third Action Plan (Fiscal 2011–2014) for Act on Advancement of Measures to Support Raising Next-Generation Children<br>(1) At least five men taking parental leave during a four-year period<br>(2) Internal seminars on work-life balance<br>(3) Programmes to encourage employee children to understand their parents' workplaces |
| | Human resources development | Use NYK Business College and NYK Maritime College in human resources development | Enhance training programmes |
| Fair operating practices | Compliance enforcement | Strengthen compliance system | Implement Compliance Checkup, enhance training for specific employee ranks, prepare guidelines on rejection of relationships with antisocial forces, introduce and operate Ethics Leader System |
| | Promotion of fair competition and trade | Continue ongoing activities to ensure awareness of fair trade statutes and penalties in all countries served | Conduct new employee training, team leader training, general employee training, unit-level training, affiliate company training, local training, international training, and e-learning training |
| | Protection and management of information | Implement NYK Group Information Security Structures Project | Rollout ISMS-based security standards to affiliated companies, improve information security levels throughout the Group |
| Consumer issues | Improvement of customer satisfaction and services | Ensure quality assurance | Implement rigorous quality assurance by CS Improvement Committee (*Asuka II*) |
| | Promotion of safety | Promote ship safety management | Promote SEMC activities, including expansion of SEMC organisations and measures to deal with growing fleet, such as measures to deal with environmental changes affecting shipping |
| | Development of safety programmes | Enforce terminal safety policies | Enforce terminal safety standards for companies operating at NYK-operated terminals in Japan |
| Community involvement and development | Social contribution activities | Promote employee donation opportunities and volunteer activities in line with social contribution activity guidelines | Hold events in cooperation with NPOs |
| | | Promote disaster relief and international cooperation activities using transportation services and other business resources | Provide transportation assistance (picture books, school backpacks, bicycles, etc.) |
| | | Develop initiatives to increase visitors to the NYK Maritime Museum and *NYK Hikawamaru* | Hold events, collaborate with City of Yokohama and nearby facilities |
| | Support for areas affected by Great East Japan Earthquake | Encourage assistance activities by NYK Group employees | Ongoing dispatch of volunteers to Rikuzentakata, Iwate Prefecture |
| | Involvement in community development | Operate merchant marine academy in the Philippines | Conduct training to develop highly skilled seafarers |

ISMS: **I**nformation **S**ecurity **M**anagement **S**ystem CS: **C**ustomer **S**atisfaction SEMC: **S**afety and **E**nvironmental **M**anagement **C**ommittee

| Achievement as at the end of March 2013 | Evaluation | Fiscal 2013 targets |
|---|---|---|
| All meetings held | | Hold CSR Task Force member and Group company CSR officer meetings |
| NYK Group's *CSR Report 2012* received award for excellence at Environmental Communication Awards organised by Ministry of the Environment; decided to prepare integrated report and revised website in stages | | Prepare integrated report through collaboration among divisions |
| • 13 seminars held for individual investors<br>• For institutional investors and analysts, organised facility tours in Taiwan and Nagoya and held briefing about LNG business at NYK's headquarters<br>• Coordinated related divisions' responses to stakeholders in Japan and overseas<br>• Achieved third place in transportation category of The Securities Analysts Association of Japan's evaluation ranking | | • Hold seminars for individual investors<br>• Organise business briefings and facility tours for institutional investors and analysts<br>• Approach target overseas investors proactively<br>• Coordinate divisions' responses to ratings agencies<br>• Further understanding of investor relations activities through feedback to in-house divisions<br>• Achieve third place or better in transportation category of The Securities Analysts Association of Japan's evaluation ranking |
| Conducted training programmes eight times for new employees, new managers, and employees assigned overseas during year through NYK Business College | | Continue human rights training through NYK Business College |
| Implemented for Group employees in Japan and overseas | | Revise content and continue implementation |
| • Publicised in training sessions, CSR report, Group newsletter, etc.<br>• Strengthened coordination with Human Resources Group; revised NYK standards | | Further spread Global Compact Promotion Committee activities in NYK Group |
| Implemented in June 2012; no issues discovered | | Conduct human resources survey, analyse findings, and issue instructions for improvement |
| (1) One person took leave (three people have taken leave since fiscal 2011); enhanced information about child rearing on intranet<br>Plan to implement (2) and (3) in fiscal 2013 | | Continue implementation of Third Action Plan for Act on Advancement of Measures to Support Raising Next-Generation Children and activities by Work-Life Balance Promotion Committee to promote work-life balance |
| Conducted wide variety of training for Group employees (onshore and shipboard personnel) | | Ongoing |
| Implemented respective programmes, distributed weekly ethics newsletter through intranet, conducted 15 Group training sessions | | Continue compliance activities and education |
| Held 80 programmes in total, approximately 2,600 participants | | Assess risk with regard to antitrust law, pledge adherence to antitrust law compliance, establish Executive Committee Overseeing Thorough Antitrust Law Compliance, appraise antitrust legal risks for new business investments |
| Checked security countermeasures of Group companies, shared security information, provided advice, implemented e-learning; approximately 2,600 participants | | Ongoing |
| Improved service content, revised guidance signs in vessels, prepared readily understandable maps of vessels' interior layouts, revised safety management regulations | | Ongoing |
| Held SEMC meeting in May, reviewed previous fiscal year and prepared policy for activities in fiscal year under review | | Deploy safety activities for all NYK Group employees |
| Held regular safety meetings for relevant employees, confirmed safety compliance in morning work meetings, conducted reviews of any issues encountered during work | | Enhance safety measures to prevent accidents |
| Held picture-book sticker attachment sessions (four times) and kids events (two bread-making classes) | | Ongoing |
| Transportation services: 14,320 picture books, 16,722 school backpacks, 2,010 bicycles | | Ongoing |
| Held dance event in collaboration with City of Yokohama, implemented joint campaigns with nearby facilities | | Hold various events, collaborate with City of Yokohama and nearby facilities |
| Sent approximately 130 volunteers: April – July, October – December 2012 | | Undertake volunteer activities to support restoration of areas affected by Great East Japan Earthquake |
| Second class of 118 appointed as NYK Group employees in January 2013 | | Further improve education levels |

[Self-evaluation standard] Achieved Almost Achieved Partially Achieved

| ISO 26000 core subjects | Initiatives | Fiscal 2012 targets | Fiscal 2012 programmes | |
|---|---|---|---|---|
| The environment | Use of ISO 14001 certification to promote environmental activities | Maintain and expand NYK Group environmental certification | Maintain activities appropriate for communities and businesses and expand certification as requested by customers | |
| | | | Revise EMS manual and facilitate adoption after revision; continue improvements through internal audits (internal audits of NYK's main branches and discussions with Group companies) and external audits | |
| | Adherence to domestic and international laws and regulations, formulation of and adherence to industry and Company standards | Identify and rigorously adhere to treaties, laws, and regulations that impact ships | Monitor treaties, laws, and regulations; perform rigorous NAV9000 audits (ship-management companies and ships) | |
| | | Contribute to the achievement of sustainable societies by participating in the formulation of international rules regarding greenhouse gases, air pollutants, and ship dismantlement | Proactively participate in the formulation of international rules through industry bodies | |
| | Reduction of fleet accidents | Reduce fleet downtime (10 hours/year/ship) | Reduce fleet downtime | |
| | | | Conduct NAV9000 audits | |
| | | | Promote Near Miss 3000 activities (increase companies to be covered) | |
| | | | Hold various safety promotion meetings and safety seminars | |
| | | | Promote safety through vessel visits, conduct safety campaigns | |
| | | | Continue activities to minimise engine accidents | |
| | Creation and administration of emergency response network | Conduct emergency preparedness and response | Conduct emergency response exercises and reviews | |
| | | | Conduct media response training and reviews | |
| | Reduction of $CO_2$ emissions | Monitor environmental management indicators, improve precision | Extract data for calculation of environmental management indicators from SPAS for more accurate monitoring | |
| | | Reduce fleet unit $CO_2$ emissions to (1) 10% from fiscal 2006 levels by fiscal 2013; (2) 10% from fiscal 2010 levels by fiscal 2015 | Promote Save Bunker 2012 | |
| | | Use NYK ECOM to determine total $CO_2$ emissions for NYK Group in Japan and overseas | Operate environmental load data tabulation system | |
| | Reduction of NOx and SOx emissions | Reduce emissions of nitrogen oxide compounds (NOx) and sulphur oxide compounds (SOx) | Increase usage of electronically controlled engines | |
| | | | Cooperate with California Speed Reduction Program | |
| | | | Make onshore power charging equipment compliant with global standards | |
| | | | Cooperate with SCR onboard testing | |
| | | | Rigorously enforce EU and California low-sulphur fuel guidelines | |
| | Recycling, conservation of resources, reduction of toxic substance emissions | Scrap ships in an environment-friendly manner | Adhere to NYK Standards on ship recycling | |
| | Reduction of office environmental load | Reduce paper and water usage at least 1% and electricity usage at least 3% versus fiscal 2011 levels | Endeavour to reduce usage of water, electricity, and paper | |
| | Research and development of new technologies | Develop technology enabling use of hybrid turbochargers onboard ships | Continue checking energy-saving benefits and reliability through monitoring after vessels go into service | |
| | | Analyse data from module carrier that uses air-lubrication system | Continue monitoring, realise more precise analysis of energy-saving benefits | |
| | | Use large-volume, new-type nickel hydrogen batteries to research and develop technology for onboard applications of secondary batteries | Evaluate environmental resistance of secondary batteries; with view to future, undertake examination by simulating large hybrid power supply system | |
| | Use of equipment that reduces air and marine pollution and protects biodiversity | Install NYK Total Bilge System | Install in new ships at shipyards able to adhere to NYK Standards | |
| | | Operate shoreside generator facilities | Expand operations | |
| | | Install ballast water systems | Expand installation | |
| | Stimulation of interest in environmental protection activities | Conduct environmental training programmes | Hold training sessions and study groups; use EMI report card and ECO Channel classes | |
| | | Conduct environmental e-learning programmes | Create content and increase student numbers | |
| | Disclosure of environmental information | Disclose environmental information for entire NYK Group and adopt measures based on Scope 3 | Collect, calculate, and disclose data based on Scope 3 | |
| | | | Participate in and provide data for Clean Cargo Working Group of BSR (a U.S. NPO) | |

EMS: **E**nvironmental **M**anagement **S**ystem SPAS: **S**hip **P**erformance **A**nalyzing **S**ystem SCR: **S**elective **C**atalytic **R**eduction EMI: **E**nvironmental **M**anagement **I**ndicator

| Achievement as at the end of March 2013 | Evaluation | Fiscal 2013 targets |
|---|---|---|
| Expanded to 21 sites and 5 companies for a total of 143 sites at 54 companies (All regional management companies in the six global regions have been certified.) | ☘☘☘ | Maintain and expand NYK Group environmental certification |
| Manual revisions: 1<br>Improvement requests resulting from audits: Internal audits 416, external audits 92 | ☘☘☘ | Strengthen operation of environmental management system through internal audits (internal audits of NYK's main branches and discussions with Group companies) and external audits |
| 292 ships / 35 companies, 1,260 improvement proposals | ☘☘☘ | Identify and rigorously adhere to treaties, laws, and regulations that impact ships |
| Participated in industry body steering committees and International Marine Organization's (IMO's) Marine Environment Protection Committee | ☘☘☘ | Contribute to formulation of international rules for sustainable societies |
| 13.8 hours/ship/year | ☘☘ | Reduce fleet downtime (10 hours/year/ship) |
| 292 ships / 35 companies, 1,260 improvement proposals | ☘☘☘ | |
| 35 companies, 60,150 reports | ☘☘☘ | |
| Held fleet safety promotion meetings; Global SEMC Safety Meeting; meetings between president, captains, and chief engineers | ☘☘☘ | |
| 536 ships, 931 participants | ☘☘☘ | |
| 4.8 hours/ship/year | ☘☘ | |
| 3 times | ☘☘☘ | Conduct emergency preparedness and response |
| Media response training session held in July 2012 | ☘☘☘ | |
| 855 ships, 6,588 reports | ☘☘☘ | Monitor environmental management indicators, improve precision |
| Improvement rate<br>(1) 15.8% (against fiscal 2006); (2) 6.9% (against fiscal 2010); fuel reduction of 205,964t | ☘☘☘ | Reduce fleet unit $CO_2$ emissions to (1) 10% from fiscal 2006 levels by fiscal 2013; (2) 10% from fiscal 2010 levels by fiscal 2015<br>Advance fuel reductions |
| 74 operating bases (overseas), 270 operating bases (Japan) | ☘☘☘ | Determine total $CO_2$ emissions for NYK Group |
| 6 ships (cumulative 47) | ☘☘☘ | Reduce NOx and SOx emissions, eliminate leased ships not using required low-sulphur fuel |
| Los Angeles water: 100% (20 miles); Long Beach water: 99.07% (40 miles) | ☘☘☘ | |
| Taking measures to comply with international unified standards issued in July 2012 | ☘☘☘ | |
| Tested aqueous urea onboard coal carrier in October 2012 | ☘☘☘ | |
| All vessels using low-sulphur bunker oil | ☘☘☘ | |
| Implemented for 16 ships (cumulative 55) | ☘☘☘ | Scrap ships in an environment-friendly manner |
| Water usage: –3.60%, electricity usage: –3.45%, paper usage: –2.99% versus fiscal 2011 levels | ☘☘☘ | Water usage: –1%, electricity usage: –1%, paper usage: ±0% versus fiscal 2012 levels |
| Monitored performance during vessel operations, obtained analysis results for utilisation rates and total power generation, achieved initial target for fuel reduction rate | ☘☘☘ | (1) Develop technology for measuring surface tidal currents to realise fuel-efficient voyages<br>(2) Monitor engine rooms<br>(3) Analyse data from operating coal carrier that uses air-lubrication system |
| Confirmed energy-saving benefits, improved analysis precision | ☘☘☘ | |
| Confirmed battery not degraded by vessel vibration or temperature, concluded secondary batteries not needed for small solar power generation facilities but needed for high-capacity facilities | ☘☘☘ | |
| Installed in 20 ships (cumulative 164) | ☘☘☘ | Install NYK Total Bilge System |
| 6 ships with equipment to make use of shoreside generators; shoreside generators used 25 times (full-year) | ☘☘☘ | Operate shoreside generator facilities |
| Equipped 20 ships (cumulative 31) | ☘☘☘ | Evaluate performance of ships that use ballast water management system, encourage other ships to use system |
| Conducted training at NYK Line do Brasil Ltda. and NYK Sudamerica (Chile) Ltda. in August 2012 and at NYK Business Systems Co. Ltd. in September 2012<br>Conducted ECO TECH 3 times | ☘☘ | Develop awareness and understanding among personnel of environmental preservation activities |
| 6,698 participants (Japan: 2,912, overseas: 3,786) | ☘☘☘ | |
| Obtained assurance statement from third-party verification body | ☘☘☘ | Disclose environmental information about entire NYK Group, strengthen system for reducing environmental load |
| Local manager attended Clean Cargo Working Group conference in North America in October 2012, provided 14 pieces of data | ☘☘☘ | |

SEMC: **S**afety and **E**nvironmental **M**anagement **C**ommittee ECO Channel: Environmental training (classroom) ECO TECH: Environmental technology training

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

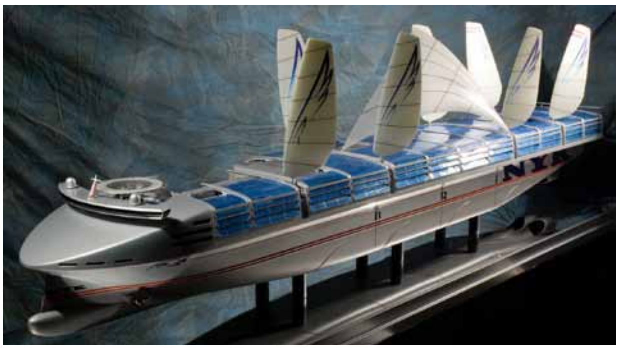
## Protecting the Global Environment, Enriching the Future

The NYK Group is working to preserve the global environment by reducing the environmental load arising from its business activities. As part of these efforts, the Group established the Safety and Environmental Management Group in 2001 as a department tasked with advancing environmental preservation activities as well as the NYK Cool Earth Project under the direct control of the president in 2008. Moreover, the growth strategy set out in the Group's medium-term management plan emphasises environmental measures as a first priority. Aiming to be an environmentally progressive company and to enrich the earth's future, we will take the initiative in developing and introducing environmental technologies.

### Futuristic Containership *NYK Super Eco Ship 2030* Reduces $CO_2$ Emissions

**69%**

Our ambition is to realise vessels with zero $CO_2$ emissions by 2050. On the road to achieving this goal, *NYK Super Eco Ship 2030* marks the midway point. As tomorrow's containership, *NYK Super Eco Ship 2030* is on a mission to reduce $CO_2$ emissions by 69% through leading-edge environmental technologies.



*NYK Super Eco Ship 2030*

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

### Operating Sites and Vessels with ISO 14001 Certification Acquired through Multi-Site System

**143 sites, 800 vessels approx.**

In 2002, the NYK Group became the world's first shipping company to obtain ISO 14001 certification for all its operating vessels, including chartered vessels. Subsequently, the Group extended the scope of this effort to cover regions worldwide. At present, we have obtained ISO 14001 certification for 143 operating sites and approximately 800 operating vessels in Japan and six overseas regional blocs.

### Vessels with Electronically Controlled Engines, Vessels with Ballast Water Management Systems

**47 vessels, 31 vessels**

The Group is proceeding with plans to equip new vessels with electronically controlled engines, which reduce the production of nitrogen oxide (NOx) significantly and improve fuel efficiency.

In addition, ahead of the enforcement of the International Convention for the Control and Management of Ship's Ballast Water and Sediments, the Group has been equipping owned and directly managed vessels with ballast water management systems. Initially, the Group equipped car carriers with this system, which received formal approval from the Ministry of Land, Infrastructure, Transport and Tourism in 2010.

### Towards New Horizons

Based on its environmental management vision and three strategies, the NYK Group has been actively tackling such tasks as reducing $CO_2$ emissions, saving energy, preventing air pollution, and preserving biodiversity. In fiscal 2012, as well as beginning operations of an air-lubrication system that curbs $CO_2$ emissions from vessels, the Group's climate change and global warming countermeasures and related disclosure received high marks from the Carbon Disclosure Project, which evaluates corporate initiatives addressing climate change.

The NYK Group's overriding goal is to save energy while contributing to the global economy through the expansion of international trade. To this end, the NYK Group will continue progressive initiatives aimed at solving problems. For example, plans call for introducing electronically controlled engines and ballast water management systems to more vessels.

## Promotion of Group Environmental Management

### The NYK Group's Environmental Management Vision and Three Strategies

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

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

### The NYK Group's Environmental Green Policy

(Formulated March 2005)

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

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

## Global Environmental Management System

Under the NYK Group's Environmental Green Policy, 143 operating sites and approximately 800 vessels, including chartered vessels, in Japan and six overseas regional blocs have obtained ISO 14001 certification. The Group has built a unique global system for ISO 14001 certification, the likes of which cannot be found in other companies. Group companies in Japan have received Green Management certification.

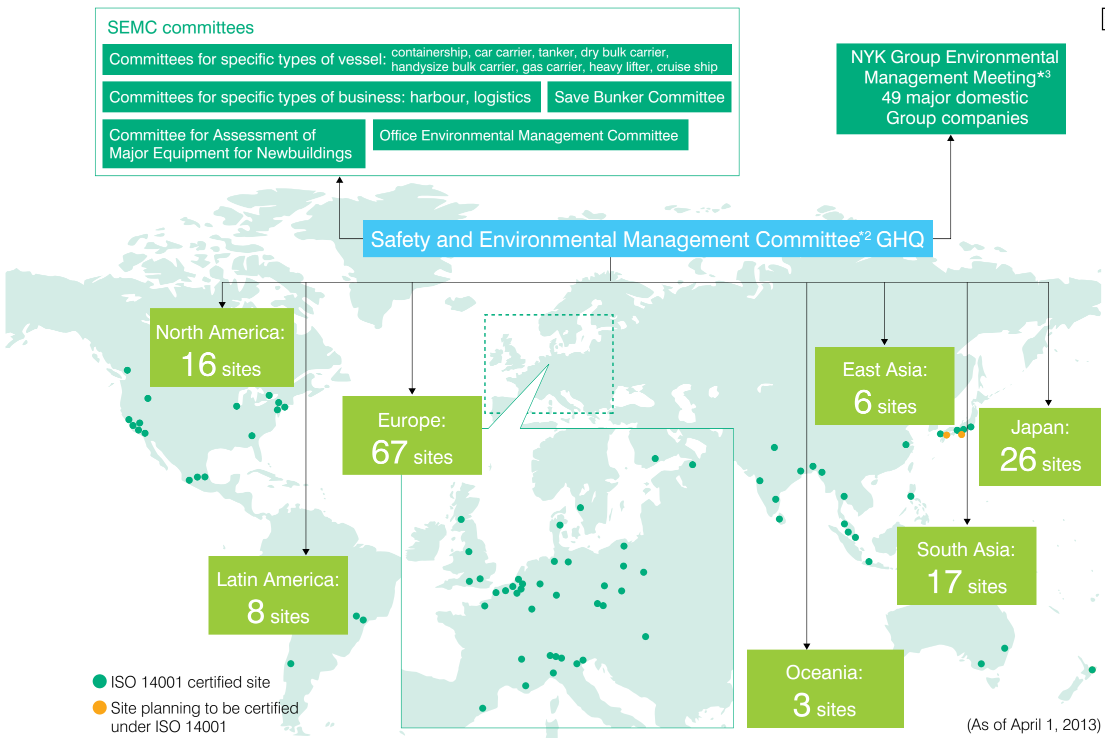
**Chartered vessels**
Ships leased from shipowners along with their fixtures and crew in a state capable of safe operation.

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

**Green Management certification**
This indicates the certification that the Foundation for Promoting Personal Mobility and Ecological Transportation provides to transportation operators that make voluntary efforts above a certain threshold, 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

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




(As of April 1, 2013)

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

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

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

## Reduction of $CO_2$ Emissions

### Environmental Management Indicators

In 2006, NYK began calculating environmental management indicators to monitor the operational efficiency of its ships. It currently has two goals for its fuel economy activities: reduce $CO_2$ emissions by a minimum of 10% in fiscal 2013 compared with fiscal 2006 levels, and improve fuel efficiency by 10% from fiscal 2010 by fiscal 2015. The company has received a statement of EEOI appraisal from the Nippon Kaiji Kyokai (ClassNK) to verify the reliability of the data used in these metrics.

Environmental management indicator (Based on IMO guidelines) = Environmental load ($CO_2$ emissions from vessel transportation) / Value added by the business (Mass of cargo in tons × Transport distance in kilometres)

EEOI: **E**nergy **E**fficiency **O**perational **I**ndicator
This metric calculates $CO_2$ emissions per unit transportation volume based on the ship's fuel consumption during the voyage, the volume of cargo transported, and the distance of the trip. It is a measure of the ship's energy efficiency during travel.

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

### Save Bunker Campaign

—NYK's Ship Energy Efficiency Management Plan obtains certification—

Since 2005, the NYK Group has been implementing activities to reduce vessels' fuel consumption and $CO_2$ emissions under the Save Bunker Campaign. As the latest step in this campaign, in fiscal 2012 each business group nominated a fuel-saving meister responsible for the Save Bunker Mission, and we instituted monthly meetings to enable business groups to share fuel cost reduction initiatives, such as the implementation of eco speed. We call these activities Save Bunker 2012—Back to Basics.

Further, ahead of the 2013 mandatory introduction of Ship Energy Efficiency Management Plans (SEEMPs), which the IMO adopted as a $CO_2$ emissions reduction initiative, the NYK Group received the world's first SEEMP certification from ClassNK in March 2012.

Ship Energy Efficiency Management Plan
This is a management plan aimed at promoting efficient vessel operations by requiring the formulation of energy-saving measures, periodic checking, and the improvement of their effectiveness.

Eco speed
This refers to operating vessels at lower speeds that reduce engine revolutions without disrupting schedules. This approach conserves fuel and reduces $CO_2$ emissions.

### Saving Energy through "Bubbles," Developing and Operating an Air-Lubrication System

—Won 2012 Minister of the Environment Award for the promotion of measures to address climate change—

Our air-lubrication system is an energy-saving technology that reduces friction between the hull and seawater by supplying air bubbles to the bottom of the vessel. In 2010, the NYK Group launched two module carriers that became the world's first operational ocean vessels equipped with an air-lubrication system based on an air-blower. In yet another world-first, in July 2012 the Group introduced a coal carrier equipped with an air-lubrication system featuring a main engine scavenging air bypass. The Group has confirmed that the air-blower based system reduces $CO_2$ emissions approximately 6% on average, while the system using a main engine scavenging air bypass is expected to reduce $CO_2$ emissions between approximately 4% and 8%.

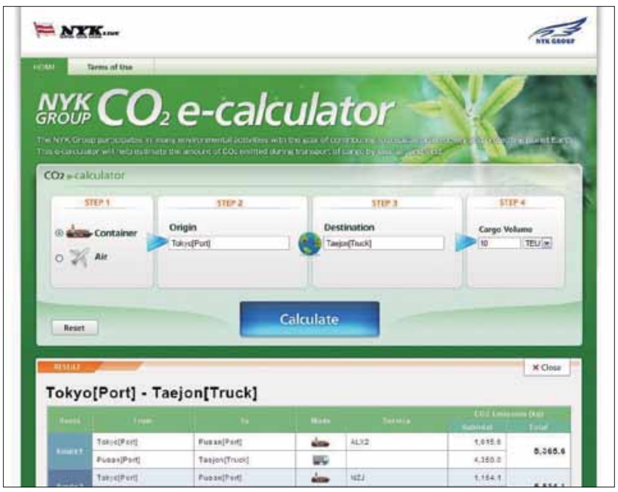
As remarkable contributions towards climate change prevention, these air-lubrication systems received Japan's 2012 Minister of the Environment Award in the technical development and commercialisation categories for the promotion of measures to address climate change.

Module carriers
These are specially designed vessels that transport prefabricated structures, known as modularized cargo, weighing several thousands of tons for installation at oil/gas development sites or plants.

Main engine scavenging air bypass (Air-lubrication system)
This air-lubrication system enables even vessels with deep drafts to reduce $CO_2$ emissions. The system reduces $CO_2$ emissions by taking some of the main engine scavenging air, also called combustion air, from the main engine's turbocharger and sending the air to the vessel's bottom to reduce friction between the hull and seawater.

### NYK GROUP $CO_2$ e-calculator

In response to increasing enquiries from customers about $CO_2$ emissions volumes resulting from cargo transport, NYK and Group company Yusen Logistics Co. Ltd. developed a system that enables the calculation of $CO_2$ emissions produced when containerships or international air freighters transport cargo. Many of our customers in Japan and overseas have been using this tool since we made it available at Group company websites. Customers have commented that they are trying to reduce $CO_2$ in all their business activities and the e-calculator helps greatly by enabling them to readily calculate $CO_2$ emissions arising from transport.




NYK GROUP $CO_2$ e-calculator screen

## World's First Operating Vessel Equipped with Hybrid Turbocharger

### —Receives the Japan Society of Naval Architects and Ocean Engineers Award—

The world's first onboard electric-supply system incorporating a hybrid turbocharger, fitted in the bulk carrier *Shin Koho*, received an award in the invention excellence category of the 2012 Japan Society of Naval Architects and Ocean Engineers (JASNAOE) Awards. The award recognises outstanding academic achievements and new technology development in the field of naval architecture and ocean engineering. The development of *Shin Koho* resulted from its selection as a subsidised project by Japan's Ministry of Land, Infrastructure, Transport and Tourism under its Support for Technology Development for Curtailing $CO_2$ from Marine Vessels project and support from ClassNK as a joint research project. The vessel was completed in May 2011. The award-winning onboard electric-supply system incorporating a hybrid turbocharger is an exhaust heat recovery system that uses the surplus energy of waste exhaust gas efficiently. As a result, the system reduces the use of diesel generators, thereby curbing $CO_2$ emissions.

## Reliability of Environmental Load Data

The NYK Group received an assurance statement from LRQA Japan stating that the Group's collection, calculation, and disclosure of data on greenhouse gas emissions from Group companies complies not only with Scope 1 and 2 of the Greenhouse Gas Protocol international calculation and disclosure standards but also with Scope 3.

Further, a 2012 survey by the Carbon Disclosure Project, which evaluates companies' initiatives to tackle climate change, identified the NYK Group as the only corporate entity in the shipping and logistics industries to simultaneously obtain the highest value in two of the project's environmental indexes. These were the Carbon Disclosure Leadership Index, which evaluates 500 Japanese companies implementing progressive disclosure policies for climate change data, and the Carbon Performance Leadership Index, which evaluates companies' performance in relation to climate change and greenhouse gas countermeasures. We intend to continue advancing data monitoring and disclosure throughout the entire Group and strengthening systems for reducing environmental load.

Greenhouse Gas Protocol
This is a set of international standards for the calculation and disclosure of greenhouse gas emissions.

## Using Onshore Power while in Port

An alternative maritime power (AMP) container unit enables vessels to receive power by connecting to the power supply while in port, which reduces the use of onboard generators and thereby curbs emissions of $CO_2$ and such air pollutants as NOx and SOx. In November 2007, operating containership *NYK Atlas* became the NYK Group's inaugural operating vessel equipped with an AMP container unit and successfully connected to the onshore power supply at the Port of Los Angeles in California. Subsequently, the Group introduced AMP container units into other large containerships. October 2012 saw the Group become the first Japanese shipping company to use the Port of Oakland's onshore power supply when operating containership *NYK Apollo* connected to it directly. The NYK Group intends to expand its use of ports' onshore power supplies by continuing to modify containerships to enable AMP container unit installation.

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

Alternative maritime power
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.

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

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

TOPICS Opinion from an External Stakeholder

### Progressive Environmental Initiatives Merit Praise

I was not surprised when the Carbon Disclosure Project selected NYK from among 500 Japanese companies as a progressive company with respect to both climate change data disclosure and performance in 2012. Aiming to be the frontrunner in the shipping industry, NYK has emphasised environmental activities in Japan and overseas and introduced progressive initiatives to comply with Scope 3 of the Greenhouse Gas Protocol.

Through ISO 14001 audits and Greenhouse Gas Protocol verifications, LRQA Japan will continue helping NYK advance these initiatives to even higher levels.

Makiko Horiguchi
Marketing Communications Manager,
Business Planning & Marketing Group, LRQA Japan
Lloyd's Register Quality Assurance Limited

Driving the NYK Group's Growth Strategy

Web CSR>Environment ☐Ocean



## Energy Conservation Initiatives

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

The NYK Group has begun introducing the E•COOL next-generation, energy-saving fluorescent lighting system produced by Optrom Inc. into operating car carriers, replacing approximately 13,000 fluorescent lights on six vessels in fiscal 2012.

Based on the cold cathode fluorescent lamps used in LCD monitors, the E•COOL lighting system realises high brightness and, thanks to its low power consumption and long service life, outstanding energy saving and economy. E•COOL is expected to enable power savings of around 40% compared with conventional fluorescent lighting systems. Replacing all lighting systems with E•COOL will reduce $CO_2$ emissions during voyages by up to 1%. Accordingly, the Group plans to introduce E•COOL proactively.

### Solar Energy Generating System Begins Operations in the United States

In 2012, Group company NYK Trading Corporation began supplying clean power by connecting the NYK Group's largest solar energy generating system to the power grid in the U.S. state of New Jersey. The 500-kilowatt system is located at a warehouse owned by Yusen Logistics (Americas) Inc. The warehouse will use the system's annual output of approximately 650,000 kilowatt-hours as a power supply, selling the surplus to a local power company.

Opening ceremony for Yusen Logistics (Americas)'s solar energy generating system

This project will help promote the use of renewable energy and as such is eligible for the State of New Jersey's Solar Renewable Energy Certificates and a subsidy from the U.S. federal government.

## Preventing Air Pollution

### Low-Sulphur Fuel Oil

The burning of fuel that contains sulphur results in the emission of sulphur oxide compounds (SOx). To reduce the SOx produced by vessels, in 2012 the International Maritime Organization (IMO) introduced regulations on bunker oil sulphur content, reducing the maximum allowable concentration in general ocean waters from 4.5% to 3.5%. Furthermore, following Europe's example, the United States and Canada began enforcing even stricter regulations, which impose a 1% upper limit on sulphur concentration in emission control areas. With a view to realising safe vessel operations and environmental preservation simultaneously, the NYK Group has established a task force to ensure compliance with these regulations as well as examine other measures required to improve vessels' onboard equipment and change building specifications for vessels.

### Electronically Controlled Engines (NOx countermeasures)

A vessel's engine generates nitrogen oxide (NOx) compounds when burning fuel. 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 2012, not including jointly owned vessels, we equipped six owned vessels with electronically controlled engines. As of the end of March 2013, we have equipped 47 vessels with electronically controlled engines, accounting for 17.4% of the fleet. In preparation for a third set of even stricter IMO regulations, we are researching such new technologies as an SCR (selective catalytic reduction) NOx removal system.

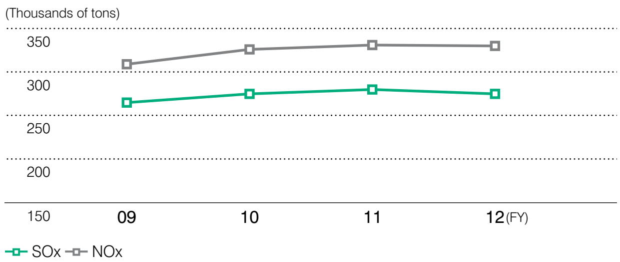
**SCR (selective catalytic reduction)**
This method uses ammonia ($NH_3$) as a reducing agent to reduce NOx into nitrogen gas ($N_2$) and water ($H_2O$). Exhaust gas is sprayed with aqueous urea, which becomes ammonia gas due to hydrolysis that results from the heat of the exhaust gas.

**Fiscal 2012 Marine Pollution Incidents**

| | |
|---|---|
| Leakage due to marine casualties | 1 |
| Leakage due to machinery troubles | 2 |
| Leakage due to failure to comply with operating procedures | 3 |

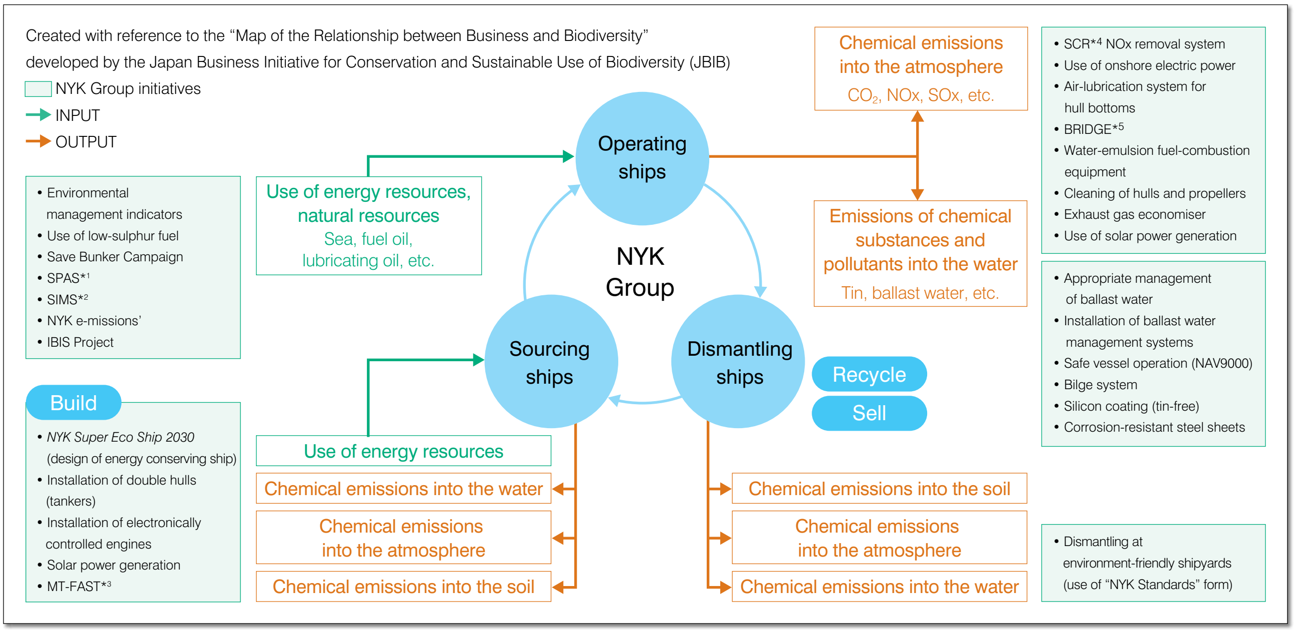
The six incidents noted above were appropriately reported and treated.

**SOx / NOx Emissions**



## Preservation of Biodiversity

### Mapping the Relationship between the NYK Group and Biodiversity




*1. SPAS: **S**hip **P**erformance **A**nalyzing **S**ystem
*2. SIMS: **S**hip **I**nformation **M**anagement **S**ystem
*3. MT-FAST
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. SCR: **S**elective **C**atalytic **R**eduction
*5. BRIDGE
Systems to provide ships with up-to-date weather and hydrographic forecasts

### Initiatives for the Preservation of 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 are pursuing the Innovative Bunker and Idle-time Saving (IBIS) Project to optimise vessel operations. Also, the Group has been a promoting partner of the Declaration on Biodiversity by Keidanren (Japan Business Federation) since December 2009 and has participated in the Japan Business and Biodiversity Partnership since October 2010. The NYK Group will continue preserving biodiversity through business activities that reflect the declaration and its related Code of Conduct.

### Ballast Water Management System

To prevent the cross-boundary movement of aquatic organisms affecting the marine environment, in 2004 the IMO adopted the International Convention for the Control and Management of Ship's Ballast Water and Sediments. Currently, various countries are moving to ratify the convention so that it comes into effect. Anticipating the convention's enforcement, the Group for the first time equipped one of its operating vessels, the car carrier *Emerald Leader*, with a ballast water management system—which received formal approval from the Ministry of Land, Infrastructure, Transport and Tourism in September 2010. As of the end of March 2013, 31 of the Group's vessels have ballast water management systems. In preparation for the convention becoming effective, we will continue equipping owned vessels and directly managed vessels with this system.

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.

### Cooperating with Tohoku University's Research Survey

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

## Pursuing Rigorous Transport Safety, Earning Society's Trust

By transporting many different commodities safely and reliably, the NYK Group supports everyday life and economies worldwide. Uncompromising safety is one pillar of the Group's business activities as well as a top priority. We will continue developing transport technology while heightening all Group employees' safety awareness and conducting emergency response exercises tirelessly to maintain the trust of society and sustain growth with it.

### Safety Promotion Campaign Participants

**10,000** plus

In the Group's safety promotion campaigns every winter and summer, managers responsible for sales, vessel operations, and marine technology form teams and visit operating vessels with a view to sharing safety awareness by exchanging opinions. In fiscal 2012, in excess of 900 onshore personnel visited more than 500 vessels, and more than 10,000 crew members participated. Also, for the winter campaign we prepared and distributed to participants wristbands symbolising solidarity between crew members and onshore managers.

### Near Misses Reported

**60,000** plus

We undertake Near Miss 3000 activities with a view to preventing accidents onboard vessels. These activities reflect Heinrich's Law, which holds that underlying every major work-related accident there are 29 minor accidents and 300 near misses. Thanks to rigorous reporting resulting from the penetration of these activities, the number of near misses reported is increasing every year.

### Piracy Damage

**0** incidents

In relation to the piracy threat, the Group has been strengthening its in-house organisation by establishing the Security Management Team, dispatching NYK captains to the European Union's anti-piracy headquarters, and maintaining close and ongoing exchanges of information and opinions with relevant domestic and international institutions. In fiscal 2012, as a result of using a system that enables the monitoring of vessels' status and piracy incidents, the NYK Group was not subject to any piracy-related damage.

### Kobe Terminal Customers' Satisfaction Level

**89** %

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

### Towards New Horizons

The NYK Group continuously advances safety initiatives through its annually convened Safety and Environmental Management Committee. Chaired by the president, the committee reviews the previous fiscal year's safety efforts and establishes targets and guidelines for safety activities in the coming fiscal year. In fiscal 2012, the Group developed and implemented a tsunami alert system reflecting lessons learned from the tsunami that followed the Great East Japan Earthquake. Also, we undertook an emergency response exercise with the Third Regional Japan Coast Guard Headquarters based on a scenario in which a crude-oil carrier collision resulted in a bunker-oil spill. In addition, the Group continued a range of initiatives to ensure the safety of onshore and air transport operations, including convening joint safety promotion meetings for terminal safety officers, training personnel to prevent accidents during truck transport or forklift truck operation, and holding an event in the air transport sector that enabled personnel to experience for a day the workplace safety efforts of other divisions.

Going forward, the NYK Group believes continuing these safety initiatives is important and will advance PDCA cycles for each initiative to ensure operational safety.

## Safety Initiatives for Ocean, Land, and Air Transportation

### Ocean Transport—Safety Initiatives for Vessel Operations

Each year, we conduct the Remember Naka-no-Se Safety Campaign in summer and the Sail on Safety Campaign in winter. Managers responsible for sales, vessel operations, and marine technology form teams and visit operating vessels, working to improve mutual understanding between crew members and onshore personnel and to increase the safety awareness of all concerned. Further, the Group holds annual meetings that the president, executives, captains, and chief engineers attend. The aim of these meetings is to increase the effectiveness of safety initiatives by having the president, who is the chairman of the Safety and Environmental Management Committee, hold direct discussions with captains and chief engineers, who represent frontline vessel operations. Other efforts to ensure safe vessel operations include enabling information sharing with shipowners and ship-management companies—indispensable partners in achieving safe vessel operations—by holding safety promotion meetings and safety seminars.

Remember Naka-no-Se Safety Campaign
Conducted every year in July, the month in which an oil spill occurred from the very large crude-oil carrier (VLCC) *Diamond Grace* at Naka-no-Se in Tokyo Bay in 1997, to ensure that the spill's lessons are not lost.

Sail on Safety Campaign
Conducted for two months every winter in December and January, focusing primarily on rough wintertime weather.

### 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 meeting

### Land Transport—Safety Initiatives in Logistics

Yusen Logistics Co. Ltd. analyses accident reports accumulated through its original accident information disclosure system, identifies accident types to which countermeasures should give priority, and conducts periodic safety campaigns targeting all Group companies in Japan and overseas.

In fiscal 2012, the Group undertook rigorous efforts aimed at eliminating accidents involving truck transport or forklift truck operation during the campaign period, which included analysing accidents in various countries and conducting accident prevention training. Through similar initiatives involving all personnel, the Group intends to continue unflagging efforts to eliminate accidents.


After a companywide safety campaign meeting at a local subsidiary in Malaysia

### Air Transport—Safety Initiatives in the Air Transport Sector

Nippon Cargo Airlines Co. Ltd. (NCA) is pursuing thorough measures to maintain safe operations without fail—the highest priority of the NCA Corporate Philosophy. In fiscal 2012, hoping to strengthen coordination and encourage exchanges with other divisions, NCA organised an event that enabled personnel to experience for a day the workplace safety efforts of other divisions. Furthermore, the company held presentations in which divisions explained their safety-related operations. In addition, we established a campaign period during which we held a variety of events to encourage personnel to participate in *hiyarihatto* (near-miss) reporting. Other efforts included having personnel consider ways to foster a culture of safety and prepare safety declarations that set out goals accordingly. NCA checks the effectiveness of these measures through annual safety awareness surveys of all employees. Moreover, it uses PDCA cycles to manage measures and ensure continuity with the measures of the coming fiscal year.

One-day workplace experience

Driving the NYK Group's Growth Strategy

# Safety on the Sea

## PLAN

### Safety Promotion System

Each year, the Safety and Environmental Management Committee chaired by the president reviews activities for the previous year and sets the next year's targets and guidelines. In addition, sub-committees 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, 2013)

**Safety and Environmental Management Committee (SEMC)**

Chair: President

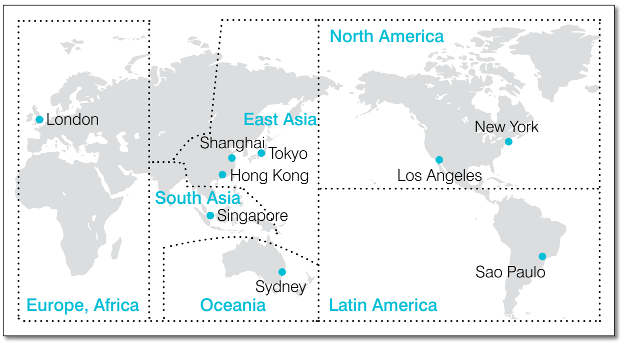
| Director, Safety Promotion Headquarters [1 Marine Managing Corporate Officer] | Executive Chief of Environmental Management (ECEM) [1 Environmental Managing Corporate Officer] |
|---|---|
| Safety Promotion Headquarters (Safety Steering Committee) Secretariat [General Manager, Marine Group] [General Manager, Corporate Planning Group] | Environmental Management Headquarters (Environmental Steering Committee) Secretariat [General Manager, Environment Group] [General Manager, Corporate Planning Group] |

### Use of Downtime to Measure Safety

NYK uses 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.

### Emergency Response Network

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




## PDCA Cycle for Achieving Safe Vessel Operations

**PLAN**

Safety promotion system, Emergency response network, Use of downtime to measure safety

**ACT**

Identification of causes and improvement to achieve goals, Development of Tsunami Alert System

## ACT

### Identification of Causes and Improvement to Achieve Goals

The Group uses information on accidents to prevent their recurrence. Immediately after an accident occurs, we issue bulletins to the fleet. After determining the causes, we formulate measures to prevent recurrence and issue instructions to the fleet through our *Safety Bulletin*. As part of improvement efforts, we use the *NYK's Checklist of Engine Essentials* to prevent engine-related accidents and thereby reduce downtime. Also, *Calm Sea* is a monthly newsletter on safety information that reports on the month's downtime, profiles any accidents that may have occurred, provides examples of Near Miss 3000 activities, reports NAV9000 ship inspection results, and outlines lessons from accidents and new environmental measures. *Calm Sea* allows the Group to share information with shipowners, ship-management companies, and the fleet.

*Safety Bulletin*
A safety information journal that is used to publish information and issue instructions to the entire fleet on piracy, terrorism, other matters of concern in voyages, causes of accidents and problems, and prevention measures.

### Development of Tsunami Alert System

Based on the lessons learned from the tsunami caused by the Great East Japan Earthquake on March 11, 2011, the Group has developed a tsunami alert system that immediately communicates tsunami information to captains and onshore managers. Issued in Japanese, tsunami alerts are immediately translated into English.

## DO

### Emergency Response Exercise

The Group provides regular training to increase employees' ability to respond to accidents. For greater realism, each training exercise involves scenarios with different vessel types and problems. Vessel crews, ship-management companies, government agencies, customers, and other interested parties participate in training exercises. In July 2012, we conducted a joint emergency response exercise with the Third Regional Japan Coast Guard Headquarters based on a scenario in which a crude-oil carrier is involved in a collision and spills bunker oil. Also, we emphasise reviews after training exercises are completed, using the opinions and insights obtained to further enhance our accident response systems.

### That Enable Customers' Supply Chains

DO

Safety campaigns, Emergency response exercise, Near Miss 3000 activities, Anti-piracy measures

CHECK

NAV9000

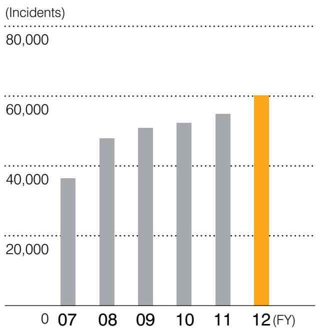
### Near Miss 3000 Activities

Near Miss 3000 activities are inspired by Heinrich's Law and conducted on vessels to prevent accidents. As part of these activities, NYK has created DEVIL Hunting! activities that seek to nip accidents in the bud by identifying and dealing with often overlooked precursors to accidents. The Group expanded the scope of this programme in 2006 to include partners and ship-management companies.

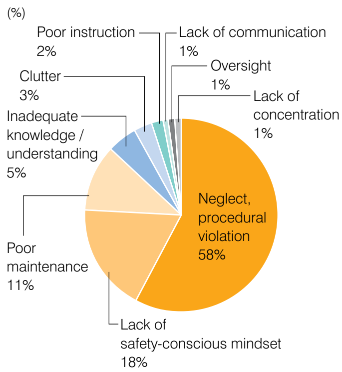
DEVIL Hunting!

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

**Number of Near Misses Reported**




**Fiscal 2012 Near Miss Causes**




## CHECK

For further details about NAV9000, please see the Special Feature section, page 26.

Further, the system displays region names as port names, thereby enabling rapid information sharing among everyone involved. In conjunction with previously prepared tsunami response guidelines for vessels in port, the Group is using this system to develop tsunami countermeasures for vessels.

TOPICS Opinion from an External Stakeholder

### Sympathy with Tsunami Safety Efforts

Tsunamis occur less frequently than weather-related disasters. And accurately forecasting their potential effect on vessels and ports is difficult. Therefore, the NYK Group's swift preparation of tsunami-response guidelines for ships in port in light of the effect of the Great East Japan Earthquake impressed us greatly. We sympathise with the NYK Group's efforts to ensure the safety of vessels and crew members despite such difficulties. At Weathernews, we will cooperate with the Group's initiatives in whatever small way we can to enable rapid tsunami responses.

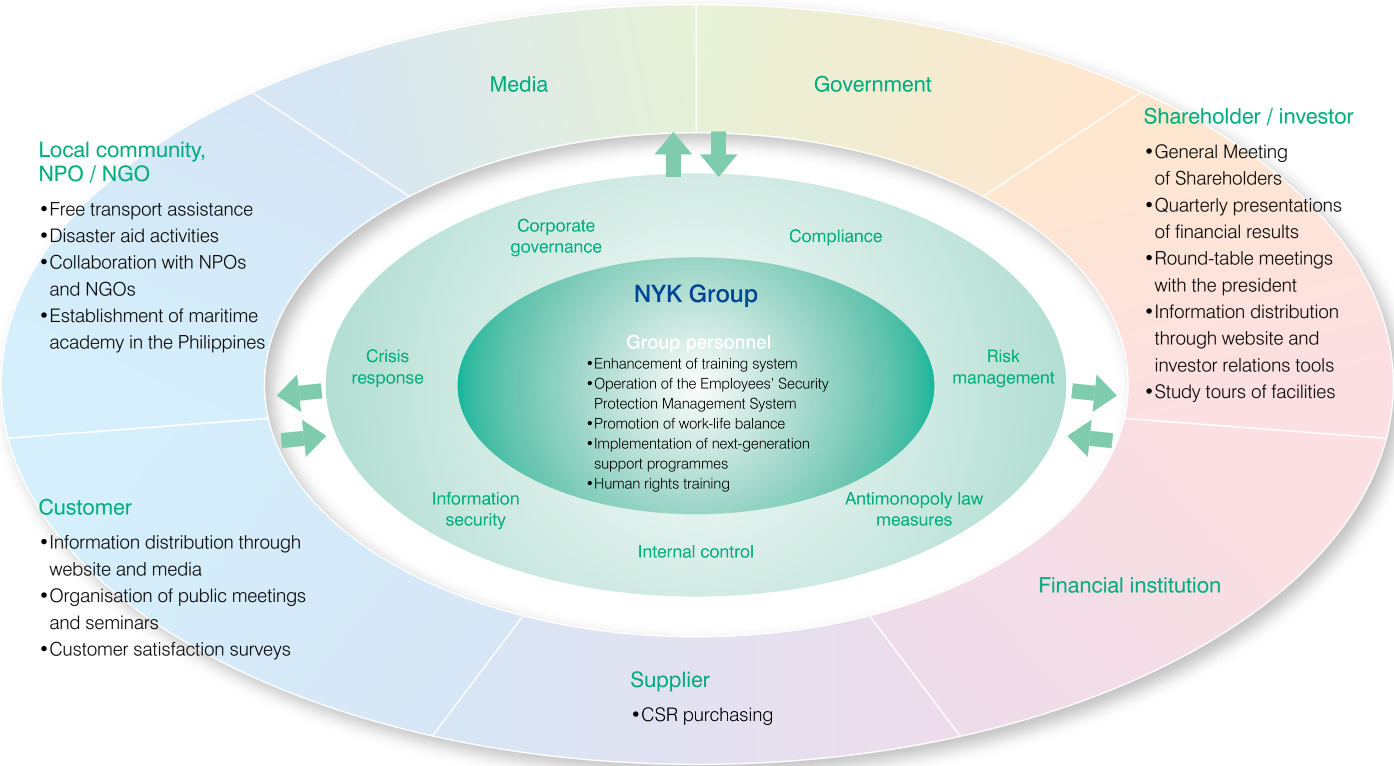
Naoko Taki
Terrestrial Phenomena Centre
Weathernews Inc.

# Stakeholders

## Together with Stakeholders

The businesses of the NYK Group are built on relationships with a broad spectrum of stakeholders, including customers, shareholders, other investors, business partners, Group personnel, local communities, and NPOs and NGOs. The NYK Group aims to forge even stronger relationships of trust with these stakeholders. With this in mind, the Group will actively facilitate communication with stakeholders through social contribution activities and other initiatives while supporting society's infrastructure through its transport business.

### Communication with Stakeholders




TOPICS Opinion from an External Stakeholder

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

**Continue Combining Operational Implementation with Increased Corporate Value**

Concurring with the United Nations Global Compact's (UNGC's) ten principles, the NYK Group Mission Statement forms the core of the Group's approach to business management. The inclusion of the NYK Group Mission Statement in divisional policies to ensure its realisation in day-to-day operations merits praise. The Group undertakes wide-ranging activities to address its stakeholders' needs, including personnel training, safety-first campaigns for logistics, social contributions, and initiatives to cater to customer requirements. Consequently, the Group has earned a favourable reputation externally. It is a good example of a corporate group that implements operations and enhances corporate value simultaneously. I hope the NYK Group will continue operating its business in this manner.

# Social Contribution Activities

### Principles and Action Guidelines of Social Contribution Activities (excerpts)

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

Action guidelines 1. Promotion of employee involvement in Volunteer Activities 2. “Investment” in our future global society
3. Promotion of mutual prosperity and harmony with local communities

As a global corporation, the NYK Group is taking a wide variety of initiatives that benefit communities.

## Offering Tohoku Restoration Support Cruise Onboard *Asuka II*

As part of the NYK Group’s support activities for the restoration of areas affected by the Great East Japan Earthquake, a two-night, three-day Tohoku Restoration Support Cruise onboard NYK’s cruise ship *Asuka II* was offered in November 2012 by NYK between the ports of Yokohama and Sendai.

## Dispatching Volunteers to Areas Stricken by the Great East Japan Earthquake

During three periods between October 2011 and December 2012, the NYK Group sent volunteer groups comprising current and former Group personnel and executives to Rikuzentakata in Iwate Prefecture. Approximately 300 people participated, contributing over 1,000 days of work.


## Transporting School Backpacks and Bicycles in Cooperation with NGO JOICFP

Since fiscal 2004, the NYK Group has shipped more than 100,000 school backpacks for free.

The Group has also provided free shipping for reconditioned bicycles since fiscal 2000, transporting more than 30,000 as of November 2012.

© JOICFP

© JOICFP

JOICFP: Japanese Organization for International Cooperation in Family Planning

## Transporting Vehicles in Cooperation with NPO Japan Platform

Six vehicles that were used in the areas affected by the Great East Japan Earthquake were shipped to Africa for free by NYK for use in humanitarian aid projects.

© JEN

### Support for Disaster Areas in Fiscal 2012

| Disaster name, type of aid | Amount |
|---|---|
| Monetary aid for typhoon in the Philippines in February 2013 | ¥1,224,430 |

* Total donations from NYK and donations collected from Group personnel

### Free Transport for NPOs / NGOs in Fiscal 2012

| Delivered to | Items transported | Number delivered |
|---|---|---|
| Afghanistan | School backpacks | 16,722 |
| Tanzania and more than 60 other countries | Bicycles | 2,010 |
| Cambodia, Laos, camps in Thailand for refugees from Myanmar* | Picture books | 14,320 |

* Shanti Volunteer Association, “Campaign to Deliver Picture Books”; more than 157,703 picture books delivered since 2004

Other: NYK provided free ocean transport from New Zealand to Japan for a monument to Japanese victims of the Christchurch Earthquake in New Zealand.

## 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 maximize their potential. Our training of the next generation emphasizes 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 mind-set and skills that encompass people management, specialist knowledge, and the ability to look at things from a broader perspective.

## Personnel Development

### NYK Business College

The NYK Business College is a set of training programmes aimed at improving the overall capabilities of Group personnel. The NYK Group enhances these training programmes annually. In fiscal 2012, approximately 3,000 NYK Group employees participated in more than 60 types of training programmes. In addition, more than 7,800 Group employees in Japan and overseas participated in e-learning themed on the Group's CSR and environmental initiatives.

Further, in fiscal 2012, aiming to strengthen the development of personnel who will lead the next generation, the NYK Group established training for specific employee ranks, from junior through mid-career employees. This new programme focuses on expanding horizons while fostering leadership and management skills. The Group intends to continue upgrading its training programmes mindful of the credentials stakeholders expect NYK Group employees to have.

### Crew Training Programmes

Safe vessel operations and environmental preservation are at the core of the Group's approach to business management. To ensure we meet these basic requirements, rather than only focusing on systems and manuals, developing the personnel who put them into effect is the most important factor. The NYK Group has summarised the required knowledge and skills for each professional rank in the NYK Unified Requirements. Based on these criteria, the Group conducts education through its unique NYK Maritime College training programmes. Also, we conduct efficient on-the-job training. For onboard training, as well as using five cadet vessels, the Group has introduced an original e-learning system, NYK-STARS, which enables training onboard operating vessels. As for onshore training, we use unified teaching materials and curricula at training centres and manning offices in regions worldwide.

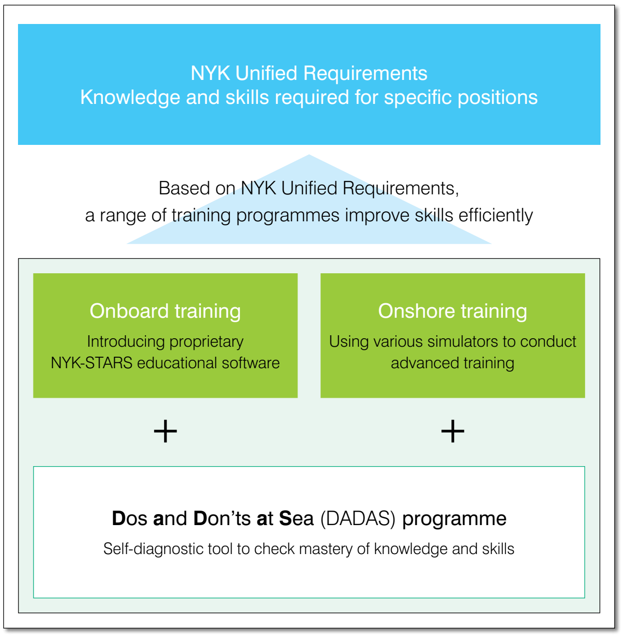

Practicing celestial observation onboard a cadet vessel

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

NYK-STARS: NYK-**S**hipboard **T**raining and **A**ssessment **R**ecord **S**ystem

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

**Conceptual Diagram of the Unique NYK Maritime College Education System**






Driving the NYK Group's Growth Strategy

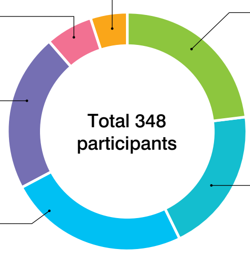
## The Global NYK/YLK Week

Aiming to make NYK a group in which all employees are glad to work, the NYK Group has conducted training for local employees of overseas Group companies since 2002. In fiscal 2012, 36 personnel participated in the training, jointly conducted with Yusen Logistics Co. Ltd. Participants engage in direct dialogue with the president, discuss business strategy, attend lectures about Japanese culture and business practices, and have opportunities to exchange views freely. At the same time, the training inculcates the NYK Group Mission Statement and the NYK Group Values. After the training, those interested participated in voluntary activities at Rikuzentakata, in Iwate Prefecture, an area severely affected by the Great East Japan Earthquake.

The Global NYK/YLK Week

**The Global NYK/YLK Week**

Total participants since 2002




## Employee-Friendly Workplaces

## Respect for Human Rights

Respect for human rights is one of the most fundamental, universal values, and the NYK Group recognises it as the first step in CSR. Each year, "human rights training" is included in new employee training, the new team manager training programme, international assignment training, and CSR training. Over the past nine years, a total of 760 employees have participated. By focusing on various human rights and such subjects as the rights of the disabled and harassment, these sessions aim to increase awareness of human rights issues among employees and create workplaces where all can work with confidence.

## Promotion of Work-Life Balance

"Kurumin" mark certifies measures to support the development of the next generation

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 Group helps employees bringing up children or providing nursing care for a family member to work with peace of mind. In addition to its child rearing and nursing care leave system, the Group has introduced flexitime and short-time-work systems for those bringing up children or providing nursing care. Also, we support female employees in various ways. For example, in 2002 the NYK Group established downtown Tokyo's first in-house childcare service, Yusen Childcare, which has more nursery teachers than regulations require. In addition, we have introduced spouse-transfer leave, which enables employees to take leave if their spouse is transferred overseas. As a result of these initiatives, in 2011 the NYK Group earned certification as a qualified private-sector employer by meeting targets based on the Act on Advancement of Measures to Support Raising Next-Generation Children. Also in 2011, the Tokyo Labor Bureau awarded the Group a second "Kurumin" next-generation mark.

Further, the Work-Life Balance Promotion Committee leads a variety of initiatives, including monitoring overtime hours and paid holidays on a Companywide and department basis, interviewing employees and supervisors of departments that have a lot of overtime, broadcasting announcements encouraging employees to return home on time, and streamlining meetings.

"Kurumin" next-generation mark
The "Kurumin" mark accredits measures supporting the development of the next generation. As part of measures to counter falling birthrates, the Ministry of Health, Labour and Welfare gives "Kurumin" mark accreditation to companies and legal entities that meet certain criteria for child-rearing support.

Work-Life Balance Promotion Committee
This began as a special committee 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. In April 2008, it was reorganised as the "Work-Life Balance Promotion Committee" to include general manager-class employees as third-party committee members.

## 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 of slightly less than six or above on the Japanese seismic scale affects the areas of pre-registered residential addresses or work sites in Japan, the system automatically sends safety confirmation e-mails. By replying to this e-mail, employees report on their safety 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.

# NYK Participates in Human Rights Due Diligence Workshops at Nippon CSR Consortium

Today, there is an increasing recognition of corporate social responsibility (CSR) to respect human rights, as is shown in various global guidelines, including the United Nations (UN) "Protect, Respect and Remedy" Framework, ISO 26000, and OECD Guidelines for Multinational Enterprises Revised in 2011.

As a comprehensive global-logistics enterprise offering ocean, land, and air transportation, NYK recognises the growing importance of addressing human rights issues in its business activities. With the aim of deepening our understanding of human rights issues, and in particular focusing on human rights due diligence, we participated in the Human Rights Due Diligence Workshops at the Nippon CSR Consortium.

**Nippon CSR Consortium**

Organised by the Caux Round Table-Japan, the Nippon CSR Consortium was established by NPOs, NGOs, researchers, and corporate CSR managers with the aim of heightening the competitive advantages of Japanese companies through CSR activities.

Web http://www.crt-japan.jp/EN/index.html

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NPOs / NGOs Participants:

- Amnesty International Japan
- CSO Network Japan
- Oxfam Japan
- ACE (Action against Child Exploitation)
- Ek Sathe
- Change Fusion
- Polaris Project Japan

## Our Activities in 2012

By reflecting on and applying what we learned during the workshops, we have further strengthened our existing human rights related activities. We will strive to address human rights issues in all our business activities while engaging with various stakeholders.

### Conducted employee training on human rights (November 2012 to January 2013)

Employees of both Japanese and overseas affiliates were provided with e-learning on human rights to raise their awareness and understanding of the UN Global Compact in the areas of human rights and labour, Principles 1 through 6.

### Held liaison conference of Japanese affiliates' CSR divisions (February 2013)

A liaison conference of the CSR divisions of Japanese affiliates was held with the aim of deepening participants' understanding of human rights and labour issues in the supply chain.

### Revised NYK Group Standards (January 2013)

The statement, "NYK will never become involved in abusive labour practices, such as child labour and forced labour," was newly added to the NYK Group Standards.

### Convened committee meeting to promote UN Global Compact's principles (February 2013)

A meeting of NYK's Global Compact Promotion Committee was held to assess the current status of human rights and labour practices of both Japanese and overseas affiliates, based on the results of the Global Human Resource Survey.

### I look forward to seeing NYK prioritising issues in its value chain.

Caux Round Table-Japan herewith confirms that NYK has participated in a series of Human Rights Due Diligence Workshops at the Nippon CSR Consortium. At the workshops, NYK identified human rights issues related to its sector while actively contributing to discussions with NPOs/NGOs and CSR experts and sharing expertise with other members from different sectors. The next step will be to prioritise identified issues in the value chain. I look forward to seeing NYK make further progress towards integrating human rights into its business strategies and day-to-day operations.

Hiroshi Ishida
Executive Director
Caux Round Table-Japan

# Business Management System

To meet the expectations of all its stakeholders, the NYK Group strives to maintain and build a business management system optimised for transparency and efficiency.

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4

# Corporate Governance

## Corporate Governance Initiatives

### (1) Operational Execution System

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

The board of directors consists of 13 members, of whom two were outside directors, as of June 25, 2013. The board is responsible for making decisions on legal matters, formulating major management policies and strategies, and supervising the execution of operations. NYK maintains a Corporate Officers system. The Committee of Corporate Officers comprises 29 members, including officers who concurrently serve on the board of directors. (Outside directors do not concurrently serve as Corporate Officers.) Members of this committee execute operations based on resolutions and under the supervision of the board of directors.

Matters of particularly critical importance from the perspective of management strategy are discussed by the Executive Committee for Strategic Management, which consists of members at the level of senior managing director or above. This committee provides direction for the board of directors. Meanwhile, the NYK Group Conference of Presidents seeks to enhance Groupwide management practices and to improve management transparency.

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

**Initiatives to Strengthen Corporate Governance**

| | |
|---|---|
| 2002 | ▪ Introduced Committee of Corporate Officers to strengthen operational execution system<br>▪ Established Executive Committee for Strategic Management |
| 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<br>▪ Reduced number of directors from 18 or fewer to 16 or fewer |
| 2008 | ▪ Abolished advisory board, appointed outside directors<br>▪ Shortened term of service of directors from two years to one year to clarify management responsibility of directors and build system that expedites responses to changes in business conditions |
| 2010 | ▪ Filed notification of independent directors / corporate auditors as stipulated by stock exchanges in Japan for all four outside directors / outside corporate auditors |

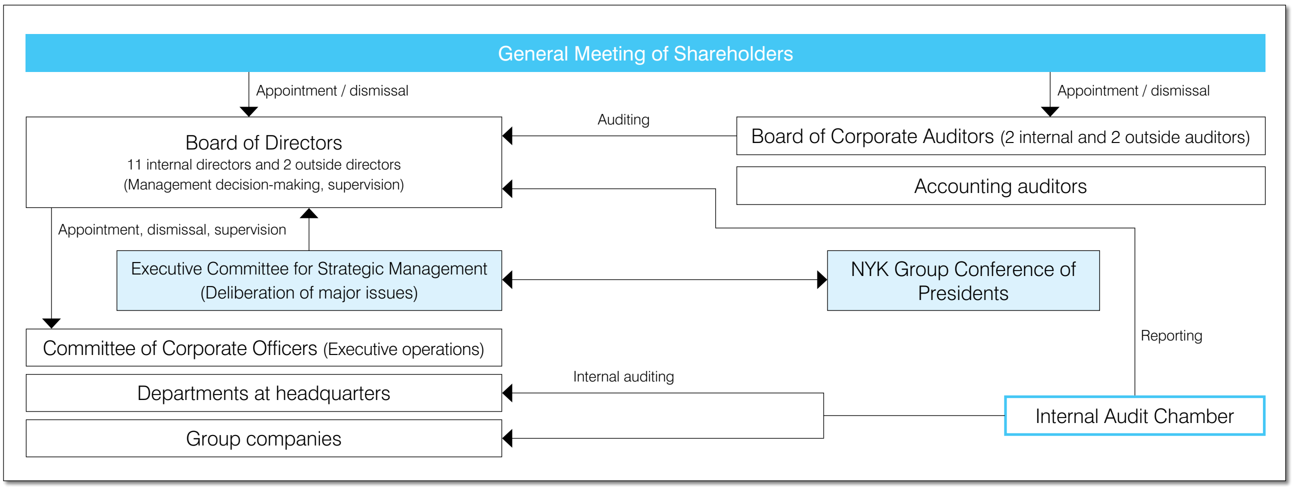
### (2) Functions and Roles of Committees

We have established the Executive Committee for Strategic Management to bolster the strategy-formulation function and the operational-execution-auditing function of the board of directors, to strengthen corporate governance, and to discuss important strategic matters. To strengthen the operational-execution system, we introduced an executive officer system. Major committees and their roles are as follows.

#### Executive Committee for Strategic Management

The Executive Committee for Strategic Management, as a general rule, is composed of corporate officers at the rank of senior managing corporate officer and above. The committee deliberates on important strategic matters, centred on Group strategy, and provides direction to the board of directors.

**NYK's Corporate Governance Organization Chart**




Business Management System

## NYK Group Conference of Presidents

The NYK Group Conference of Presidents is composed of the members of the Executive Committee for Strategic Management and the presidents of strategic Group companies. The conference creates frameworks for strategic decision-making so that the Group functions as a single unit, clarifies the authority of NYK and Group companies, and works to increase transparency in Group management.

## Committee of Corporate Officers

The Committee of Corporate Officers was introduced as an entity that focuses on operational execution in accordance with the decisions and supervision of the board of directors. In place of the previous executive committee, the Committee of Corporate Officers has a regular meeting each week. The committee makes reports on the conduct of corporate business and also discusses problems.

## (3) Executive Compensation

**Compensation Paid to the Company's Directors and Corporate Auditors**

| Classification | Number of people | Compensation |
|---|---|---|
| Directors (Amount allocated to outside directors) | 15 (2) | ¥549 million (¥37 million) |
| Corporate Auditors (Amount allocated to outside corporate auditors) | 5 (3) | ¥90 million (¥24 million) |
| Total | 20 (5) | ¥639 million (¥61 million) |

*1. Includes directors that retired in the fiscal year ended March 31, 2013

*2. There were no bonus payments to directors for the fiscal year ended March 31, 2013.

## (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 corporate auditors, including the two outside corporate auditors, undertake auditing activities in accordance with audit plans determined by the board of corporate auditors. These activities include attending board of directors' meetings and other important sessions; ascertaining the status of duties executed by directors, the Internal Audit Chamber, and other personnel and corporate sections; and examining paperwork, such as important approval documents. The Corporate Auditors' Chamber is staffed by two full-time auditors and supports corporate auditors in the execution of their auditing duties. Corporate auditors ensure the impartiality of the independent auditor while keeping lines of communication open, complementing audit-related activities through information exchange, and working to raise audit quality and efficiency. Corporate auditors also hold monthly meetings where the results of audits and other information are shared. They also meet with the Internal Audit Chamber on a regular basis and convene meetings with the independent auditor, thereby strengthening communication between all three audit-related groups.

The certified public accountants who audit the NYK Group's books are Yuji Itagaki, Toshiyuki Ono, Toru Igarashi, and Tomoya Noda, all of whom are with the accounting firm Deloitte Touche Tohmatsu LLC and have been auditing the Company's accounts for less than seven consecutive years. These four accountants are assisted by 9 certified public accountants and 19 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 2011 | | Fiscal 2012 | |
|---|---|---|---|---|
| | Compensation paid for audit certification activities (Millions of yen) | Compensation paid for non-audit activities (Millions of yen) | Compensation paid for audit certification activities (Millions of yen) | Compensation paid for non-audit activities (Millions of yen) |
| Filing company | 150 | 14 | 150 | 4 |
| Consolidated subsidiaries | 143 | 0 | 144 | 0 |
| Total | 294 | 15 | 294 | 5 |

## Other important compensation

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

### Details of compensation for non-audit activities of certified public accountants and others engaged in audits of the Company

■ Previous fiscal year

Compensation for non-audit activities of certified public accountants and others engaged in audits of the Company consisted of fees related to consultation and guidance in relation to International Financial Reporting Standards (IFRS) and other activities.

■ Fiscal year under review

Compensation for non-audit activities of certified public accountants and others engaged in audits of the Company consisted of fees related to financial surveys and other activities.

### Policy for determining auditor compensation

The Company strives to determine auditor compensation based on ample discussions with 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 was established to enable cross-sectional functionality spanning related internal departments in order to strengthen compliance with internal control under Japan's Companies Act, the Financial Instruments and Exchange Act, and other laws. Internal control is a means of achieving four corporate goals: reliable financial reporting, compliance with statutory laws and regulations, effective and efficient operations, and the safeguarding of assets. Based on this viewpoint, the Internal Control Committee periodically checks the status of internal control and reflects findings in improvements. Further, the board of directors approved a resolution on basic policy for the provision of an internal control system in compliance with Japan's Companies Act. The NYK Group is continuing to strengthen the system and develop internal regulations in order to prevent illegal acts and corruption and ensure that operation of the organization 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 the future, the NYK Group will work to ensure the reliability of financial reporting by continually upgrading and effectively operating the internal control system.

### (3) Internal Auditing Activities

Internal auditing activities comprise confirmation of the soundness, effectiveness, and efficiency of management, and, for the purpose of improvement, the provision of advice and the tracking of progress. The Internal Audit Chamber implements audits of NYK's headquarters and operating audits of about 120 domestic Group companies. Internal audits of about 160 overseas bases are implemented by internal auditors at four regional management companies overseas—the Americas, Europe, East Asia, and South Asia—and reports are made to the Internal Audit Chamber and the heads of regional management companies. In addition, NYK sub-subsidiaries with management rights and NYK subsidiaries and affiliates in which NYK's ownership is less than 50% are also subject to audits. These companies, including overseas Group companies, are audited about once every three years.

### Major auditing activities in fiscal 2012

1. Group companies audited: regular audits of 20 domestic companies, 51 international bases
2. Audits of divisions and branches at NYK's headquarters
3. Auditing of payment control at domestic and international Group companies to which payment operations have been assigned
4. Auditing of control of operations involving inflows and outflows of funds to and from NYK's headquarters

## Status of Investor Relations (IR) Related Activities

Web CSR > Together with Stakeholders ☐ Together with Investors

### Fiscal 2012 IR Highlights

| | No. of participating companies | No. of participating individuals |
|---|---|---|
| One-on-one meetings with investors in Japan | 545 (54)* | 603 (54) |
| Overseas IR tours | 111 | 137 |
| Tours of Facilities and Briefings | | |
| In Japan (2 times) | 49 | 62 |
| Overseas (1 time) | 6 | 6 |
| IR Seminar for Individuals | | |
| In Japan (13 times) | — | 1,380 |

* Parentheses indicate participation by the NYK president

### IR Activities

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

In fiscal 2012, the Group focused more on explaining the central theme of getting back on track for profitability by pursuing a strategy of accumulating earnings in businesses with stable freight rates. Also, the Group held a facility tour of car carriers and a briefing about the LNG business as representative examples of growth areas.

## Risk Management

### (1) Risk Management

Economic and political conditions, such social factors as environmental regulations and safety and security measures, 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 Companywide perspective and has established a system for responding appropriately to risk.

### Enterprise Risk Management (ERM)

To achieve an understanding of Companywide risk, we periodically investigate and evaluate risk, and executives themselves identify risks that have critical impacts on business management. Furthermore, executives themselves conduct checks and evaluations of whether appropriate measures are being taken in response to the identified risk and issue directions for measures to be taken accordingly.

For risk that does not have a critical impact on business management, the managing division implements appropriate measures. The division's general manager undertakes checks and evaluation, and the risk management division has overall control of the results.

### 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 reevaluation of network security measures.

### (2) Crisis Management

### Emergency response

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

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

Further, if the scheduled announcement from the Cabinet Office's Central Disaster Prevention Council revises scenario earthquakes, the Group will revise its current BCP system accordingly.

## Compliance

### Compliance activities

As part of compliance activities in fiscal 2012, NYK's headquarters introduced the Ethics Leader System in April, under which all general managers of groups, offices, or branches became compliance leaders. In its annual comprehensive Compliance Checkup activities, held every September, the NYK Group heightened each employee's compliance awareness. These activities included issuing a message from the chief compliance officer, which focused on the question "How are your own Ethics?" as a theme to encourage employees to check their own behavioural standards and ethical awareness, and using the intranet to distribute an ethics newsletter. Also, in accordance with the nationwide enforcement of the Organized Crime Exclusion Ordinances in Japan, NYK's headquarters prepared guidelines for the rejection of relationships with antisocial forces, which it informed employees about rigorously and subsequently issued reminders about. In addition, through the NYK Group newsletter we warned employees about using social media appropriately to avoid becoming involved in unnecessary difficulties. Further, the Group enhanced compliance training for specific employee ranks.

The Group enables anonymous whistle-blowing by operating helplines worldwide that reflect the circumstances of each region, called the Yusen Chat Room in Japan, and has developed a system for the rapid collection of information that helps prevent corruption. Moreover, we are cultivating a highly transparent corporate culture.

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. The Group is expanding this system to cover NYK and 63 domestic Group companies.

#### Compliance Training Sessions in Fiscal 2012

| | Number of sessions | Number of attendees |
|---|---|---|
| Group training sessions* | 15 | 706 |

* Since fiscal 2002, we have implemented 318 training sessions, which were attended by a total of 7,963 people.

### Response to antitrust law

The Company is encountering more rapid development and stricter legislation and enforcement of antitrust/anti-monopoly law regimes globally. Regrettably, we were involved in incidents leading to an investigation by the authorities, and we are fully cooperating with them. We have taken proper measures to ensure thorough antitrust law compliance so that such incidents shall never happen again. In July 2008, the Antitrust Law Task Force (ALTF) was set up to promote antitrust law compliance. The Fair Trade Promotion Group was established in April 2011, upgraded from the previous ALTF, to further strengthen a Groupwide project to ensure strict antitrust law compliance throughout the NYK Group. NYK at its board of director's meeting confirmed that all employees, including corporate auditors, are rigorously undertaking appropriate measures and actions to comply with the law. Also, we are expanding and strengthening various activities to achieve thorough antitrust law compliance. These include the provision of the internal guidance through continuous antitrust law training, the introduction of a stricter notification system governing employees' contacts with other companies within the same industry, the establishment of an executive committee to oversee thorough antitrust law compliance activities by including external directors, and the introduction of "appraisal of legal risks of new business investments" to ensure compliance with antitrust law beforehand.

During fiscal 2012, we strived to raise each employee's awareness of antitrust laws by conducting training for numerous Group company personnel in Japan and overseas and ascertaining the penetration of antitrust law compliance at each Group company through the Antitrust Law Project Facilitators appointed at some 200 Group companies globally.

#### Fiscal 2012 Antitrust Law Training Overview

In fiscal 2012, we held 80 training sessions, of which 39 were overseas and 41 were in Japan, and a total of 2,693 personnel participated, of whom 1,414 were overseas and 1,279 were in Japan.

Furthermore, the cumulative up-to-date figures are as follows.

| | Number of sessions | Number of attendees |
|---|---|---|
| Training sessions for groups in Japan | 153 | 4,241 |
| Training sessions for groups overseas | 161 | 4,718 |
| Total | 314 | 8,959 |

# Directors, Auditors, and Corporate Officers

(As of June 25, 2013)


1 Koji Miyahara
Chairman, Chairman Corporate Officer

2 Yasumi Kudo
President, President Corporate Officer

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

4 Naoya Tazawa
Representative Director, Senior Managing Corporate Officer
Chief Executive of General Affairs Headquarters
(Chief Compliance Officer (CCO))

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

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

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

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

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

10 Hitoshi Oshika
Director, Corporate Officer

11 Kazuo Ogasawara
Director, Corporate Officer

Senior Managing Corporate Officer

Koichi Akamine

Managing Corporate Officers

Hiroshi Hattori
Fukashi Sakamoto
Takashi Abe
Yasuo Tanaka

Corporate Officers

Takuji Nakai
Yoko Wasaki
Yuji Isoda
Kenichi Miki
Keizo Nagai
Tsutomu Shoji
Yoshiyuki Yoshida
Eiichi Takahashi
Hiroyuki Yasukawa
Noriaki Tajima
Hiroyuki Okamoto
Svein Steimler
Jeremy Nixon

Corporate Auditors

Mikitoshi Kai
Hiroshi Sugiura

# Independent Directors and Auditors

(As of June 25, 2013)

## Yukio Okamoto

Outside Director

Attendance at board of directors' meetings: 13 / 14 (Number of meetings attended / Total number of meetings)

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

Resume

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

Significant Concurrent Positions

President of Okamoto Associates Inc.
Outside director of Mitsubishi Materials Corporation
Outside corporate auditor of Mitsubishi Motors Corporation

## Yuri Okina

Outside Director

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

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

Resume

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

Significant Concurrent Position

Research Director of the Japan Research Institute Ltd.

## Fumio Kawaguchi

Outside Corporate Auditor

Attendance at board of directors' meetings: 13 / 14 Attendance at board of corporate auditors' meetings: 16 / 16
(Number of meetings attended / Total number of meetings)

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

Resume

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

Significant Concurrent Positions

Advisor of Chubu Electric Power Company, Incorporated
Outside corporate auditor, Nagoya Railroad Co., Ltd.
Outside director and chairman, Central Nippon Expressway Company Limited

## Mitsuoki Kikuchi

Outside Corporate Auditor

Attendance at board of directors' meetings: 11 / 11 Attendance at board of corporate auditors' meetings: 12 / 12
(Number of meetings attended / Total number of meetings)

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

Resume

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

Significant Concurrent Position

Advisor of the National Archives of Japan

### Appointment Policy of Outside Directors / Outside Corporate Auditors

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

### Transaction Relationships, Conflicts of Interest

The NYK Group had no conflicts of interest with the two outside directors and the two outside corporate auditors as of March 31, 2013.

# Facts and Figures

The NYK Group explains and analyses consolidated operating performance in fiscal 2012, ended March 31, 2013, in this section, which also includes consolidated financial statements and notes.

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5

# Management's Discussion and Analysis

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

## Overview of Operating Performance

### Consolidated Operating Performance

(Billions of yen)

| | 2012 full year (result) | 2013 (results) | | | | | Change year on year | 2014 full year (forecast) | Change year on year |
|---|---|---|---|---|---|---|---|---|---|
| | | 1Q | 2Q | 3Q | 4Q | Full year | | | |
| Revenues | 1,807.8 | 477.5 | 466.4 | 462.4 | 490.6 | 1,897.1 | 89.2 | 2,090.0 | 192.9 |
| Operating income (loss) | –24.1 | 6.8 | 11.0 | –2.1 | 1.6 | 17.4 | 41.5 | 45.5 | 28.1 |
| Recurring profit (loss) | –33.2 | 4.8 | 8.2 | 2.2 | 2.4 | 17.7 | 50.9 | 40.0 | 22.3 |
| Net income (loss) | –72.8 | –1.3 | –2.8 | 7.3 | 15.7 | 18.8 | 91.7 | 27.0 | 8.2 |
| Currency exchange rate (¥ / $) | ¥78.90 | ¥80.77 | ¥78.69 | ¥79.79 | ¥90.07 | ¥82.33 | – ¥3.43 | ¥90.00 | – ¥7.67 |
| Bunker oil price ($ / MT) | $666.22 | $716.78 | $660.62 | $668.97 | $646.71 | $673.27 | +7.05 | $650.00 | – $23.27 |

### Overview of Operating Performance

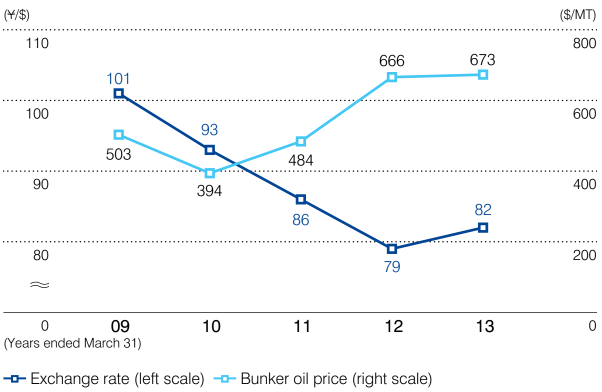
The global economy in the fiscal year ended March 31, 2013, saw the U.S. economy continue to recover on the strength of a recovery in housing sales, robust car demand, and the shale gas revolution. In Europe, however, economic instability persisted as a result of protracted fiscal problems. In newly emerging countries, although China and India exhibited economic slowdowns, their GDP growth rates remained high compared with those of developed nations, while in the ASEAN region vibrant economic growth continued due in part to the transfer of manufacturing bases to Southeast Asia. In Japan and other major countries around the world, the year also brought changes in political leadership, and the management of policies and economics by these new governments is expected to have a significant impact on the world economy.

Regarding the environment surrounding the shipping industry, the yen exchange rate hovered around the level of ¥80 to US$1 during the year before a major correction to the mid–¥90 range following the change in Japan's administration in December. Bunker oil prices soared to more than US$700 per ton at one point, with a record-high average for the year of US$673.27. With the exception of some vessel types, shipping markets failed to fully recover during the year amid a widening supply-demand imbalance caused by the massive delivery of newbuilt tonnage.

In the liner trade segment, results rebounded strongly by the rationalisation of services on European and other major routes through alliances, along with efforts to restore and maintain rates. In the bulk shipping segment, the car carrier division recovered from the impact of the Great East Japan Earthquake and Thai floods in the previous year. The dry bulk carrier division, however, continued to slump under the weight of a peak in the delivery of newbuilt tonnage. In the tanker division, the LNG carrier business was generally strong. The air cargo transportation and cruises segments showed weak performance as a result of the global economic downturn, and the logistics segment's results were sluggish compared with the previous fiscal year.

Under these business circumstances, the NYK Group implemented Groupwide slow-steaming of vessels and other bunker-saving measures as well as the 3M elimination project (eliminate *muda*: non-value adding activities; *mura*: unevenness in production or work activities; *muri*: excessive burdens), which were geared towards lowering costs and raising the Company's competitiveness.

### Movements in Exchange Rates and Bunker Oil Prices




### Analysis of Year-on-Year Change in Recurring Profit (Loss) (2012 vs. 2013)

(Billions of yen)

| | | |
|---|---|---|
| Yen depreciation | 3.7 | Yen depreciates ¥3.43: depreciation by ¥1 increases earnings approx. ¥1.1 billion |
| Bunker oil price hikes | –1.0 | Price increases US$7.05: increase of US$1 per metric ton reduces earnings approx. ¥140 million |
| Shipping market effects, etc. | 30.7 | Container freight rates and automobile transport volume recover |
| Cost reduction | 27.4 | Liner trade segment reduces cost by ¥23.9 billion |
| New consolidation | 0.6 | |
| Other | –10.5 | |
| Total | 50.9 | |

As a result of the aforementioned factors, consolidated revenues increased by ¥89.2 billion (an increase of 4.9%) compared with the previous fiscal year. Cost and expenses rose by ¥43.4 billion year on year (an increase of 2.6%) due largely to soaring bunker oil prices, but slow-steaming of vessels and various other cost-cutting measures made the ratio of cost and expenses to revenues improve 2.0 points year on year. As a result, operating income improved by ¥41.5 billion year on year, raising the operating income margin from –1.3% to 0.9%. Recurring profit increased ¥50.9 billion year on year, and net income rebounded strongly, improving by ¥91.7 billion year on year and enabling the Company to post net income compared with the previous year's loss.

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

## Forecasts

Container vessel, dry bulk carrier, and VLCC performances are all expected to be impacted by the ongoing slump in the shipping market. The NYK Group plans to respond with significant cost reductions, including a Groupwide bunker-saving campaign, reduced fixed costs through the rationalisation of services in the liner trade segment, and the expansion of optimal economical ship operations. In the car carrier division, shipments of Japanese automobiles are expected to increase. In the tanker division, the Company will expand operations with the deliveries of LNG carriers. In the air cargo transportation segment, the market is expected to remain severe, while the logistics and cruises segments are expected to show improvement. As a result of the above forecasts, in fiscal 2013, ending March 31, 2014, the NYK Group expects to post higher revenues and earnings as shown in the table below.

# Segment Review

### Results by Segments

(Billions of yen)

| | | Fiscal 2012 operating performance | | | Fiscal 2013 operating performance forecast*3 | | |
|---|---|---|---|---|---|---|---|
| | | 2012 | 2013 | Change | 2013 | 2014 | Change |
| Global logistics | Liner trade*2 | 418.7 | 441.8 | 23.1 | 536.0 | 613.0 | 76.9 |
| | | –44.7 | –9.4 | 35.3 | –1.6 | 15.0 | 16.6 |
| | Terminal and harbour transport*1 | 140.0 | 140.8 | 0.7 | — | — | — |
| | | 7.7 | 6.9 | –0.7 | — | — | — |
| | Air cargo transportation | 82.6 | 77.8 | –4.7 | 77.8 | 88.0 | 10.1 |
| | | 3.3 | –4.8 | –8.2 | –4.8 | –5.0 | –0.1 |
| | Logistics | 365.1 | 366.8 | 1.6 | 366.8 | 422.0 | 55.1 |
| | | 9.2 | 4.7 | –4.4 | 4.7 | 7.5 | 2.7 |
| Bulk shipping*2 | | 730.8 | 795.5 | 64.7 | 831.8 | 841.0 | 9.2 |
| | | –7.7 | 18.6 | 26.4 | 17.8 | 18.0 | 0.2 |
| Others | Cruises | 32.4 | 35.0 | 2.5 | 35.0 | 43.0 | 7.9 |
| | | –5.8 | –3.7 | 2.0 | –3.7 | 1.0 | 4.7 |
| | Real estate | 10.8 | 10.4 | –0.4 | 10.4 | 10.0 | –0.4 |
| | | 3.9 | 3.9 | 0 | 3.9 | 4.0 | 0 |
| | Other business services | 184.5 | 173.6 | –10.9 | 173.6 | 177.0 | 3.3 |
| | | 0.8 | 1.4 | 0.6 | 1.4 | –0.5 | –1.9 |

Upper row: Revenues Lower row: Recurring profit (loss)

*1. The terminal and harbour transport segment 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 segment from fiscal 2013.

*3. All operating performance forecast figures are based on the new business segmentation.

## Liner Trade

The NYK Group actively implemented measures to cope with a slump in cargo shipping volumes, mainly to developed countries, and the increased delivery of large container vessels by rationalising container vessel services. This effort facilitated an improvement in the supply-demand balance and rate restorations, particularly on European and Latin American routes, over the summer. From the third quarter, however, cargo volumes declined and rates fell amid the slumping market. The NYK Group expanded and upgraded its service network on active inter-Asia routes to meet increasing demand and raise competitiveness. On East-West routes, meanwhile, the NYK Group continued to rationalise services and lower costs

**Container Freight Rates (figures are indexed: FY2008, Q1 = 100)**

| (Years ended March 31) | 2012 full year (result) | 2013 (results) | | | | | 2014 full year (forecast) |
|---|---|---|---|---|---|---|---|
| | | 1Q | 2Q | 3Q | 4Q | Full year | |
| Asia → North America | 100 | 104 | 107 | 103 | 102 | 104 | 107 |
| Asia → Europe | 73 | 86 | 84 | 76 | 74 | 80 | 77 |

through the Grand Alliance and the G6 Alliance. The Company also introduced on-ship broadband services to analyse weather and oceanic data on a real-time basis and select optimal routes on a ship-by-ship basis, which raised operational efficiency to cope with soaring bunker oil prices. Additionally, uneconomical vessels were redelivered or scrapped to reduce vessel operation costs and fixed costs. As a result of the above measures, revenues surged over the previous fiscal year and losses narrowed significantly.

## Terminal and Harbour Transport

Domestic and overseas container terminals' total handling volumes declined compared with the previous fiscal year as a result of the restructuring and rationalisation of services under new alliances for container vessel operations. A portion of the segment's assets was also disposed of and an impairment loss was booked during the year ended March 31, 2013. As a result, the segment's profits declined versus the previous fiscal year.

## Air Cargo Transportation

Nippon Cargo Airlines Co. Ltd. (NCA) reported a loss for the year due mainly to the significant impact of a slump in Japan-originated airfreight demand and the associated decline in freight rates, the effect of which outweighed continued cost reduction measures and flexible aircraft operation.

## Logistics

Airfreight handling volumes declined globally during the year, with a particularly sharp decrease in Japan-originated airfreight volumes to Europe and Asia. Although seaborne cargo volumes grew year on year as a result of sales expansion and the integration of business operations, profitability declined due to higher transport costs. The logistics business was relatively robust, as growth in sales in Southern Asia and Oceania outweighed a challenging business environment in Southern Europe. The domestic logistics business in Japan performed well, posting higher year-on-year profits. Overall, the logistics segment's consolidated revenues were on par with the previous year, while profits declined significantly.

**Cargo Handling Volume of the Logistics Segment (export)**

| (Years ended March 31) | 2011 (result) | 2012 (result) | 2013 (result) | 2014 (forecast) |
|---|---|---|---|---|
| Ocean forwarding (TEU 1,000) | 420 | 450 | 550 | 650 |
| Air forwarding (Ton 1,000) | 340 | 350 | 310 | 330 |

## Bulk Shipping

Car carrier shipments rebounded well from the previous fiscal year, when car exports were severely impacted by the natural disasters in Japan and Thailand. In the auto logistics business, which complements seaborne shipping operations, the number of cars handled in the finished vehicle terminal business increased at terminals in China, Thailand, and Singapore as well as in Europe. Additionally, the scale of the finished vehicle inland transportation business, vehicle distribution centers business, and the PDI (Pre-Delivery Inspection) business was expanded in emerging countries, such as China, India, and nations in Southeast Asia.

While dry bulk cargo shipments increased, mainly to China, the supply-demand imbalance widened by double-digit growth in shipping capacity for the third straight year due to large amounts of new-built tonnage. This caused a decline in rates for nearly all types of vessels and trade routes, with a particularly sharp decline for Capesize bulk carriers. Amid this environment, the NYK Group continued the slow-steaming of vessels and other cost reduction measures.

The VLCC (very large crude-oil carrier) market showed signs of improvement at the start of autumn after a decline in the delivery of newbuilt tonnage, but the market remained in a slump overall without a significant narrowing in the supply-demand gap. The petroleum product tanker market rebounded in the second half of the fiscal year, and the LNG carrier business remained robust on the back of solid demand. In the offshore business, a drillship began operating off the coast of Brazil in April.

As a result of the above, the bulk shipping segment posted a profit on higher revenues compared with the previous fiscal year.

### Freight Rates for Dry Bulk Carriers and Tankers*1

($ / day)
(Years ended March 31)

| | | 2012 (result) | 2013 (result) | 2014 (forecast) |
|---|---|---|---|---|
| Dry bulk carriers | Dry bulk market trends (BDI) | 1,425 | 905 | 1,086 |
| | Capesize bulk carriers (4TC*2) | 15,347 | 7,370 | 11,250 |
| Tankers | VLCCs | 18,705 | 16,360 | 17,000 |

*1. Spot charterage
*2. 4TC = Average of four shipping routes

### Automobile Transport Volume

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

| 2012 (result) | 2013 (result) | 2014 (forecast) |
|---|---|---|
| 2,920 | 3,460 | 3,500 |

## Cruises

In the North American market, Crystal Cruises sales of Mediterranean voyages declined as a result of turmoil in Southern Europe stemming from financial instability as well as political tension in the Middle East and North Africa. In the Japanese market, Asuka Cruises business rebounded strongly from the previous fiscal year, when the Great East Japan Earthquake severely impacted results. Overall, the cruises segment narrowed its loss on higher revenues compared with the previous fiscal year.

## Real Estate and Other Business Services

Real estate earnings were in line with the previous fiscal year. In other business services, the trading business posted lower revenues due to a significant drop in sales of vessel fuel oil, its main product. However, by virtue of cost-cutting throughout other business services, profits increased despite lower revenues.

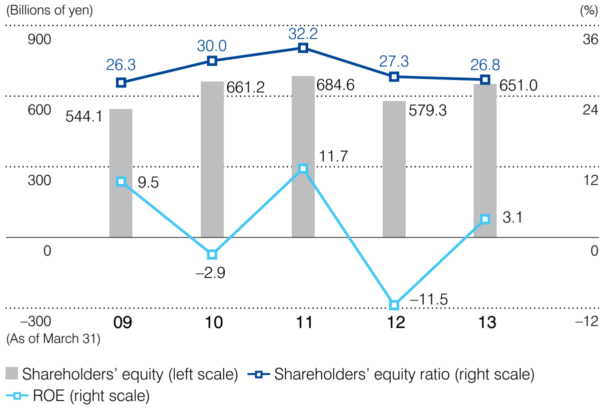
# Analysis of Financial Position

Total assets were ¥2,430.3 billion at the end of the fiscal year (March 31, 2013), an increase of ¥308.1 billion compared with the end of the previous fiscal year (March 31, 2012).

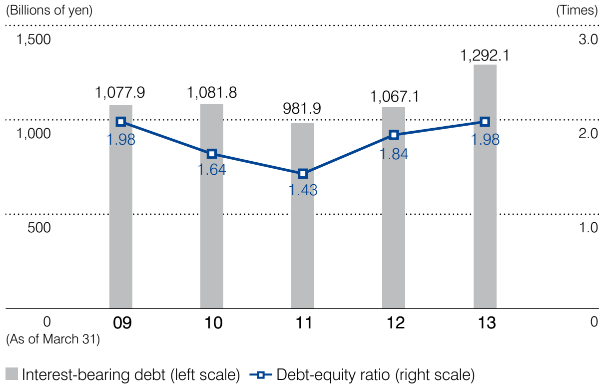
Total liabilities stood at ¥1,731.6 billion, a ¥231.9 billion increase from the end of the previous fiscal year, due mainly to an increase in long-term loans payable.

In equity, retained earnings increased ¥11.9 billion from the end of the previous fiscal year. Shareholders' equity—the aggregate of shareholders' capital and accumulated other comprehensive income—amounted to ¥651.0 billion, and adding minority interests of ¥47.6 billion, total equity amounted to ¥698.7 billion. As a result, the debt-equity ratio ended the fiscal year at 1.98.

### Shareholders' Equity / Shareholders' Equity Ratio / ROE




### Interest-Bearing Debt / Debt-Equity Ratio (DER)




Facts and Figures

## Analysis of Capital Sources and Liquidity

### Cash Flows

Net cash provided by operating activities in the fiscal year ended March 31, 2013, was ¥93.9 billion, reflecting income before income taxes and minority interests of ¥32.5 billion, non-cash depreciation and amortization of ¥97.5 billion, which was partially offset by ¥17.5 billion in interest expenses paid. Net cash used in investing activities was ¥135.5 billion, primarily reflecting increased expenditures for noncurrent assets, mainly investments in vessels. Net cash provided by financing activities was ¥177.9 billion, largely as a result of ¥282.3 billion in proceeds from long-term loans payable. As a result, the balance of cash and cash equivalents at end of the period, taking into account the effect of the exchange rate change on cash and cash equivalents, stood at ¥298.4 billion at March 31, 2013, an increase of ¥147.0 billion compared with the beginning of the fiscal year (April 1, 2012).

### Funding Requirements and Capital Expenditures

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

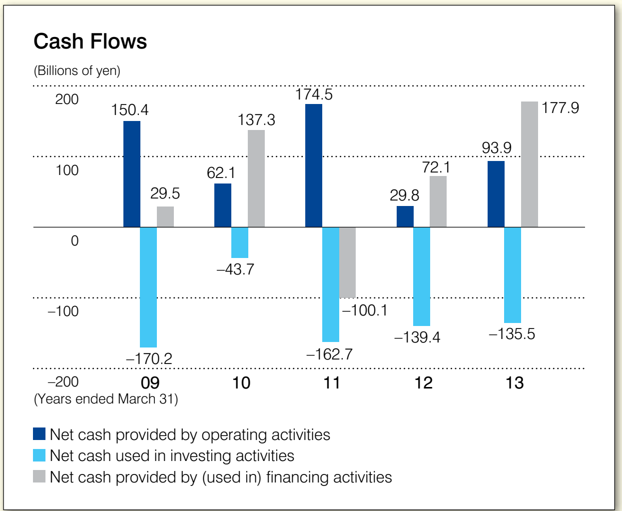
The Group also invests in vessels and aircraft and in logistics and terminal facilities. Capital expenditures during the year totalled ¥303.8 billion.

### Financial Policies

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

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

Working capital is primarily procured via short-term loans with tenors of no more than one year and the issuance of commercial paper, but long-term loans are used as well. As of March 31, 2013, the outstanding amount of long-term borrowings stood at ¥911.9 billion, denominated in U.S. dollars, euros, and other currencies in



addition to yen and comprising both fixed- and floating-rate loans. The outstanding amount of funds procured via capital markets from corporate bond issues totalled ¥245.4 billion as of March 31, 2013.

The Group strives to maintain capital liquidity, and in addition to its ¥100.0 billion facility for the issuance of commercial paper as of March 31, 2013, and a syndicated commitment line (borrowing facility) from financial institutions denominated in yen and U.S. dollars, a cash management system is used to improve capital efficiency through financing within the Group.

The NYK Group has credit ratings from two agencies in Japan and one overseas. As of March 31, 2013, the NYK Group's long-term corporate credit was rated A+ by Japan Credit Rating Agency Ltd. (JCR), A– by Rating and Investment Information Inc. (R&I), and Baa2 by Moody's Investors Service Inc.

**Ratings**

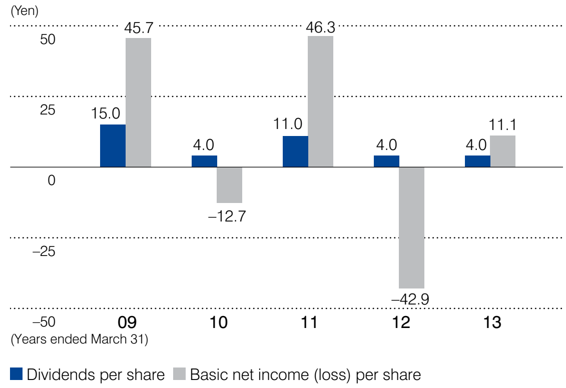
(As of March 31, 2013)

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

## Dividend Policy and Dividends for the Fiscal Year Ended March 31, 2013, and the Fiscal Year Ending March 31, 2014

The NYK Group regards returning profits to shareholders to be one of its top management priorities. The Company determines the amounts of its dividend distributions in light of its earnings forecasts and various other considerations, with a consolidated payout ratio target of 25%. For the fiscal year ended March 31, 2013, the NYK Group plans to pay a year-end dividend of ¥2 per share, for a full-year payment of ¥4 per share, including the ¥2 per share interim dividend. For the fiscal year ending March 31, 2014, the NYK Group aims to pay dividends equivalent to a 25% consolidated payout ratio in view of the policy of continuing stable shareholder returns. As a result, the Company plans to pay ¥2 per share for both interim and year-end dividends, totaling ¥4 per share for the full year.

**Dividends per Share and Basic Net Income (Loss) per Share**




Facts and Figures

# 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 crew member 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 materialization of such risks or the inability to cover them with insurance could impact the operating performance and financial condition of the NYK Group.

### (2) Changes in the Overall Shipping and Freight Markets

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

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

Factors that affect shipping industry demand include the following.

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

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

Factors that affect shipping supply include the following.

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

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

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

### (3) Impacts of Competition with Other Companies

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

### (4) Fluctuations in Currency Exchange Rates

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

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

### (5) Changes in Fuel Prices

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

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

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

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

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

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

Through its containership business, the NYK Group is a member of the Grand Alliance—a strategic alliance that comprises three marine transport companies. The NYK Group considers the alliance 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 the alliance could be integrated or dissolved or members could withdraw from the alliance, which presents the risk that the alliance may not deliver the anticipated results. If it is unable to respond appropriately to such factors, the NYK Group's business, operating performance, and financial condition could be affected.

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

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

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

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

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

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

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

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

### (9) Air Cargo Transportation Business

The NYK Group ordered 14 747-8F aircraft from Boeing. The Group took delivery of two of these aircraft in fiscal 2012 and plans to take delivery of the remaining 12 aircraft in or after fiscal 2013.

However, the delivery of the remaining 12 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 business faces various potential risks, outlined below. These factors could impact the NYK Group's operating performance and financial condition.

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

### (10) Relations with Business Partners

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

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

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

### (11) Operational Restructuring

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

### (12) Medium-Term Management Plan

In March 2011, the NYK Group formulated "More Than Shipping 2013," a new three-year medium-term management plan.

Nevertheless, progress under this medium-term management plan could be affected by a variety of factors, and the plan's achievement is not necessarily guaranteed.

### (13) Investment Plans

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

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

### (14) Fluctuations in Interest Rates

To meet funding requirements for capital investment, such as in 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 toward fixed interest rates on the basis of its assumptions about the interest rate environment. However, certain changes in interest rates could impact the operating performance and financial condition of the NYK Group and affect the future cost of procuring funds.

### (15) Disposal of Vessels

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

The NYK Group typically sells fully depreciated vessels and aircraft.

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

### (16) Valuation Losses on Investment Securities

The NYK Group uses the current value method to evaluate its holdings of investment securities that have explicit market values, taking as the market value the average market price during the one-month period preceding the end of the fiscal year. As a result, changes in stock market conditions could affect the operating performance and financial condition of the NYK Group.

### (17) Retirement Benefit Plans

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

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

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

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

### (19) Litigation and Other Legal Procedures

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

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

In the United States, Yusen Logistics Co. Ltd. is a defendant in a class action civil lawsuit alleging that more than 60 non-vessel operating common carriers worldwide engaged in various types of cartel behaviour. As it is difficult to reasonably estimate the outcome of this lawsuit, no provision has been set aside.

From September 2012, authorities in Japan and the United States respectively investigated the NYK Group and one of its consolidated subsidiaries in the United States on suspicion of the violation of antitrust law in relation to the transport of automobiles, vehicle-type construction machines, and other cargoes. Further, written questions have been received from European authorities. The NYK Group is cooperating fully with these investigations.

Further, in the United States, the NYK Group is a defendant in a class action civil lawsuit demanding an injunction and 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. As it is difficult to reasonably estimate the outcome of these investigations or this lawsuit, no provision has been set aside.

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.

# Consolidated Balance Sheets

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(March 31, 2013 and 2012)

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| ASSETS | 2013 | 2012 | 2013 |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents (Notes 4 and 12) | ¥ 298,429 | ¥ 151,336 | $ 3,173,096 |
| Short-term investment securities (Notes 4, 5 and 12) | 42 | 283 | 452 |
| Notes and operating accounts receivable-trade (Note 4) | 222,532 | 196,333 | 2,366,103 |
| Inventories (Note 7) | 64,603 | 60,884 | 686,902 |
| Deferred tax assets (Note 13) | 4,872 | 4,562 | 51,812 |
| Other (Notes 4 and 12) | 147,004 | 130,566 | 1,563,044 |
| Allowance for doubtful accounts (Note 4) | (2,437) | (2,786) | (25,914) |
| Total current assets | 735,047 | 541,180 | 7,815,496 |
| VESSELS, PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION (Notes 8, 9, 10 and 12): | | | |
| Vessels | 900,342 | 769,402 | 9,573,015 |
| Buildings and structures | 73,926 | 74,748 | 786,034 |
| Aircraft | 22,651 | 4,068 | 240,841 |
| Machinery, equipment and vehicles | 33,119 | 29,121 | 352,150 |
| Equipment | 6,203 | 6,316 | 65,957 |
| Land | 64,391 | 63,280 | 684,653 |
| Construction in progress | 180,138 | 234,976 | 1,915,351 |
| Other | 5,652 | 4,628 | 60,103 |
| Net vessels, property, plant and equipment | 1,286,426 | 1,186,543 | 13,678,108 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Notes 4, 5 and 12) | 143,880 | 147,226 | 1,529,825 |
| Investments in unconsolidated subsidiaries and affiliates | 119,284 | 109,543 | 1,268,310 |
| Long-term loans receivable (Note 4) | 17,857 | 16,228 | 189,875 |
| Deferred tax assets (Note 13) | 6,473 | 6,798 | 68,832 |
| Intangible assets (Note 12) | 15,835 | 14,791 | 168,369 |
| Goodwill | 23,173 | 23,531 | 246,395 |
| Other (Notes 4, 5 and 12) | 85,966 | 79,812 | 914,046 |
| Allowance for doubtful accounts (Note 4) | (3,579) | (3,422) | (38,062) |
| Total investments and other assets | 408,891 | 394,510 | 4,347,593 |
| TOTAL ASSETS | ¥2,430,364 | ¥2,122,234 | $25,841,198 |

See notes to consolidated financial statements.

| LIABILITIES AND EQUITY | Millions of yen 2013 | 2012 | Thousands of U.S. dollars (Note 2) 2013 |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Short-term loans payable (Notes 4, 11 and 12) | ¥ 29,495 | ¥ 17,816 | $ 313,612 |
| Current portion of long-term debt (Notes 4, 11 and 12) | 98,700 | 126,108 | 1,049,443 |
| Notes and operating accounts payable-trade (Notes 4 and 12) | 180,680 | 165,002 | 1,921,114 |
| Income taxes payable (Note 13) | 5,469 | 6,788 | 58,151 |
| Provision for bonuses | 7,105 | 7,461 | 75,547 |
| Provision for directors' bonuses | 314 | 280 | 3,340 |
| Provision for losses related to antitrust law | 1,632 | 1,436 | 17,357 |
| Deferred tax liabilities (Note 13) | 6,666 | 3,106 | 70,877 |
| Other (Notes 4 and 12) | 124,226 | 124,492 | 1,320,851 |
| Total current liabilities | 454,289 | 452,492 | 4,830,297 |
| NONCURRENT LIABILITIES: | | | |
| Long-term debt (Notes 4, 11 and 12) | 1,163,995 | 923,200 | 12,376,348 |
| Provision for retirement benefits (Note 19) | 15,606 | 15,861 | 165,942 |
| Provision for directors' retirement benefits | 1,983 | 2,000 | 21,086 |
| Provision for periodic dry docking of vessels | 16,707 | 18,218 | 177,646 |
| Provision for losses related to antitrust law | — | 1,728 | — |
| Deferred tax liabilities (Note 13) | 33,657 | 29,692 | 357,868 |
| Other (Notes 4 and 12) | 45,423 | 56,549 | 482,968 |
| Total noncurrent liabilities | 1,277,373 | 1,047,250 | 13,581,859 |
| Total liabilities | 1,731,663 | 1,499,743 | 18,412,157 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Note 17) | | | |
| EQUITY (Notes 11, 14 and 23) | | | |
| SHAREHOLDERS' CAPITAL: | | | |
| Common stock | | | |
| Authorized: 2,983,550,000 shares; issued, | | | |
| 1,700,550,988 shares in 2013 | 144,319 | — | 1,534,501 |
| 1,700,550,988 shares in 2012 | — | 144,319 | — |
| Capital surplus | 155,619 | 155,623 | 1,654,646 |
| Retained earnings | 401,721 | 389,767 | 4,271,361 |
| Treasury stock | | | |
| 4,334,011 shares in 2013 | (1,998) | — | (21,246) |
| 4,261,997 shares in 2012 | — | (1,988) | — |
| Total shareholders' capital | 699,662 | 687,722 | 7,439,262 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS): | | | |
| Unrealized gain (loss) on available-for-sale securities | 30,050 | 21,876 | 319,511 |
| Deferred gain (loss) on hedges | (34,705) | (52,306) | (369,007) |
| Foreign currency translation adjustments | (43,423) | (77,466) | (461,701) |
| Pension liability adjustment of foreign subsidiaries and affiliates | (528) | (484) | (5,615) |
| Total accumulated other comprehensive income (loss) | (48,606) | (108,380) | (516,812) |
| Minority interests | 47,644 | 43,148 | 506,590 |
| Total equity | 698,701 | 622,490 | 7,429,040 |
| TOTAL LIABILITIES AND EQUITY | ¥2,430,364 | ¥2,122,234 | $25,841,198 |

| | Yen | | U.S. dollars (Note 2) |
|---|---|---|---|
| Equity per share | ¥ 383.83 | ¥ 341.54 | $ 4.08 |

See notes to consolidated financial statements.

Facts and Figures

# Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2013 and 2012)

(Consolidated Statements of Operations)

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| REVENUES | ¥1,897,101 | ¥1,807,819 | $20,171,200 |
| COSTS AND EXPENSES | 1,704,591 | 1,661,112 | 18,124,309 |
| Gross profit | 192,510 | 146,707 | 2,046,891 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 175,075 | 170,831 | 1,861,514 |
| Operating income (loss) | 17,434 | (24,124) | 185,376 |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividends income | 6,653 | 7,067 | 70,747 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 1,745 | 2,164 | 18,559 |
| Interest expenses | (17,457) | (16,209) | (185,621) |
| Foreign exchange gain (losses) | 4,378 | (2,345) | 46,551 |
| Gain on sales and retirement of vessels, property, plant and equipment and intangible fixed assets, net | 6,149 | 10,785 | 65,383 |
| Gain on sales of short-term and long-term investment securities, net (Note 5) | 13,154 | 3,266 | 139,863 |
| Loss on impairment of vessels, property, plant and equipment (Note 15) | (1,420) | (5,511) | (15,108) |
| Loss on valuation of investment securities | (1,656) | (3,513) | (17,614) |
| Others, net | 3,613 | (2,527) | 38,424 |
| Other income (expenses), net | 15,159 | (6,823) | 161,184 |
| INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS | 32,594 | (30,948) | 346,561 |
| INCOME TAXES (Note 13): | | | |
| Current | 11,757 | 13,941 | 125,015 |
| Deferred | (900) | 25,221 | (9,575) |
| Total income taxes | 10,857 | 39,162 | 115,440 |
| NET INCOME (LOSS) BEFORE MINORITY INTERESTS | 21,736 | (70,110) | 231,121 |
| MINORITY INTERESTS IN NET INCOME | 2,840 | 2,710 | 30,203 |
| NET INCOME (LOSS) | ¥ 18,896 | ¥ (72,820) | $ 200,917 |

| | Yen | | U.S. dollars (Note 2) |
|---|---|---|---|
| Per share of common stock (Note 3.L): | | | |
| Basic net income (loss) | ¥ 11.14 | ¥ (42.92) | $ 0.12 |
| Cash dividends applicable to the year | 4.00 | 4.00 | 0.04 |

(Consolidated Statements of Comprehensive Income)

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Net income (loss) before minority interests | ¥ 21,736 | ¥ (70,110) | $ 231,121 |
| Other comprehensive income (Note 16): | | | |
| Unrealized gain (loss) on available-for-sale securities | 8,063 | (2,936) | 85,740 |
| Deferred gain (loss) on hedges | 25,807 | 505 | 274,398 |
| Foreign currency translation adjustments | 31,474 | (7,807) | 334,657 |
| Pension liability adjustment of foreign subsidiaries and affiliates | (58) | (469) | (624) |
| Share of other comprehensive income of associates accounted for using equity method | 3,645 | (10,022) | 38,756 |
| Loss or gain on change in equity | (282) | 1,340 | (3,001) |
| Total other comprehensive income (loss) | 68,649 | (19,390) | 729,927 |
| Comprehensive income (loss) | ¥ 90,386 | ¥ (89,501) | $ 961,048 |
| Comprehensive income (loss) | | | |
| Comprehensive income (loss) attributable to owners of the parent | ¥ 83,866 | ¥ (91,419) | $ 891,719 |
| Comprehensive income attributable to minority interests | 6,520 | 1,918 | 69,328 |

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2013 and 2012)

| | | Millions of yen | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding Number of Shares of Common Stock (Thousands) | Common stock | Capital surplus | Retained earnings (deficits) | Treasury stock | Total shareholders' capital | Unrealized gain (loss) on available-for-sale securities | Deferred gain (loss) on hedges | Foreign currency translation adjustments | Pension liability adjustment of foreign subsidiaries and affiliates | Total accumulated other comprehensive income | Minority interests | Total equity (deficit) |
| Balance, April 1, 2011 | 1,700,550 | ¥144,319 | ¥155,658 | ¥472,277 | ¥(1,905) | ¥770,349 | ¥24,846 | ¥(43,182) | ¥(67,385) | ¥ — | ¥(85,721) | ¥43,466 | ¥ 728,094 |
| Net loss | | — | — | (72,820) | — | (72,820) | — | — | — | — | — | — | (72,820) |
| Dividends from surplus | | — | — | (11,878) | — | (11,878) | — | — | — | — | — | — | (11,878) |
| Purchase of treasury stock | | — | — | — | (140) | (140) | — | — | — | — | — | — | (140) |
| Disposal of treasury stock | | — | (34) | — | 57 | 23 | — | — | — | — | — | — | 23 |
| Change of scope of consolidation | | — | — | 295 | — | 295 | — | — | — | — | — | — | 295 |
| Adjustments due to change in the fiscal period of consolidated subsidiaries | | — | — | 60 | — | 60 | — | — | — | — | — | — | 60 |
| Change of scope of equity method | | — | — | 332 | — | 332 | — | — | — | — | — | — | 332 |
| Gain on change in equity | | — | — | 1,340 | — | 1,340 | — | — | — | — | — | — | 1,340 |
| Other | | — | — | 160 | — | 160 | — | — | — | — | — | — | 160 |
| Net change of items other than shareholders' capital | | — | — | — | — | — | (2,969) | (9,124) | (10,081) | (484) | (22,659) | (318) | (22,977) |
| Total changes of items during the period | | — | (34) | (82,509) | (82) | (82,626) | (2,969) | (9,124) | (10,081) | (484) | (22,659) | (318) | (105,603) |
| Balance, March 31, 2012 | 1,700,550 | 144,319 | 155,623 | 389,767 | (1,988) | 687,722 | 21,876 | (52,306) | (77,466) | (484) | (108,380) | 43,148 | 622,490 |
| Net income | | — | — | 18,896 | — | 18,896 | — | — | — | — | — | — | 18,896 |
| Dividends from surplus | | — | — | (6,785) | — | (6,785) | — | — | — | — | — | — | (6,785) |
| Purchase of treasury stock | | — | — | — | (16) | (16) | — | — | — | — | — | — | (16) |
| Disposal of treasury stock | | — | (4) | — | 7 | 2 | — | — | — | — | — | — | 2 |
| Change of scope of consolidation | | — | — | (0) | — | (0) | — | — | — | — | — | — | (0) |
| Change of scope of equity method | | — | — | 75 | — | 75 | — | — | — | — | — | — | 75 |
| Loss on change in equity | | — | — | (282) | — | (282) | — | — | — | — | — | — | (282) |
| Increase by merger | | — | — | 104 | — | 104 | — | — | — | — | — | — | 104 |
| Other | | — | — | (55) | (0) | (55) | — | — | — | — | — | — | (55) |
| Net change of items other than shareholders' capital | | — | — | — | — | — | 8,173 | 17,601 | 34,043 | (43) | 59,774 | 4,496 | 64,270 |
| Total changes of items during the period | | — | (4) | 11,953 | (9) | 11,939 | 8,173 | 17,601 | 34,043 | (43) | 59,774 | 4,496 | 76,210 |
| Balance, March 31, 2013 | 1,700,550 | ¥144,319 | ¥155,619 | ¥401,721 | ¥(1,998) | ¥699,662 | ¥30,050 | ¥(34,705) | ¥(43,423) | ¥(528) | ¥(48,606) | ¥47,644 | ¥698,701 |

| | | Thousands of U.S. dollars (Note 2) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding Number of Shares of Common Stock (Thousands) | Common stock | Capital surplus | Retained earnings (deficits) | Treasury stock | Total shareholders' capital | Unrealized gain (loss) on available-for-sale securities | Deferred gain (loss) on hedges | Foreign currency translation adjustments | Pension liability adjustment of foreign subsidiaries and affiliates | Total accumulated other comprehensive income | Minority interests | Total equity (deficit) |
| Balance, March 31, 2012 | 1,700,550 | $1,534,501 | $1,654,693 | $4,144,260 | $(21,145) | $7,312,309 | $232,609 | $(556,157) | $(823,673) | $(5,149) | $(1,152,371) | $458,782 | $6,618,721 |
| Net income | | — | — | 200,917 | — | 200,917 | — | — | — | — | — | — | 200,917 |
| Dividends from surplus | | — | — | (72,144) | — | (72,144) | — | — | — | — | — | — | (72,144) |
| Purchase of treasury stock | | — | — | — | (178) | (178) | — | — | — | — | — | — | (178) |
| Disposal of treasury stock | | — | (47) | — | 77 | 30 | — | — | — | — | — | — | 30 |
| Change of scope of consolidation | | — | — | (3) | — | (3) | — | — | — | — | — | — | (3) |
| Change of scope of equity method | | — | — | 805 | — | 805 | — | — | — | — | — | — | 805 |
| Loss on change in equity | | — | — | (3,001) | — | (3,001) | — | — | — | — | — | — | (3,001) |
| Increase by merger | | — | — | 1,115 | — | 1,115 | — | — | — | — | — | — | 1,115 |
| Other | | — | — | (586) | (0) | (586) | — | — | — | — | — | — | (586) |
| Net change of items other than shareholders' capital | | — | — | — | — | — | 86,902 | 187,150 | 361,972 | (466) | 635,558 | 47,807 | 683,366 |
| Total changes of items during the period | | — | (47) | 127,101 | (100) | 126,953 | 86,902 | 187,150 | 361,972 | (466) | 635,558 | 47,807 | 810,319 |
| Balance, March 31, 2013 | 1,700,550 | $1,534,501 | $1,654,646 | $4,271,361 | $(21,246) | $7,439,262 | $319,511 | $(369,007) | $(461,701) | $(5,615) | $ (516,812) | $506,590 | $7,429,040 |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2013 and 2012)

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **OPERATING ACTIVITIES** | | | |
| Income (loss) before income taxes and minority interests | ¥ 32,594 | ¥ (30,948) | $ 346,561 |
| Adjustments for: | | | |
| Depreciation and amortization | 97,522 | 100,857 | 1,036,925 |
| Impairment loss | 1,420 | 5,511 | 15,108 |
| Gain on sales and retirement of vessels, property, plant and equipment and intangible assets | (6,149) | (10,785) | (65,383) |
| Gain on sales of short-term and long-term investment securities, net | (13,154) | (3,266) | (139,863) |
| Loss on valuation of short-term and long-term investment securities | 2,087 | 5,490 | 22,196 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | (1,745) | (2,164) | (18,559) |
| Interest and dividends income | (6,653) | (7,067) | (70,747) |
| Interest expenses | 17,457 | 16,209 | 185,621 |
| Foreign exchange (gains) losses | (1,924) | 1,684 | (20,466) |
| (Increase) decrease in notes and accounts receivable-trade | (17,474) | (15,479) | (185,795) |
| (Increase) decrease in inventories | (2,758) | (7,194) | (29,331) |
| Increase (decrease) in notes and accounts payable-trade | 10,364 | 8,812 | 110,204 |
| Other, net | 1,582 | (6,684) | 16,825 |
| Subtotal | 113,170 | 54,976 | 1,203,298 |
| Interest and dividends income received | 10,148 | 8,613 | 107,902 |
| Interest expenses paid | (17,533) | (16,297) | (186,432) |
| Income taxes paid | (11,833) | (17,455) | (125,820) |
| Net cash provided by operating activities | 93,951 | 29,837 | 998,947 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of short-term investment securities | (72) | (64) | (769) |
| Proceeds from sales of short-term investment securities | 318 | 916 | 3,382 |
| Purchase of vessels, property, plant and equipment and intangible assets | (307,050) | (309,288) | (3,264,758) |
| Proceeds from sales of vessels, property, plant and equipment and intangible assets | 158,498 | 173,272 | 1,685,258 |
| Purchase of investment securities | (9,829) | (10,399) | (104,512) |
| Proceeds from sales of investment securities | 28,311 | 8,404 | 301,024 |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | — | (5,412) | — |
| Payments for sales of investments in subsidiaries resulting in change in scope of consolidation | (250) | — | (2,664) |
| Payments of loans receivable | (5,837) | (14,290) | (62,071) |
| Collections of loans receivable | 1,901 | 11,525 | 20,216 |
| Other, net | (1,555) | 5,932 | (16,536) |
| Net cash used in investing activities | (135,566) | (139,402) | (1,441,430) |
| **FINANCING ACTIVITIES** | | | |
| Net increase (decrease) in short-term loans payable | 9,763 | 4,385 | 103,813 |
| Proceeds from long-term loans payable | 282,344 | 192,444 | 3,002,073 |
| Repayments of long-term loans payable | (99,584) | (110,872) | (1,058,849) |
| Proceeds from issuance of bonds | 39,797 | 54,722 | 423,148 |
| Redemption of bonds | (45,000) | (54,555) | (478,468) |
| Proceeds from stock issuance to minority shareholders | — | 799 | — |
| Purchase of treasury stock | (16) | (140) | (178) |
| Proceeds from sales of treasury stock | 2 | 23 | 30 |
| Cash dividends paid to shareholders | (6,785) | (11,878) | (72,144) |
| Cash dividends paid to minority shareholders | (978) | (1,360) | (10,408) |
| Other, net | (1,576) | (1,409) | (16,764) |
| Net cash provided by financing activities | 177,966 | 72,159 | 1,892,251 |
| Effect of exchange rate change on cash and cash equivalents | 10,811 | (1,324) | 114,955 |
| Net increase (decrease) in cash and cash equivalents | 147,162 | (38,730) | 1,564,723 |
| Cash and cash equivalents at beginning of period | 151,336 | 189,685 | 1,609,110 |
| Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation | (162) | 556 | (1,724) |
| Increase in cash and cash equivalents resulting from merger of subsidiaries | 92 | — | 987 |
| Increase (decrease) in beginning balance of cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries | — | (174) | — |
| Cash and cash equivalents at end of period | ¥ 298,429 | ¥ 151,336 | $ 3,173,096 |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Nippon Yusen Kabushiki Kaisha and Consolidated Subsidiaries
(Years ended March 31, 2013 and 2012)

## 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, certain account reclassifications are made and additional information is provided in order to present the consolidated financial statements in a format familiar to international readers. The results of these reclassifications do not affect the financial position or results of operations and cash flows of the consolidated companies as reported in the original consolidated financial statements.

In addition, certain reclassifications have been made in the 2012 consolidated financial statements to conform to the classifications used in 2013.

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

## 2. U.S. Dollar Amounts

The accompanying consolidated financial statements are stated in Japanese yen, and the U.S. dollar amounts represent the arithmetical results of translating yen to United States dollars using the exchange rate prevailing at March 31, 2013, which was ¥94.05 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 645 consolidated subsidiaries at March 31, 2013.

During the fiscal year ended March 31, 2013, the Company newly established 16 companies and judged 2 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, 2013.

One company, which had been a consolidated subsidiary, became an affiliated company to be accounted for by the equity method and was excluded from the scope of consolidation as a result of the sale of some of the shares.

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

Five companies were excluded from consolidation due to merger.

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

The Company holds the majority of voting rights in NYK Armateur S.A.S. However, the Company does not maintain substantive control over the decision-making structure, largely due to the existence of an agreement for significant financial and operating policies, and NYK Armateur S.A.S. is therefore not regarded as a subsidiary but rather an affiliate accounted for by the equity method.

(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 10 unconsolidated subsidiaries and 117 affiliates by the equity method at March 31, 2013.

In the consolidated fiscal year ended March 31, 2013, the Company newly established 3 companies and judged 4 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.

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

One company, which had been a consolidated subsidiary, became an affiliated company to be accounted for by the equity method as a result of the sale of some of the shares.

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

One company was excluded from the scope of companies accounted for by the equity method, due to the sale of the shares.

(3) Any material difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary upon inclusion in the consolidation, unless specifically identified and reclassified to the applicable accounts

from which the value originates, is treated as goodwill or negative goodwill, as the case may be, and amortized over a period of 5 to 20 years on a straight-line basis.

(4) All significant intercompany balances, transactions and 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, 2013, December 31 was used by 48 consolidated subsidiaries as the closing date for their financial statements. Necessary adjustments have been made to address transactions that occurred between closing dates different to that of the Company and March 31.

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

## C. Foreign Currency Financial Statements

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

## D. Valuation of Assets

(1) Short-term and long-term investment securities are classified and accounted for, depending on management's intent, as follows:

i) Held-to-maturity debt securities, which are expected to be held to maturity, with the positive intent and ability to hold to maturity are reported at amortized cost and

ii) (a) available-for-sale securities with fair value, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity and (b) available-for-sale securities whose fair value was not readily determinable are reported at cost using the moving average method.

(2) Derivatives are valued at market.

(3) Inventories are stated at the lower of cost, determined by the first-in, first-out method, or net selling value, which is defined as the selling price, less additional estimated manufacturing costs and estimated direct selling expenses.

## E. Depreciation and Amortization

(1) Vessels, property, plant and equipment, except for lease assets, are depreciated as follows: Vessels, property, plant and equipment are depreciated generally by the straight-line method. Assets for which the purchase price is more than ¥100,000, but less than ¥200,000 are depreciated generally in equal allotments over three years based on the Japanese Corporation Tax Law.

(2) Intangible assets, except for lease assets, are amortized as follows:

Computer software is amortized by the straight-line method based principally on the length of period it can be used internally (five years). Other intangible assets are amortized by the straight-line method.

(3) Leased assets are depreciated as follows:

Leased assets related to financial leases that transfer ownership rights are depreciated by the same depreciation method that is applied to fixed assets owned by the Company. Leased assets related to financial leases that do not transfer ownership rights are depreciated under the straight-line method based on the lease term as the useful life and assuming no residual value.

## F. Capitalization of Interest Expenses

Interest expense is generally charged to income as incurred. However, interest expense incurred in the construction of certain assets, particularly projects for vessels, is 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 retirement benefits:

To provide for employees' retirement benefits, this provision is recorded based on the estimated actuarial present value of the Company's and its consolidated subsidiaries' retirement benefit obligations and the estimated fair value of pension assets at the end of the fiscal year. The Company amortizes prior service cost using the straight-line method over the term that does not exceed the average remaining service period (eight years) of employees who are eligible for postretirement benefits.

Unrecognized net actuarial differences are mainly amortized beginning immediately the following year on a straight-line basis over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (eight years).

(5) 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.
(6) 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.
(7) Provision for losses related to antitrust law:
i) The Company's consolidated subsidiary, YUSEN LOGISTICS CO., LTD. ("YUSEN LOGISTICS"), has recorded a provision for possible future losses associated with U.S. antitrust laws in the amount estimated as of the present time.
ii) The Company's consolidated subsidiary, Nippon Cargo Airlines Co., Ltd. ("NCA") has recorded a provision for possible future losses associated with Korean Fair Trading Law.

### H. 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 operations 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.

### I. 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.

### J. 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.

### K. 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 currency swap contracts and forward foreign exchange contracts 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 and interest rate cap contracts 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 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. Semiannually, the Company and its consolidated subsidiaries evaluate the effectiveness of hedging methods, except 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.

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.

### L. Per Share Information

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

Diluted net income per share for the year-ended March 31, 2013 is not disclosed because it is antidilutive. Diluted net income per share for the year-ended March 31, 2012 is not disclosed because of the Company's net loss position.

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

## M. 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.

## N. Additional Information

(1) Change in accounting policies

The method of valuation of fuel oil in the Company was changed from the moving average method to the first-in, first-out method beginning from the consolidated fiscal year ended March 31, 2013. This change was conducted in an aim to reflect the effect of price fluctuations more appropriately to the book value of inventories by taking into consideration past trends and analysis of the price of fuel oil.

Impact of this change on the amount is minor and, therefore, this change is not applied retrospectively.

(2) Changes in presentation

Consolidated statements of operations

Prior to April 1, 2012, the "Loss on cancellation of chartered vessels" was disclosed separately in other income (expenses) of the consolidated statements of operations. Since, during the consolidated fiscal year ended March 31, 2013, the materiality of this amount decreased, this amount is now included in "Others, net" within the other income (expenses) section of the consolidated statements of operations. The amount of "Loss on cancellation of chartered vessels" included in "Others, net" for the fiscal year ended March 31, 2012 was ¥4,020 million.

(3) Change in accounting estimates

Previously, the useful life of LNG carriers and Very Large Crude oil Carriers (VLCC) included in vessels in vessels, property, plant and equipment was 13 years. However, the useful lives of such carriers were changed to 20 years and 18 years, respectively, as a result of reviewing their useful lives in the consolidated fiscal year ended March 31, 2013, based on their past actual performance, taking into consideration the fact that prolonged use of such carriers can be expected as the past actual performance is accumulated.

As a result of this change, operating income and income before income taxes and minority interests increased by ¥10,961 million, respectively, compared to the conventional method.

(4) New accounting pronouncements

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

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

(i) Summary

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

(ii) Planned adoption date

The Company plans to adopt the said accounting standard from the end of the consolidated fiscal year ending March 31, 2014. However, the Company plans to adopt the revised calculation methods for retirement benefit obligations and current service costs from the beginning of the consolidated fiscal year ending March 31, 2015.

(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 in "3. Summary of Significant Accounting Policies," "K. 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 and currency swap contracts that meet the required conditions as designation accounting under the accounting standard, the Company and its consolidated subsidiaries translate hedged foreign currency assets and liabilities at the rates of these contracts. In addition, for interest rate swap contracts that meet specified conditions as exceptional accounting under the accounting standard, the related interest differentials paid or received under the contracts are included in the interest income/expense of the hedged financial assets and liabilities.

② Principal hedging methods and items hedged

| Principal hedging methods | Principal items hedged |
|---|---|
| Currency swap contacts | Charterage paid and loans payable |
| Interest rate swap contracts | Loans payable and receivable |
| Fuel swap contracts | Purchase price of fuel |
| Forward foreign exchange contracts | Forecasted foreign currency transactions |

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 counterparty 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 its 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, 2013 and 2012, 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) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2013 | | |
| | Book value | Fair value | Difference | Book value | Fair value | Difference | Book value | Fair value | Difference |
| ① Cash and cash equivalents | ¥ 298,429 | ¥ 298,429 | ¥ — | ¥ 151,336 | ¥ 151,336 | ¥ — | $ 3,173,096 | $ 3,173,096 | $ — |
| ② Time deposits with a maturity of more than three months | 5,509 | 5,509 | — | 2,738 | 2,738 | — | 58,582 | 58,582 | — |
| ③ Notes and operating accounts receivable-trade | 222,532 | | | 196,333 | | | 2,366,103 | | |
| Allowance for doubtful accounts*1 | (1,405) | | | (2,010) | | | (14,946) | | |
| Balance | 221,126 | 221,126 | — | 194,322 | 194,322 | — | 2,351,156 | 2,351,156 | — |
| ④ Short-term and long-term investment securities (Note 5) | | | | | | | | | |
| Held-to-maturity debt securities | 635 | 635 | (0) | 886 | 852 | (33) | 6,758 | 6,754 | (4) |
| Available-for-sale securities | 124,530 | 124,530 | — | 125,094 | 125,094 | — | 1,324,093 | 1,324,093 | — |
| Investments in unconsolidated subsidiaries and affiliates | 10,746 | 9,417 | (1,328) | 13,695 | 8,403 | (5,291) | 114,264 | 100,137 | (14,127) |
| ⑤ Long-term loans receivable | 17,857 | | | 16,228 | | | 189,875 | | |
| Allowance for doubtful accounts*1 | (0) | | | (1) | | | (4) | | |
| Balance | 17,857 | 18,479 | 621 | 16,226 | 17,111 | 884 | 189,871 | 196,484 | 6,613 |
| Subtotal | 678,836 | 678,129 | (707) | 504,300 | 499,860 | (4,440) | 7,217,823 | 7,210,305 | (7,518) |
| ① Notes and operating accounts payable-trade | 180,680 | 180,680 | — | 165,002 | 165,002 | — | 1,921,114 | 1,921,114 | — |
| ② Current portion of bonds | — | — | — | 45,000 | 45,000 | — | — | — | — |
| ③ Short-term loans payable | 127,013 | 127,013 | — | 97,846 | 97,846 | — | 1,350,486 | 1,350,486 | — |
| ④ Bonds payable | 245,445 | 252,048 | 6,603 | 205,445 | 213,622 | 8,177 | 2,609,728 | 2,679,941 | 70,212 |
| ⑤ Long-term loans payable | 911,920 | 932,093 | 20,173 | 710,892 | 727,410 | 16,517 | 9,696,120 | 9,910,615 | 214,495 |
| Subtotal | 1,465,059 | 1,491,836 | 26,776 | 1,224,185 | 1,248,881 | 24,695 | 15,577,450 | 15,862,158 | 284,708 |
| Derivative financial instruments*2 | ¥ (1,315) | ¥ (1,315) | ¥ — | ¥ (31,416) | ¥ (31,416) | ¥ — | $ (13,986) | $ (13,986) | $ — |

* 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. Amount 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 cash equivalents and ② time deposits with a maturity of more than three months

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

③ 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 are calculated based on either the present value of expected future cash flows or expected recoverable amount of their collateral or guarantees; hence, their market values approximate their book values at the closing date, less the current expected amount of doubtful accounts.

④ 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.

⑤ Long-term loans receivable

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

Liabilities

① Notes and operating accounts payable-trade, ② current portion of bonds, and ③ 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.

④ Bonds payable

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

⑤ 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 meet 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) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Segment | Book value | Book value | Book value |
| Investments in unconsolidated subsidiaries and affiliates | ¥ 97,265 | ¥ 85,935 | $1,034,185 |
| Shares in unlisted companies | 18,510 | 21,314 | 196,817 |
| Others | 245 | 215 | 2,607 |
| Total | ¥116,021 | ¥107,465 | $1,233,610 |

As these instruments do not have readily available market values, and their fair values are extremely difficult to determine, they are not included in "④ Short-term and long-term investment securities."

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

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | | | 2012 | | | |
| | 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 cash equivalents | ¥298,429 | ¥ — | ¥ — | ¥ — | ¥151,336 | ¥ — | ¥ — | ¥ — |
| Time deposits with a maturity of more than three months | 5,509 | — | — | — | 2,738 | — | — | — |
| Notes and operating accounts receivable-trade | 221,934 | 597 | — | — | 195,387 | 945 | — | — |
| Short-term and long-term investment securities: | | | | | | | | |
| Held-to-maturity debt securities (government bonds) | — | — | 100 | — | 150 | — | 100 | — |
| Held-to-maturity debt securities (corporate bonds) | — | 500 | — | — | 100 | 500 | — | — |
| Held-to-maturity debt securities (others) | — | 25 | 10 | — | — | 25 | 10 | — |
| Available-for-sale securities with maturity dates (government bonds) | 42 | 18 | — | — | — | 60 | — | — |
| Available-for-sale securities with maturity dates (others) | 42 | — | — | — | 33 | — | — | — |
| Long-term loans receivable | — | 8,608 | 3,431 | 5,818 | — | 7,588 | 3,463 | 5,176 |
| Total | ¥525,958 | ¥9,748 | ¥3,541 | ¥5,818 | ¥349,747 | ¥9,119 | ¥3,573 | ¥5,176 |

| | Thousands of U.S. dollars (Note 2) | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Within one year | More than one year, within five years | More than five years, within ten years | More than ten years |
| Cash and cash equivalents | $3,173,096 | $ — | $ — | $ — |
| Time deposits with a maturity of more than three months | 58,582 | — | — | — |
| Notes and operating accounts receivable-trade | 2,359,747 | 6,355 | — | — |
| Short-term and long-term investment securities: | | | | |
| Held-to-maturity debt securities (government bonds) | — | — | 1,063 | — |
| Held-to-maturity debt securities (corporate bonds) | — | 5,316 | — | — |
| Held-to-maturity debt securities (others) | — | 265 | 106 | — |
| Available-for-sale securities with maturity dates (government bonds) | 446 | 191 | — | — |
| Available-for-sale securities with maturity dates (others) | 452 | — | — | — |
| Long-term loans receivable | — | 91,525 | 36,488 | 61,860 |
| Total | $5,592,325 | $103,655 | $37,658 | $61,860 |

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

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | | | |
| | Within one year | More than one year, within two years | More than two years, within three years | More than three years, within four years | More than four years, within five years | More than five years |
| Short-term loans payable | ¥127,013 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Bonds payable | — | 50,000 | — | 40,000 | 50,000 | 105,445 |
| Long-term loans payable | — | 96,165 | 82,902 | 76,945 | 90,046 | 565,858 |
| Total | ¥127,013 | ¥146,165 | ¥82,902 | ¥116,945 | ¥140,046 | ¥671,303 |

| | Thousands of U.S. dollars (Note 2) | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | | | |
| | Within one year | More than one year, within two years | More than two years, within three years | More than three years, within four years | More than four years, within five years | More than five years |
| Short-term loans payable | $1,350,486 | $ — | $ — | $ — | $ — | $ — |
| Bonds payable | — | 531,632 | — | 425,305 | 531,632 | 1,121,158 |
| Long-term loans payable | — | 1,022,498 | 881,477 | 818,138 | 957,433 | 6,016,572 |
| Total | $1,350,486 | $1,554,130 | $881,477 | $1,243,443 | $1,489,065 | $7,137,731 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | | | |
| | 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 |
| Current portion of bonds | ¥ 45,000 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Short-term loans payable | 97,846 | — | — | — | — | — |
| Bonds payable | — | — | 50,000 | — | 40,000 | 115,445 |
| Long-term loans payable | — | 92,979 | 84,117 | 60,280 | 62,581 | 410,933 |
| Total | ¥142,846 | ¥92,979 | ¥134,117 | ¥60,280 | ¥102,581 | ¥526,378 |

## 5. Securities

(1) Short-term and long-term investment securities classified as held-to-maturity with fair value as of March 31, 2013 and 2012, are summarized as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars (Note 2) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2013 | | |
| | 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 | ¥106 | ¥ 6 | ¥250 | ¥255 | ¥ 5 | $1,065 | $1,133 | $ 68 |
| Corporate bonds | 200 | 203 | 3 | 300 | 305 | 5 | 2,128 | 2,166 | 37 |
| Others | — | — | — | — | — | — | — | — | — |
| Subtotal | 300 | 310 | 9 | 550 | 561 | 10 | 3,193 | 3,299 | 106 |
| Securities for which fair value is equal to or less than book value: | | | | | | | | | |
| Government bonds and others | — | — | — | — | — | — | — | — | — |
| Corporate bonds | 300 | 290 | (9) | 300 | 261 | (39) | 3,192 | 3,091 | (100) |
| Others | 35 | 34 | (0) | 35 | 30 | (4) | 372 | 362 | (9) |
| Subtotal | 335 | 324 | (10) | 335 | 291 | (43) | 3,564 | 3,454 | (110) |
| Total | ¥635 | ¥635 | ¥ (0) | ¥886 | ¥852 | ¥(33) | $6,758 | $6,754 | $ (4) |

(2) Short-term and long-term investment securities classified as available-for-sale securities with fair value as of March 31, 2013 and 2012, are summarized as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars (Note 2) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2013 | | |
| | 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 | ¥106,388 | ¥56,665 | ¥49,722 | ¥105,542 | ¥65,477 | ¥40,064 | $1,131,187 | $602,503 | $528,683 |
| Government bonds and others | 60 | 59 | 0 | 59 | 59 | 0 | 638 | 634 | 3 |
| Corporate bonds | — | — | — | — | — | — | — | — | — |
| Others | 64 | 61 | 3 | 69 | 51 | 18 | 689 | 655 | 34 |
| Subtotal | 106,513 | 56,786 | 49,726 | 105,671 | 65,588 | 40,083 | 1,132,514 | 603,792 | 528,721 |
| Securities for which book value is equal to or less than acquisition costs: | | | | | | | | | |
| Corporate shares | 17,971 | 23,035 | (5,063) | 19,367 | 26,538 | (7,170) | 191,086 | 244,929 | (53,842) |
| Government bonds and others | — | — | — | — | — | — | — | — | — |
| Corporate bonds | — | — | — | — | — | — | — | — | — |
| Others | 46 | 52 | (6) | 54 | 63 | (8) | 492 | 559 | (67) |
| Subtotal | 18,017 | 23,088 | (5,070) | 19,422 | 26,601 | (7,179) | 191,578 | 245,488 | (53,909) |
| Total | ¥124,530 | ¥79,874 | ¥44,656 | ¥125,094 | ¥92,190 | ¥32,904 | $1,324,093 | $849,281 | $474,812 |

"Acquisition costs" are the book value after the recording of impairment losses. Impairment losses were recognized in the fiscal year ended March 31, 2013, and were recorded as a loss on valuation of investment securities in the amount of ¥1,656 million ($17,614 thousand).

(3) Proceeds, gains, and losses on sales of available-for-sale securities in the fiscal years ended March 31, 2013 and 2012, are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Proceeds from sales | ¥27,795 | ¥6,209 | $295,543 |
| Gross realized gains | 12,815 | 3,501 | 136,261 |
| Gross realized losses | (31) | (273) | (336) |

## 6. Derivatives

Derivative financial instruments with fair value as of March 31, 2013 and 2012, are summarized as follows:

(1) Derivative transactions not qualifying for hedge accounting

| | Millions of yen | | | | | | Thousands of U.S. dollars (Note 2) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2013 | | |
| | Contracts outstanding | Contracts outstanding (more than one year) | Fair value | Contracts outstanding | Contracts outstanding (more than one year) | Fair value | Contracts outstanding | Contracts outstanding (more than one year) | Fair value |
| a. Currency-related | | | | | | | | | |
| Forward foreign currency exchange contracts: | | | | | | | | | |
| Buy U.S. dollar, sell Japanese yen | ¥ 1,834 | ¥ 183 | ¥ 91 | ¥ 5,271 | ¥ 682 | ¥ (43) | $ 19,507 | $ 1,951 | $ 967 |
| Sell U.S. dollar, buy Japanese yen | 5,422 | — | (449) | 3,817 | 682 | 17 | 57,654 | — | (4,777) |
| Buy Euro, sell Japanese yen | 196 | — | (0) | 80 | — | 4 | 2,089 | — | (4) |
| Sell Euro, buy Japanese yen | 1,822 | 722 | (22) | 1,812 | — | (14) | 19,380 | 7,677 | (243) |
| Buy U.S. dollar, sell Euro | 3,514 | — | 10 | 970 | — | (1) | 37,372 | — | 108 |
| Sell Pound sterling, buy U.S. dollar | 1,240 | — | (64) | 3,561 | — | (0) | 13,185 | — | (681) |
| Others | 2,841 | 370 | (22) | 1,548 | — | 6 | 30,207 | 3,937 | (243) |
| | ¥16,872 | ¥ 1,275 | ¥(458) | ¥17,062 | ¥ 1,365 | ¥ (32) | $179,397 | $ 13,567 | $(4,873) |
| b. Interest rate-related | | | | | | | | | |
| Interest rate swaps: | | | | | | | | | |
| Receive fixed, pay floating | ¥20,360 | ¥16,811 | ¥ 497 | ¥25,138 | ¥20,326 | ¥ 646 | $216,484 | $178,752 | $ 5,286 |
| Receive floating, pay fixed | 20,184 | 16,428 | (649) | 23,990 | 20,128 | (857) | 214,612 | 174,680 | (6,906) |
| | ¥40,544 | ¥33,240 | ¥(152) | ¥49,129 | ¥40,455 | ¥(211) | $431,096 | $353,432 | $(1,619) |
| c. Commodity-related | | | | | | | | | |
| Freight (chartered-freight) forward transactions: | | | | | | | | | |
| Forward chartered-freight agreements on buyer's side | ¥ 978 | ¥ — | ¥ (5) | ¥ 126 | ¥ — | ¥ (13) | $ 10,405 | $ — | $ (55) |
| Forward chartered-freight agreements on seller's side | 1,134 | — | 19 | — | — | — | 12,066 | — | 204 |
| Fuel option: | | | | | | | | | |
| Buy call option, sell put option | 2,942 | — | 9 | 1,734 | — | 70 | 31,284 | — | 98 |
| | ¥ 5,055 | ¥ — | ¥ 23 | ¥ 1,861 | ¥ — | ¥ 57 | $ 53,755 | $ — | $ 247 |

* 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, 2013 and 2012.
2. The fuel option contracts are zero-cost option contracts, and call options and put options are shown as a lump sum because they are included in integrated contracts.

## (2) Derivative transactions qualifying for hedge accounting

| | | Millions of yen | | | | | | Thousands of U.S. dollars (Note 2) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | | | 2012 | | | 2013 | | |
| | | 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 | ¥ 3,295 | ¥ — | ¥ 494 | ¥ 10,076 | ¥ 3,108 | ¥ (592) | $ 35,042 | $ — | $ 5,258 |
| Sell U.S. dollar, buy Japanese yen | | 1,028 | — | (0) | 1,810 | — | (41) | 10,931 | — | (7) |
| Others | | 154 | 57 | 9 | 115 | 0 | (3) | 1,637 | 606 | 103 |
| Non-deliverable forward | Principal items hedged: | | | | | | | | | |
| Sell Russian ruble, buy U.S. dollar | Investment for equity of overseas subsidiary | 4,272 | — | 42 | — | — | — | 45,428 | — | 457 |
| Currency swaps: | Principal items hedged: | | | | | | | | | |
| Receive U.S. dollar, pay Japanese yen | Loan payable | — | — | — | 223 | 223 | 43 | — | — | — |
| Receive U.S. dollar, pay Malaysian ringgit | | 920 | 558 | (58) | 1,035 | 736 | (45) | 9,788 | 5,938 | (621) |
| Receive Japanese yen, pay U.S. dollar | | — | — | — | 39 | 0 | 25 | — | — | — |
| Currency options: | Principal items hedged: | | | | | | | | | |
| Buy U.S. dollar put option, sell U.S. dollar call option | Freight | 9,474 | — | 18 | 6,221 | — | (6) | 100,740 | — | 198 |
| 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 | ¥156,209 | ¥ 44,470 | ¥ 13,559 | ¥245,783 | ¥142,585 | ¥(19,482) | $1,660,922 | $ 472,836 | $ 144,178 |
| Sell U.S. dollar, buy Japanese yen | | 7,834 | — | (56) | 4,884 | — | (31) | 83,301 | — | (602) |
| Others | | — | — | — | 9 | — | (0) | — | — | — |
| | | ¥183,189 | ¥ 45,085 | ¥ 14,010 | ¥270,198 | ¥146,655 | ¥(20,134) | $1,947,792 | $ 479,381 | $ 148,965 |
| **b. Interest rate-related** | | | | | | | | | | |
| Derivative transactions qualifying for general accounting policies, deferral hedge accounting | | | | | | | | | | |
| Interest rate swaps: | Principal items hedged: | | | | | | | | | |
| Receive fixed, pay floating | Long-term loans payable | ¥ 10,000 | ¥ 10,000 | ¥ 223 | ¥ — | ¥ — | ¥ — | $ 106,326 | $ 106,326 | $ 2,379 |
| Receive floating, pay fixed | | 162,052 | 141,862 | (16,157) | 127,654 | 113,469 | (13,656) | 1,723,042 | 1,508,372 | (171,792) |
| 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 | ¥ 10,000 | ¥ 10,000 | *2 | $ 265,816 | $ 265,816 | *2 |
| Receive floating, pay fixed | | 75,873 | 69,215 | | 75,208 | 68,665 | | 806,735 | 735,942 | |
| | | ¥272,925 | ¥246,077 | ¥(15,933) | ¥212,863 | ¥192,134 | ¥(13,656) | $2,901,921 | $2,616,458 | $(169,413) |
| **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 | ¥ 368 | ¥ — | ¥ 20 | ¥ — | ¥ — | ¥ — | $ 3,913 | $ — | $ 218 |
| Fuel swaps: | Principal items hedged: | | | | | | | | | |
| Receive fixed, pay floating | Fuel | 82 | — | 1 | — | — | — | 874 | — | 11 |
| Receive floating, pay fixed | | 21,380 | 2,695 | 1,054 | 15,436 | 362 | 2,483 | 227,332 | 28,661 | 11,217 |
| Fuel oil collar transactions: | Principal items hedged: | | | | | | | | | |
| Buy call option, sell put option | Fuel | 7,449 | — | (6) | 6,504 | — | 135 | 79,209 | — | (72) |
| | | ¥ 29,280 | ¥ 2,695 | ¥ 1,069 | ¥ 21,940 | ¥ 362 | ¥ 2,618 | $ 311,330 | $ 28,661 | $ 11,374 |

* 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, 2013 and 2012.
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, 2013 and 2012, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Products and goods | ¥ 2,485 | ¥ 2,385 | $ 26,430 |
| Real estate for sale | 1 | 1 | 12 |
| Fuel and supplies | 61,430 | 57,835 | 653,173 |
| Others | 685 | 662 | 7,285 |
| Total | ¥64,603 | ¥60,884 | $686,902 |

## 8. Vessels, Property, Plant and Equipment

As of March 31, 2013 and 2012, vessels, property, plant and equipment consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Vessels, property, plant and equipment, at cost: | | | |
| Vessels | ¥1,584,147 | ¥1,440,016 | $16,843,675 |
| Buildings and structures | 166,472 | 162,193 | 1,770,037 |
| Aircraft | 25,098 | 5,334 | 266,858 |
| Machinery, equipment and vehicles | 88,133 | 77,422 | 937,088 |
| Equipment | 25,119 | 24,266 | 267,084 |
| Land | 64,391 | 63,280 | 684,653 |
| Construction in progress | 180,138 | 234,976 | 1,915,351 |
| Other | 14,759 | 12,514 | 156,935 |
| Total | 2,148,260 | 2,020,004 | 22,841,685 |
| Less accumulated depreciation | (861,834) | (833,461) | (9,163,577) |
| Net vessels, property, plant and equipment | ¥1,286,426 | ¥1,186,543 | $13,678,108 |

## 9. 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, 2013, totaled ¥4,795 million ($50,984 thousand).

The amounts recorded in the consolidated balance sheets, the increase (decrease) during the fiscal years ended March 31, 2013 and 2012, and the fair value of the relevant investment and rental property are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Amount recorded in consolidated balance sheet: | | | |
| Balance at end of the previous year | ¥42,817 | ¥ 39,745 | $ 455,260 |
| Increase (decrease) during the fiscal year | (1,470) | 3,071 | (15,633) |
| Balance at end of the current year | 41,346 | 42,817 | 439,626 |
| Fair value as of current fiscal year-end | ¥99,413 | ¥102,089 | $1,057,031 |

* 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, 2013, the primary increase was ¥857 million ($9,113 thousand) from acquisition and the primary decreases were ¥985 million ($10,473 thousand) from depreciation and ¥677 million ($7,207 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).

## 10. Deferred Capital Gains

Under certain conditions, such as exchanges of fixed assets of similar kinds, gains from insurance claims, and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer gains arising from such transactions by reducing the cost of the assets acquired. As such, deferred capital gains from insurance claims were deducted from the cost of properties acquired in replacement, which amounted to ¥5,506 million ($58,548 thousand) and ¥5,425 million as of March 31, 2013 and 2012, respectively.

## 11. Short-Term and Long-Term Debt

(1) Short-term debt had weighted-average interest rates of 1.03% and 1% as of March 31, 2013 and 2012, respectively.

(2) Long-term debt as of March 31, 2013 and 2012, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Loans from banks and other financial institutions, with a weighted-average interest rate of 1 percent and 1.13 percent at March 31, 2013 and 2012, due from 2014 to 2031 | ¥1,009,438 | ¥ 790,922 | $10,732,994 |
| Lease obligations, with a weighted-average interest rate of 4.7 percent at March 31, 2013, due from 2014 to 2021 | 7,812 | 7,941 | 83,068 |
| Unsecured 1.67 percent bonds, due on June 20, 2012 | — | 30,000 | — |
| Unsecured 1.01 percent bonds, due on February 21, 2013 | — | 15,000 | — |
| Unsecured 1.58 percent bonds, due on June 9, 2014 | 20,000 | 20,000 | 212,652 |
| Unsecured 0.968 percent bonds, due on August 11, 2014 | 30,000 | 30,000 | 318,979 |
| Unsecured 2.06 percent bonds, due on June 22, 2016 | 20,000 | 20,000 | 212,652 |
| Unsecured 0.475 percent bonds, due on September 9, 2016 | 20,000 | 20,000 | 212,652 |
| Unsecured 0.472 percent bonds, due on June 16, 2017 | 20,000 | — | 212,652 |
| Unsecured 2.05 percent bonds, due on June 20, 2017 | 30,000 | 30,000 | 318,979 |
| Unsecured 0.594 percent bonds, due on June 18, 2018 | 10,000 | — | 106,326 |
| Unsecured 1.782 percent bonds, due on August 9, 2019 | 30,000 | 30,000 | 318,979 |
| Unsecured 1.218 percent bonds, due on September 9, 2021 | 25,000 | 25,000 | 265,816 |
| Unsecured 1.177 percent bonds, due on June 17, 2022 | 10,000 | — | 106,326 |
| Unsecured 2.36 percent bonds, due on June 7, 2024 | 10,000 | 10,000 | 106,326 |
| Unsecured 2.65 percent bonds, due on June 22, 2026 | 10,000 | 10,000 | 106,326 |
| Unsecured 2.13 percent bonds, due on September 9, 2031 | 10,000 | 10,000 | 106,326 |
| Convertible bonds with warrants, due on September 24, 2026 | 445 | 445 | 4,731 |
| Subtotal | 1,262,695 | 1,049,309 | 13,425,792 |
| Less current portion due within one year | (98,700) | (126,108) | (1,049,443) |
| Long-term debt, less current portion | ¥1,163,995 | ¥ 923,200 | $12,376,348 |

A partial early redemption of the convertible bonds with warrants, due on September 24, 2026, was carried out on September 20, 2011.

The aggregate annual maturities of long-term loans from banks and other financial institutions, convertible bonds with warrants, bonds, and lease obligations as of March 31, 2013, were as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|
| 2015 | ¥ 147,231 | $ 1,565,455 |
| 2016 | 83,929 | 892,391 |
| 2017 | 117,627 | 1,250,689 |
| 2018 | 142,678 | 1,517,052 |
| 2019 and thereafter | 672,528 | 7,150,758 |
| Total | ¥1,163,995 | $12,376,348 |

Bonds with warrants

| | 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 ($8.27 (Note 2)) |
| Total amount of debt securities issued | ¥445 million ($4,732 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 |

## 12. Pledged Assets and Secured Liabilities

As of March 31, 2013, the following assets were pledged as collateral for short-term loans payable, current portion of long-term debt, long-term debt, and others:

| | Net book value | |
|---|---|---|
| Pledged assets | Millions of yen | Thousands of U.S. dollars (Note 2) |
| Vessels | ¥161,769 | $1,720,033 |
| Buildings and structures | 2,447 | 26,027 |
| Land | 5,107 | 54,305 |
| Investment securities | 10,663 | 113,379 |
| Others | 664 | 7,068 |
| Total | ¥180,652 | $1,920,814 |

| Secured liabilities | Millions of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|
| Short-term loans payable and current portion of long-term debt | ¥ 14,963 | $ 159,097 |
| Long-term debt | 118,195 | 1,256,727 |
| Others | 54 | 580 |
| Total | ¥133,212 | $1,416,404 |

## 13. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2013 and 2012, were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Deferred tax assets: | | | |
| Provision for bonuses | ¥ 2,470 | ¥ 2,582 | $ 26,265 |
| Provision for retirement benefits | 5,049 | 5,282 | 53,686 |
| Impairment loss on vessels, property, plant and equipment | 4,691 | 7,135 | 49,884 |
| Losses on revaluation of securities | 1,077 | 1,813 | 11,460 |
| Tax loss carryforwards | 62,157 | 67,277 | 660,896 |
| Unrealized gains on sale of vessels, property, plant and equipment | 2,215 | 2,423 | 23,555 |
| Provision for periodic dry docking of vessels | 5,306 | 5,964 | 56,422 |
| Accrued expenses | 1,759 | 1,301 | 18,707 |
| Foreign tax credit carry forward | 3,447 | 2,712 | 36,653 |
| Deferred loss on derivatives under hedge accounting | 7,616 | 11,629 | 80,978 |
| Others | 8,107 | 12,596 | 86,199 |
| Subtotal of deferred tax assets | 103,898 | 120,719 | 1,104,710 |
| Valuation allowance | (84,134) | (103,251) | (894,576) |
| Total deferred tax assets | 19,763 | 17,468 | 210,133 |
| Deferred tax liabilities: | | | |
| Gain on securities contribution to employee retirement benefit trust | (3,193) | (3,193) | (33,957) |
| Depreciation | (7,369) | (6,590) | (78,357) |
| Reserve for reduction entry | (4,113) | (4,286) | (43,742) |
| Reserve for special depreciation | (46) | (69) | (497) |
| Valuation difference on available-for-sale securities | (14,359) | (10,492) | (152,678) |
| Deferred gain on derivatives under hedge accounting | (5,806) | (1,828) | (61,734) |
| Others | (13,850) | (12,443) | (147,266) |
| Total deferred tax liabilities | (48,739) | (38,904) | (518,233) |
| Net deferred tax (liabilities) assets | ¥ (28,976) | ¥ (21,436) | $ (308,100) |

(2) Reconciliation of the statutory income tax rate to the effective income tax rate for the years ended March 31, 2013 and 2012*, was as follows:

| | 2013 |
|---|---|
| Normal statutory income tax rate | 34.4% |
| Increase (decrease) in taxes resulting from: | |
| Amortization of goodwill | 0.8 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 2.0 |
| Permanently non-deductible expenses for tax purposes, such as entertainment expenses | 1.9 |
| Permanently non-taxable income, such as dividend income | (0.8) |
| Changes in valuation allowance | (6.7) |
| Adjustment to tax for the overseas subsidiaries | 2.8 |
| Other | (1.1) |
| Actual effective income tax rate | 33.3% |

* For the fiscal year ended March 31, 2012, the reconciliation of the statutory tax rate of the Company and its consolidated subsidiaries to the effective income tax rate is not stated as the Company and its consolidated subsidiaries recorded loss before income taxes and minority interests.

## 14. 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 provided certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal retained earnings (a component of retained earnings) or as a legal capital surplus (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the aggregate amount of a legal retained earnings and a legal capital surplus equals 25% of the amount of common stock. Under the Companies Act, the total amount of a legal capital surplus and a legal retained earnings may be reversed without limitation. The Companies Act also provides that common stock, a legal retained earnings, a 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 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, 2013, were as follows:

| | Shares of common stock (Thousands) | Shares of treasury stock (Thousands) |
|---|---|---|
| At March 31, 2012 | 1,700,550 | 4,261 |
| Increase in number of shares | — | 87 |
| Decrease in number of shares | — | 15 |
| At March 31, 2013 | 1,700,550 | 4,334 |

### b. Matters Concerning Dividends

① Total dividend payments to be paid for the consolidated fiscal year ended March 31, 2013, are as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|
| Approved at the regular general meeting of shareholders on June 20, 2012 | ¥3,392 | $36,072 |
| Approved by the Board of Directors on October 31, 2012 | 3,392 | 36,072 |
| Total | ¥6,785 | $72,144 |

② The effective date for dividends, including retained earnings, as of March 31, 2013, shall be determined in the subsequent consolidated fiscal year, as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|
| At the regular general meeting of shareholders on June 25, 2013 | ¥3,392 | $36,071 |
| Total | ¥3,392 | $36,071 |

## 15. 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, 2013, land and building prices dropped on rental property, causing noticeable deterioration in profitability. The Company reduced the book value on these asset groups to recoverable amounts and booked the reductions as impairment losses of ¥1,420 million ($15,108 thousand).

The breakdown is as follows:

| Location | Application | Type | Millions of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| Japan | Mainly rental properties | Land and building | ¥1,369 | $14,564 |
| Others | Assets for operations | Vessels and others | 51 | 543 |
| Total | | | ¥1,420 | $15,108 |

Impairment loss by location

| Location | Millions of yen | Thousands of U.S. dollars (Note 2) | |
|---|---|---|---|
| Japan | ¥1,369 | $14,564 | (Land ¥1,355 ($14,414)) |
| Others | 51 | 543 | (Vessel ¥33 ($360)) |

The recoverable amount for these asset groups will be the net selling price, which is based on land assessments and so on.

## 16. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2013 and 2012, were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Unrealized gain (loss) on available-for-sale securities: | | | |
| Gains (losses) arising during the year | ¥ 23,804 | ¥ (9,196) | $ 253,099 |
| Reclassification adjustments to profit or loss for the year | (10,978) | 1,911 | (116,731) |
| Amount before income tax effect | ¥ 12,825 | ¥ (7,284) | $ 136,368 |
| Income tax effect | (4,761) | 4,347 | (50,627) |
| Total | ¥ 8,063 | ¥ (2,936) | $ 85,740 |
| Deferred gain (loss) on hedges: | | | |
| Gains arising during the year | ¥ 14,879 | ¥ 1,470 | $ 158,203 |
| Reclassification adjustments to profit or loss for the year | 2,431 | (6,012) | 25,852 |
| Adjustment for the acquisition cost of assets | 12,441 | 19,572 | 132,284 |
| Amount before income tax effect | ¥ 29,751 | ¥ 15,030 | $ 316,340 |
| Income tax effect | (3,944) | (14,525) | (41,942) |
| Total | ¥ 25,807 | ¥ 505 | $ 274,398 |
| Foreign currency translation adjustments: | | | |
| Gains (losses) arising during the year | ¥ 31,407 | ¥ (7,278) | $ 333,940 |
| Reclassification adjustments to profit or loss for the year | 67 | (502) | 716 |
| Amount before income tax effect | ¥ 31,474 | ¥ (7,781) | $ 334,657 |
| Income tax effect | — | (26) | — |
| Total | ¥ 31,474 | ¥ (7,807) | $ 334,657 |
| Pension liability adjustment of foreign subsidiaries and affiliates: | | | |
| (Losses) arising during the year | ¥ (370) | ¥ (588) | $ (3,938) |
| Reclassification adjustments to profit or loss for the year | 252 | — | 2,686 |
| Amount before income tax effect | ¥ (117) | ¥ (588) | $ (1,252) |
| Income tax effect | 59 | 118 | 627 |
| Total | ¥ (58) | ¥ (469) | $ (624) |
| Share of other comprehensive income of associates accounted for using equity method: | | | |
| Gains (losses) arising during the year | ¥ 479 | ¥(12,129) | $ 5,096 |
| Reclassification adjustments to profit or loss for the year | 3,165 | 2,483 | 33,660 |
| Adjustment for the acquisition cost of assets | — | (376) | — |
| Total | ¥ 3,645 | ¥(10,022) | $ 38,756 |
| Gain or loss on change in equity: | | | |
| (Losses) gains arising during the year | ¥ (282) | ¥ 1,340 | $ (3,001) |
| Total other comprehensive income (loss) | ¥ 68,649 | ¥(19,390) | $ 729,927 |

"Gain or loss on change in equity" is attributed to reorganization accompanying integration with the overseas subsidiaries of YUSEN LOGISTICS.

## 17. Commitments and Contingent Liabilities

(1) Commitments made by the Company and its consolidated subsidiaries as of March 31, 2013, totaled ¥151,630 million ($1,612,230 thousand) for the construction of vessels, ¥292,367 million ($3,108,641 thousand) for the purchase of aircraft and ¥394 million ($4,197 thousand) for the purchase of other equipment.

Contingent liabilities for notes receivable discounted and endorsed, loans guaranteed and joint debt of indebtedness as of March 31, 2013, were as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|
| Notes receivable discounted and endorsed | ¥ 21 | $ 226 |
| Guarantees of loans | 175,844 | 1,869,694 |
| Total | ¥175,865 | $1,869,920 |

Note: Amount of joint obligations borne by the other joint obligors, which had been separately recorded from guarantees of loans, was included in the guarantees of loans beginning from the consolidated fiscal year ended March 31, 2013, as the amount became small.

(2) Certain operating leases entered into by consolidated subsidiaries in relation to various vessels include guarantees of residual value. The potential maximum payment under these guarantees of residual value is ¥36,580 million ($388,944 thousand).
There is a possibility that payments will be made under these guarantees if lease assets are returned without exercise of the lease purchase option. These operating lease contracts will expire by June 2021.

(3) Certain operating leases entered into by the Company and its consolidated subsidiary, NCA, in relation to aircraft include guarantees of residual value.
The potential maximum payment under these guarantees of residual value is ¥32,476 million ($345,311 thousand). There is a possibility that payments will be made under these guarantees if lease assets are returned upon the conclusion of the lease term. These operating lease contracts will expire by March 2023.

(4) The Company's consolidated subsidiary, NCA, has been filed for a damage suit without a specified amount of damage (class action lawsuit) in the United States on suspicion of forming a price cartel in the air cargo transport service, etc.
Regarding the ultimate outcome of the class action lawsuit, there is a possibility of a resulting impact on NCA's operating results, but it is difficult to reasonably predict these results at this time.

(5) The Company's consolidated subsidiary, YUSEN LOGISTICS, has been filed for a class action lawsuit in the United States for various kinds of cartel behavior performed by more than 60 international freight forwarders around the world.
Regarding the ultimate outcome of the class action lawsuit, there is a possibility of a resulting impact on YUSEN LOGISTICS's operating results, but it is difficult to reasonably predict these results at this time.

## 18. Accounting for Leases

As discussed in Note 3. J, 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, 2013 and 2012, was as follows:

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

a. Acquisition cost, accumulated depreciation, accumulated impairment loss, and net balance at end of the year of leased assets as of March 31, 2013 and 2012, 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 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | | | 2012 | | | | |
| | Vessels | Aircraft | Equipment | Other | Total | Vessels | Aircraft | Equipment | Other | Total |
| Acquisition cost | ¥15,215 | ¥— | ¥38,578 | ¥708 | ¥54,501 | ¥14,562 | ¥29,427 | ¥49,969 | ¥917 | ¥94,875 |
| Accumulated depreciation | 12,682 | — | 33,061 | 612 | 46,356 | 11,103 | 14,389 | 39,501 | 721 | 65,716 |
| Accumulated impairment loss | — | — | — | — | — | — | 5,441 | — | — | 5,441 |
| Net balance at end of the year | ¥ 2,532 | ¥— | ¥ 5,516 | ¥ 95 | ¥ 8,144 | ¥ 3,458 | ¥ 9,596 | ¥10,467 | ¥195 | ¥23,718 |

| | Thousands of U.S. dollars (Note 2) | | | | |
|---|---|---|---|---|---|
| | 2013 | | | | |
| | Vessels | Aircraft | Equipment | Other | Total |
| Acquisition cost | $161,776 | $— | $410,190 | $7,528 | $579,495 |
| Accumulated depreciation | 134,849 | — | 351,530 | 6,515 | 492,895 |
| Accumulated impairment loss | — | — | — | — | — |
| Net balance at end of the year | $ 26,926 | $— | $ 58,659 | $1,013 | $ 86,599 |

b. Future lease payments as of March 31, 2013, which included the portion of interest thereon, are as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|
| Within one year | ¥3,727 | $39,629 |
| More than one year | 3,245 | 34,508 |
| Total | ¥6,972 | $74,137 |

c. Lease expenses, depreciation, interest expenses, and impairment loss for the years ended March 31, 2013 and 2012, were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Lease expenses for the year | ¥5,982 | ¥9,861 | $63,614 |
| Reversal of impairment loss on leased property | 3,463 | 659 | 36,825 |
| Depreciation | 6,858 | 9,970 | 72,929 |
| Interest expenses | 303 | 549 | 3,227 |

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, 2013, are as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|
| Within one year | ¥ 79,470 | $ 844,982 |
| More than one year | 326,630 | 3,472,940 |
| Total | ¥406,100 | $4,317,923 |

#### As lessors

Future lease income as of March 31, 2013, is as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|
| Within one year | ¥ 4,331 | $ 46,050 |
| More than one year | 55,217 | 587,108 |
| Total | ¥59,548 | $633,159 |

## 19. 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) Amounts related to projected benefit obligations (as of March 31, 2013 and 2012):

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Projected benefit obligations | ¥ (94,093) | ¥ (87,078) | $(1,000,463) |
| Plan assets | 105,294 | 101,333 | 1,119,556 |
| Unfunded obligations | 11,200 | 14,255 | 119,092 |
| Unrecognized actuarial loss (gain) | 11,712 | 4,819 | 124,531 |
| Unrecognized prior service cost | 825 | 1,207 | 8,778 |
| Net obligations in the consolidated balance sheets | 23,738 | 20,281 | 252,403 |
| Prepaid pension costs | 39,345 | 36,143 | 418,345 |
| Provision for retirement benefits | ¥ (15,606) | ¥ (15,861) | $ (165,942) |

### (3) Amounts related to retirement benefit costs (years ended March 31, 2013 and 2012):

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Service costs | ¥ 3,629 | ¥ 4,374 | $ 38,594 |
| Interest costs | 1,675 | 1,756 | 17,814 |
| Expected return on plan assets | (1,467) | (1,452) | (15,601) |
| Recognized actuarial loss | (1,702) | (4,074) | (18,106) |
| Amortization of prior service cost | 501 | 316 | 5,334 |
| Retirement benefit costs | ¥ 2,636 | ¥ 920 | $ 28,034 |

* In addition to the costs shown above, certain consolidated subsidiaries had ¥1,837 million ($19,539 thousand) and ¥1,376 million for the fiscal years ended March 31, 2013 and 2012, respectively, in defined contribution retirement benefit costs. Besides the retirement benefit costs shown above, certain domestic consolidated subsidiaries treated the amount of defined contributions paid to the Employees' Pension Fund as retirement benefit costs.

### (4) Assumptions in calculation of the above information (as of March 31, 2013 and 2012):

| | 2013 | 2012 |
|---|---|---|
| Method of attributing the projected benefits to periods of service | Straight-line basis | Straight-line basis |
| Discount rate | Mainly 1.1% | Mainly 2.0% |
| Expected rate of return on plan assets | Mainly 2.0%–3.0% | Mainly 2.0%–3.0% |
| Amortization period of prior service cost | Mainly 8 years | Mainly 8 years |
| Recognition period of actuarial gain/loss | Mainly 8 years | Mainly 8 years |

## 20. Segment Information

The Company and its consolidated subsidiaries operate in eight businesses: Liner Trade, Bulk Shipping, Logistics,Terminal and Harbor Transport, Cruise, Air Cargo Transport, Real Estate, and Others.

The table below presents certain segment information for the years ended March 31, 2013 and 2012.

Year ended March 31, 2013:

| | Millions of yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Global Logistics | | | | Others | | | | | |
| | Liner Trade | Terminal and Harbor Transport | Air Cargo Transport | Logistics | Bulk Shipping | Cruise | Real Estate | Others | Total | Adjustments* | Consolidated Total |
| I Revenues: | | | | | | | | | | | |
| (1) Revenues from customers | ¥437,535 | ¥112,998 | ¥71,266 | ¥363,657 | ¥ 793,990 | ¥35,026 | ¥ 8,623 | ¥ 74,002 | ¥1,897,101 | ¥ — | ¥1,897,101 |
| (2) Intersegment revenues | 4,328 | 27,806 | 6,598 | 3,172 | 1,596 | 16 | 1,799 | 99,632 | 144,950 | (144,950) | — |
| Total | 441,863 | 140,804 | 77,864 | 366,829 | 795,587 | 35,042 | 10,423 | 173,635 | 2,042,051 | (144,950) | 1,897,101 |
| Segment (loss) profit | (9,433) | 6,952 | (4,862) | 4,773 | 18,623 | (3,744) | 3,940 | 1,475 | 17,724 | 11 | 17,736 |
| Segment assets | ¥280,701 | ¥166,070 | ¥90,311 | ¥217,455 | ¥1,412,501 | ¥28,659 | ¥57,372 | ¥607,828 | ¥2,860,900 | ¥(430,536) | ¥2,430,364 |
| II Other items: | | | | | | | | | | | |
| Depreciation and amortization | ¥ 12,607 | ¥ 4,789 | ¥ 2,320 | ¥ 6,376 | ¥ 67,388 | ¥ 2,044 | ¥ 909 | ¥ 1,094 | ¥ 97,531 | ¥ (8) | ¥ 97,522 |
| Amortization of goodwill and negative goodwill | 9 | 88 | — | (246) | 1,028 | — | 0 | (0) | 879 | — | 879 |
| Interest income | 285 | 119 | 4 | 208 | 1,309 | 1 | 5 | 6,675 | 8,610 | (6,481) | 2,128 |
| Interest expenses | 2,251 | 621 | 798 | 633 | 12,766 | 268 | 43 | 6,426 | 23,809 | (6,351) | 17,457 |
| Equity in earnings of unconsolidated subsidaries and affiliates | 106 | (257) | — | 268 | 1,618 | — | 8 | — | 1,745 | — | 1,745 |
| Investments in equity method affiliates | 122 | 11,191 | — | 3,340 | 71,346 | — | 926 | 95 | 87,024 | (40) | 86,983 |
| Increase in vessels, property, plant and equipment and intangible assets | 12,194 | 7,017 | 52,845 | 9,480 | 218,576 | 1,180 | 1,209 | 1,303 | 303,806 | (1,480) | 302,326 |
| III Information about impairment loss by reportable segments: | | | | | | | | | | | |
| Impairment loss | ¥ — | ¥ 1,369 | ¥ — | ¥ 17 | ¥ 33 | ¥ — | ¥ — | ¥ — | ¥ 1,420 | ¥ — | ¥ 1,420 |
| IV Information about balance of goodwill by reportable segments: | | | | | | | | | | | |
| Balance of goodwill (negative goodwill) at the end of current period | ¥ — | ¥ 2,956 | ¥ — | ¥ 2,216 | ¥ 17,994 | ¥ — | ¥ — | ¥ 5 | ¥ 23,173 | ¥ — | ¥ 23,173 |

| | Thousands of U.S. dollars (Note 2) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Global Logistics | | | | | Others | | | | | |
| | Liner Trade | Terminal and Harbor Transport | Air Cargo Transport | Logistics | Bulk Shipping | Cruise | Real Estate | Others | Total | Adjustments* | Consolidated Total |
| I Revenues: | | | | | | | | | | | |
| (1) Revenues from customers | $4,652,154 | $1,201,468 | $757,749 | $3,866,644 | $ 8,442,220 | $372,424 | $ 91,693 | $ 786,845 | $20,171,200 | $ — | $20,171,200 |
| (2) Intersegment revenues | 46,022 | 295,653 | 70,156 | 33,726 | 16,978 | 173 | 19,137 | 1,059,355 | 1,541,204 | (1,541,204) | — |
| Total | 4,698,177 | 1,497,122 | 827,905 | 3,900,370 | 8,459,198 | 372,598 | 110,831 | 1,846,201 | 21,712,405 | (1,541,204) | 20,171,200 |
| Segment (loss) profit | (100,305) | 73,921 | (51,700) | 50,754 | 198,019 | (39,813) | 41,896 | 15,686 | 188,458 | 123 | 188,582 |
| Segment assets | $2,984,601 | $1,765,767 | $960,251 | $2,312,127 | $15,018,618 | $304,724 | $610,022 | $6,462,821 | $30,418,935 | $(4,577,737) | $25,841,198 |
| II Other items: | | | | | | | | | | | |
| Depreciation and amortization | $ 134,052 | $ 50,923 | $ 24,669 | $ 67,802 | $ 716,516 | $ 21,739 | $ 9,669 | $ 11,638 | $ 1,037,013 | $ (87) | $ 1,036,925 |
| Amortization of goodwill and negative goodwill | 101 | 943 | — | (2,624) | 10,931 | — | 0 | (6) | 9,346 | — | 9,346 |
| Interest income | 3,036 | 1,270 | 46 | 2,212 | 13,928 | 19 | 61 | 70,977 | 91,552 | (68,920) | 22,631 |
| Interest expenses | 23,935 | 6,610 | 8,495 | 6,738 | 135,736 | 2,854 | 462 | 68,327 | 253,160 | (67,538) | 185,621 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 1,128 | (2,736) | — | 2,857 | 17,214 | — | 95 | — | 18,559 | — | 18,559 |
| Investments in equity method affiliates | 1,302 | 118,995 | — | 35,522 | 758,605 | — | 9,852 | 1,017 | 925,295 | (433) | 924,862 |
| Increase in vessels, property, plant and equipment and intangible assets | 129,656 | 74,609 | 561,890 | 100,803 | 2,324,047 | 12,547 | 12,857 | 13,855 | 3,230,268 | (15,741) | 3,214,526 |
| III Information about impairment loss by reportable segments: | | | | | | | | | | | |
| Impairment loss | $ — | $ 14,564 | $ — | $ 183 | $ 360 | $ — | $ — | $ — | $ 15,108 | $ — | $ 15,108 |
| IV Information about balance of goodwill by reportable segments: | | | | | | | | | | | |
| Balance of goodwill (negative goodwill) at the end of current period | $ — | $ 31,438 | $ — | $ 23,571 | $ 191,329 | $ — | $ — | $ 56 | $ 246,395 | $ — | $ 246,395 |

* Adjustments of segment profit or loss are internal exchanges or transfers among segments.
Adjustments of segment assets are –¥506,340 million (–$5,383,735 thousand) of receivable or asset relating to internal exchange among segments and ¥75,804 million ($805,998 thousand) of corporate assets.
Major corporate assets are excess of operating funds (cash and deposits).

Year ended March 31, 2012:

| | Millions of yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Global Logistics | | | | | Others | | | | | |
| | Liner Trade | Terminal and Harbor Transport | Air Cargo Transport | Logistics | Bulk Shipping | Cruise | Real Estate | Others | Total | Adjustments* | Consolidated Total |
| I Revenues: | | | | | | | | | | | |
| (1) Revenues from customers | ¥414,748 | ¥111,070 | ¥73,301 | ¥361,712 | ¥ 727,492 | ¥32,458 | ¥ 9,096 | ¥ 77,938 | ¥1,807,819 | ¥ — | ¥1,807,819 |
| (2) Intersegment revenues | 3,995 | 29,018 | 9,310 | 3,478 | 3,362 | 12 | 1,753 | 106,639 | 157,571 | (157,571) | — |
| Total | 418,744 | 140,089 | 82,612 | 365,191 | 730,854 | 32,471 | 10,849 | 184,577 | 1,965,391 | (157,571) | 1,807,819 |
| Segment profit (loss) | (44,757) | 7,748 | 3,384 | 9,266 | (7,786) | (5,823) | 3,902 | 811 | (33,253) | 15 | (33,238) |
| Segment assets | ¥261,554 | ¥158,466 | ¥69,766 | ¥205,224 | ¥1,295,649 | ¥28,117 | ¥54,596 | ¥457,568 | ¥2,530,945 | ¥(408,711) | ¥2,122,234 |
| II Other items: | | | | | | | | | | | |
| Depreciation and amortization | ¥ 11,471 | ¥ 4,776 | ¥ 787 | ¥ 6,214 | ¥73,710 | ¥ 1,860 | ¥ 924 | ¥ 1,122 | ¥ 100,868 | ¥ (10) | ¥ 100,857 |
| Amortization of goodwill and negative goodwill | 9 | 17 | — | (257) | 1,162 | — | 0 | (29) | 903 | — | 903 |
| Interest income | 355 | 92 | 6 | 292 | 932 | 1 | 4 | 8,163 | 9,849 | (7,013) | 2,836 |
| Interest expenses | 2,275 | 717 | 604 | 657 | 12,065 | 274 | 105 | 6,386 | 23,085 | (6,876) | 16,209 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 80 | 254 | — | 167 | 1,623 | — | 37 | — | 2,164 | — | 2,164 |
| Investments in equity method affiliates | 83 | 10,700 | — | 3,022 | 67,095 | — | 940 | — | 81,843 | — | 81,843 |
| Increase in vessels, property, plant and equipment and intangible assets | 27,224 | 4,753 | 10,096 | 5,980 | 253,120 | 2,631 | 4,095 | 1,386 | 309,288 | — | 309,288 |
| III Information about impairment loss by reportable segments: | | | | | | | | | | | |
| Impairment loss | ¥ — | ¥ — | ¥ — | ¥ — | ¥ 5,396 | ¥ — | ¥ 96 | ¥ — | ¥ 5,493 | ¥ 17 | ¥ 5,511 |
| IV Information about balance of goodwill by reportable segments: | | | | | | | | | | | |
| Balance of goodwill (negative goodwill) at the end of current period | ¥ 9 | ¥ 2,670 | ¥ — | ¥ 1,606 | ¥ 19,246 | ¥ — | ¥ 0 | ¥ (1) | ¥ 23,531 | ¥ — | ¥ 23,531 |

* Adjustments of segment profit or loss are internal exchanges or transfers among segments.
Adjustments of segment assets are ¥472,059 million ($5,019,236 thousand) of receivable or asset relating to internal exchange among segments and ¥63,347 million ($673,554 thousand) of corporate assets.
Major corporate assets are excess of operating funds (cash and deposits).

## 21. 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, 2013:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Japan | North America | Europe | Asia | Others | Total |
| I Revenues | ¥1,441,067 | ¥137,040 | ¥150,005 | ¥160,210 | ¥8,777 | ¥1,897,101 |
| II Tangible fixed assets | 995,484 | 37,330 | 184,257 | 68,733 | 619 | 1,286,426 |

| | Thousands of U.S. dollars (Note 2) | | | | | |
|---|---|---|---|---|---|---|
| | Japan | North America | Europe | Asia | Others | Total |
| I Revenues | $15,322,353 | $1,457,107 | $1,594,952 | $1,703,457 | $93,328 | $20,171,200 |
| II Tangible fixed assets | 10,584,633 | 396,926 | 1,959,141 | 730,819 | 6,588 | 13,678,108 |

Year ended March 31, 2012:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Japan | North America | Europe | Asia | Others | Total |
| I Revenues | ¥1,373,071 | ¥125,530 | ¥155,902 | ¥145,533 | ¥7,781 | ¥1,807,819 |
| II Tangible fixed assets | 962,925 | 24,278 | 144,736 | 54,046 | 556 | 1,186,543 |

## 22. Related Party Transactions

The Company was contingently liable as guarantor of indebtedness of related parties at March 31, 2013 and 2012, as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Guarantee amount | ¥32,585 | ¥29,450 | $346,464 |

## 23. Subsequent Events

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2013, was approved at the Company's shareholders' meeting held on June 25, 2013:

| | Millions of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|
| Year-end cash dividends, ¥2.00 ($0.02) per share | ¥3,392 | $36,071 |

# Management's Report on Internal Control Over Financial Reporting

### 1. Matters relating to the basic framework of internal control over financial reporting

Yasumi Kudo, President, President Corporate Officer, and Kenji Mizushima, Representative Director, Senior Managing Corporate Officer, are responsible for designing and operating effective internal control over financial reporting of the Company and have designed and operated internal control over financial reporting of the consolidated financial statements in accordance with the basic framework for internal control set forth in "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that material misstatements may not be completely prevented or detected by internal control over financial reporting.

### 2. Matters relating to the scope of assessment, the basis date of assessment and the assessment procedures

The assessment of internal control over financial reporting was performed as of March 31, 2013, 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.

工藤泰三

Yasumi Kudo
President, President Corporate Officer
June 25, 2013

水島健二

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, 2013, and the related consolidated statements of operations, 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, 2013, 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, 2013.

### *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, 2013 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 25, 2013

# Major Consolidated Subsidiaries

(As of March 31, 2013)

| | | Company | NYK's ownership +(%) | Revenues (Millions of yen) | Total assets | Paid-in capital |
|---|---|---|---|---|---|---|
| Domestic | Liner | NYK-Hinode Line, Ltd. | 100.00 | ¥29,867 | ¥37,605 | ¥2,100 |
| | Terminal Related Services | Uni-X Corporation | 83.29 | ¥20,959 | ¥15,079 | ¥934 |
| | | Asahi Unyu Kaisha, Ltd. | 95.00 | 10,179 | 8,595 | 100 |
| | | Geneq Corporation*1 | 55.14 | 13,960 | 15,687 | 242 |
| | | Asia Pacific Marine Corporation | 55.14 | 5,901 | 2,021 | 35 |
| | | Nippon Container Terminals Co., Ltd. | 51.00 | 10,764 | 9,444 | 250 |
| | | Yusen Koun Co., Ltd. | 80.16 | 10,570 | 2,801 | 100 |
| | | Nippon Container Yuso Co., Ltd. | 50.83 | 6,739 | 2,184 | 250 |
| | | Naikai Tug Boat Service Co., Ltd. | 100.00 | 5,876 | 8,885 | 97 |
| | Air Cargo Transportation | Nippon Cargo Airlines Co., Ltd. | 100.00 | ¥77,969 | ¥89,914 | ¥50,574 |
| | Logistics | Yusen Logistics Co., Ltd. | 59.75 | ¥68,498 | ¥53,207 | ¥4,301 |
| | | Kinkai Yusen Logistics Co., Ltd. | 100.00 | 18,301 | 12,966 | 465 |
| | | Camellia Line Co., Ltd. | 51.00 | 5,808 | 1,862 | 400 |
| | Bulk Shipping | NYK Global Bulk Corporation | 100.00 | ¥85,512 | ¥117,520 | ¥4,150 |
| | | Hachiuma Steamship Co., Ltd. | 74.85 | 12,023 | 6,096 | 500 |
| | | Asahi Shipping Co., Ltd. | 69.67 | 11,637 | 11,355 | 495 |
| | Cruise | NYK Cruises Co., Ltd. | 100.00 | ¥12,755 | ¥10,471 | ¥2,000 |
| | Real Estate | Yusen Real Estate Corporation | 100.00 | ¥7,831 | ¥14,812 | ¥450 |
| | Others | NYK Trading Corporation | 78.20 | ¥134,894 | ¥24,667 | ¥1,246 |
| | | NYK Business Systems Co., Ltd. | 99.82 | 11,141 | 1,982 | 99 |
| | | Sanyo Trading Co., Ltd. | 45.23 | 6,730 | 5,370 | 100 |
| | | Boltech Co., Ltd. | 100.00 | 3,133 | 2,670 | 30 |

| | | Company | NYK's ownership +(%) | Revenues (Millions of indicated units) | Total assets | Paid-in capital |
|---|---|---|---|---|---|---|
| Overseas | Liner | Astarte Carriers, Ltd. | 100.00 | US$0.3 | US$1.0 | US$0.6 |
| | | NYK Line (North America) Inc. | 100.00 | US$92 | US$97 | US$4 |
| | Terminal Related Services | Yusen Terminals Inc. | 100.00 | US$238 | US$191 | US$2 |
| | | NYK Terminals (North America) Inc. | 100.00 | US$361 | US$274 | US$0.001 |
| | Logistics | Yusen Logistics (Americas) Inc. | 79.47 | US$901 | US$233 | US$70 |
| | | Yusen Logistics (Hong Kong) Ltd. | 59.75 | HK$2,361 | HK$943 | HK$55 |
| | | Yusen Logistics (China) Co., Ltd.*2 | 79.47 | CHY1,193 | CHY566 | CHY158 |
| | | Yusen Logistics (UK) Ltd. | 78.39 | £210 | £87 | £44 |
| | | Yusen Logistics (Thailand) Co., Ltd. | 68.66 | B6,952 | B5,461 | B70 |
| | Bulk Shipping | Adagio Maritima S.A. | 100.00 | ¥169 | ¥291 | ¥0.1 |
| | | NYK Automotive Logistics (China) Co., Ltd. | 100.00 | CHY888 | CHY328 | CHY195 |
| | | NYK Bulkship (Atlantic) N.V. | 100.00 | US$162 | US$584 | US$106 |
| | | NYK Bulkship (Asia) Pte. Ltd. | 100.00 | US$303 | US$391 | US$7 |
| | Cruise | Crystal Cruises, Inc. | 100.00 | US$276 | US$64 | US$0.04 |

*1. Companies whose operations span multiple divisions.
*2. Former name: NYK Logistics (China) Co., Ltd.
New name effective from April 1, 2012.

+ Includes holdings of subsidiaries

Currencies: B Thai Baht CHY Chinese yuan HK$ Hong Kong dollar US$ U.S dollar £ Pound sterling

Facts and Figures

# Environmental Performance Data

## Fleet

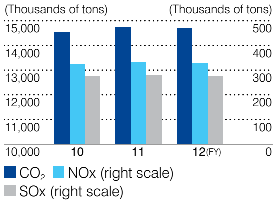
### NYK

INPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Heavy oil C | 4,601.5 | 4,671.5 | 4,649.3 |
| Heavy oil A | 9.2 | 7.7 | 6.4 |
| Diesel | 51.4 | 54.7 | 60.5 |
| (Thousands of tons) | | | |

OUTPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| $CO_2$ | 14,525 | 14,749 | 14,695 |
| NOx | 326 | 331 | 330 |
| SOx | 275 | 280 | 275 |
| (Thousands of tons) | | | |



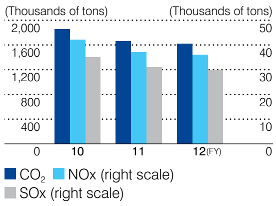

### Domestic and International Group Companies

INPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Heavy oil C | 585.2 | 523.8 | 506.4 |
| Heavy oil A | 2.2 | 1.5 | 2.5 |
| Diesel | 8.1 | 8.1 | 8.9 |
| (Thousands of tons) | | | |

OUTPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| $CO_2$ | 1,856 | 1,662 | 1,614 |
| NOx | 42 | 37 | 36 |
| SOx | 35 | 31 | 30 |
| (Thousands of tons) | | | |




This data was calculated using the IMO Guideline coefficients based on the volumes of fuel purchased by NYK Line and Group company ships.

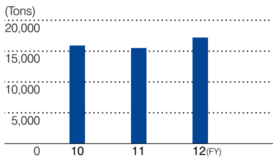
## Three NYK-Owned Container Terminals in Japan

INPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Electric power | 23,028 | 22,750 | 22,419 |
| (1,000 kWh) | | | |
| Fuel | 2,927 | 2,861 | 2,654 |
| (kl) | | | |

OUTPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| $CO_2$ | 15,912 | 15,481 | 17,158 |
| (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. $CO_2$ emissions for fiscal 2012 increased because electric power $CO_2$ emissions coefficients were higher than those for fiscal 2011.

## Offices

Input indicates resources and energies we have used

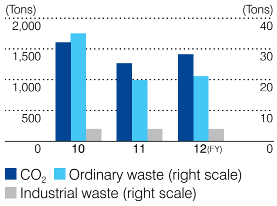
### NYK Headquarters

INPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Electricity | 3,416 | 2,471 | 2,410 |
| (1,000 kWh) | | | |
| Gasoline | 30 | 28 | 21 |
| (kl) | | | |
| City gas | 20 | 21 | 18 |
| Water | 20 | 18 | 18 |
| (1,000 m³) | | | |
| Steam | 1,170 | 1,469 | 1,303 |
| Paper | 32 | 28 | 28 |
| (Tons) | | | |

OUTPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| $CO_2$ | 1,605 | 1,263 | 1,407 |
| Ordinary waste | 35 | 20 | 21 |
| Industrial waste | 4 | 4 | 4 |
| Recycling | 181 | 164 | 138 |
| (Tons) | | | |




Electric power consumption declined because of ongoing energy-conservation activities, reduction in LED lighting fixtures, and lower usage volume for electric sockets. $CO_2$ emissions volumes are calculated from electric power consumption. $CO_2$ emissions in fiscal 2012 have been calculated using the coefficient of 0.464kg-$CO_2$/kWh provided by Tokyo Electric Power Co. Inc. (fiscal 2011 result). The waste volume recycling rate was 85%. From August 2012, recycling was added as a category for data collection.

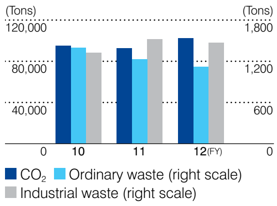
### Japan-Based Group Companies

INPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Electricity | 66,075 | 63,084 | 62,813 |
| (1,000 kWh) | | | |
| Gasoline | 830 | 804 | 823 |
| Kerosene | 100 | 92 | 68 |
| Diesel | 5,778 | 5,547 | 5,395 |
| Heavy oil A | 18,284 | 18,245 | 18,350 |
| (kl) | | | |
| LPG | 88 | 77 | 68 |
| City gas | 837 | 806 | 795 |
| (1,000 m³) | | | |
| Steam | 204 | 231 | 164 |
| Paper | 1,210 | 478 | 464 |
| (Tons) | | | |
| Hot water | 169,270 | 0 | 0 |
| Cold water | 475,728 | 42,935 | 196,720 |
| (Megajoules) | | | |
| Water | 364 | 330 | 303 |
| (1,000 m³) | | | |

OUTPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| $CO_2$ | 95,258 | 92,899 | 102,509 |
| Ordinary waste | 1,395 | 1,232 | 1,122 |
| Industrial waste | 1,321 | 1,524 | 1,467 |
| Recycling | — | — | 321 |
| (Tons) | | | |




Consolidated subsidiaries are included. Forecasts as of April 2013 have been used for fiscal 2012. $CO_2$ emissions volumes are calculated from electric power consumption. $CO_2$ emissions in fiscal 2012 have been calculated using the coefficient of 0.550kg-$CO_2$/kWh (fiscal 2011 result). From August 2012, recycling was added as a data collection category.

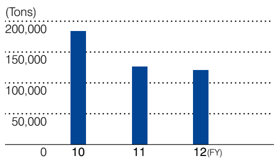
### International Group Companies

INPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Electricity | 76,176 | 71,796 | 63,539 |
| (1,000 kWh) | | | |
| Gasoline | 25,359 | 5,432 | 3,125 |
| Diesel | 28,929 | 24,657 | 19,083 |
| (kl) | | | |
| LPG | 434 | 498 | 604 |
| (Tons) | | | |
| City gas | 4,224 | 8,034 | 8,235 |
| (1,000 m³) | | | |

OUTPUT

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| $CO_2$ | 183,437 | 126,011 | 120,390 |
| (Tons) | | | |




Consolidated subsidiaries are included. Forecasts as of April 2013 have been used for fiscal 2012. $CO_2$ emissions volumes are calculated from electric power consumption. $CO_2$ emissions for fiscal 2010 and fiscal 2011 have been calculated using the coefficient of 0.555kg-$CO_2$/kWh (fiscal 2006 default value). For fiscal 2012, Greenhouse Gas (GHG) Protocol coefficients have been used.

# 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 2012 Overview

As in fiscal 2011, the Group focused efforts on developing innovative new technologies and advancing environmental protection activities. However, costs decreased year on year because fewer vessels went into service in fiscal 2012 than in fiscal 2011 and installation costs for environmental technologies that help prevent global warming and air pollution were lower.

## Comparison of All Costs and Resultant Savings Related to Environmental Activities

(Millions of yen)

| | FY2011 | | FY2012 | |
|---|---|---|---|---|
| | Environmental protection cost | Year-on-year savings | Environmental protection cost | Year-on-year savings |
| Reduction of accidents through safety promotion activities* | 659 | –621 | 397 | –362 |
| Prevention of global warming and air pollution, conservation of marine environments, conservation of resources, and deployment of environmental technologies | 6,635 | 17,196 | 4,951 | 12,870 |
| Total | 7,294 | 16,575 | 5,348 | 12,508 |

* 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 ¥2,788 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, certification (including personnel costs) | 176 |
| 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) | 221 |
| 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. | 788 |
| | Preventing marine pollution | Use of corrosion-resistant steel in VLCC cargo tanks, etc. | 5 |
| | 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. | 2,806 |
| | Preventing destruction of the ozone layer | Ship air-conditioners, refrigerators/freezers, etc. | 0 |
| | Preventing marine pollution | NYK bilge treatment system, etc. | 821 |
| | R&D expenses | Development of international voyage management system, R&D for non-hub-vortex propeller with minimum surface area, etc. | 519 |
| 6. Environment education | Raising environmental awareness and promoting our Green Policy | Environmental e-learning, environmental protection campaigns, etc. | 2 |
| 7. Community activities to promote environmental awareness | Environmental information disclosures, social contributions, etc. | Expenses for CSR report, sponsorship of environmental organizations, etc. | 10 |
| Total | | | 5,348 |

* The Company uses FSC®-certified paper, but the price difference is not substantial and is thus recorded as zero.

## Classification According to the Ministry of the Environment's Environmental Accounting Guidelines

(Millions of yen)

| Environmental protection cost | | |
|---|---|---|
| Classification | Investment | Expenses |
| (1) Cost within NYK business activities: | | |
| a. Pollution prevention cost | 2,196 | 0 |
| b. Global environmental protection cost | 1,463 | 761 |
| 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 | 397 |
| b. Environmental information disclosure, environmental advertising | 0 | 5 |
| c. Environmental education and training | 0 | 2 |
| d. Expenses for environmental improvement | 0 | 0 |
| (4) R&D cost: | | |
| Environmental-load reduction | 0 | 519 |
| (5) Social contribution activities cost: | | |
| Social contribution activities | 0 | 5 |
| (6) Environmental damage response cost | 0 | 0 |
| Total | 3,659 | 1,689 |

Calculation methodology

1. The period is from April 1, 2012, to March 31, 2013. (The calculation period for activities to reduce ship fuel consumption is from January 1, 2012, to December 31, 2012.)
2. The scope is primarily business activities associated with NYK's headquarters and branch offices, NYK-operated terminals, fleet, and ancillary facilities in Japan. (Expenses to maintain ISO 14001 certification are included for certified Group companies in North America, Europe, South Asia, and East Asia.)
3. The Ministry of the Environment's FY2005 Environmental Accounting Guidelines were used.
4. Investment amount refers to cost for depreciable environment-related facilities acquired during the term.
5. Expenses include maintenance and management of facilities for the purpose of environmental protection and associated personnel costs, but do not include depreciation.
6. Cost calculations do not include costs to comply with legal requirements and the like and cover only voluntary environmental protection activities.
7. Results are noted only to the extent that impact can be quantified.

# Human Resources Data (NYK)

This data is for NYK Line employees hired through NYK's headquarters in Tokyo (office workers and seafarers). Seafarers include those who currently work in the office.
Figures are for the full year or as at the end of the fiscal year.
(As of March 31, 2013)

## Employee Demographics

### Long-term employees

| | Male | Female | Total |
|---|---|---|---|
| Office workers | 745 | 271 | 1,016 |
| Seafarers currently working at the office | 250 | 5 | 255 |
| Seafarers | 324 | 8 | 332 |
| Total | 1,319 | 284 | 1,603 |

### Newly hired employees

* Includes recent graduates and mid-career hires

| | Male | Female | Total |
|---|---|---|---|
| Office workers | 29 | 7 | 36 |
| Seafarers | 23 | 1 | 24 |
| Total | 52 | 8 | 60 |

### Definite-term employees

| | Male | Female | Total |
|---|---|---|---|
| Office workers | 46 | 34 | 80 |
| Seafarers | 7 | 0 | 7 |
| Total | 53 | 34 | 87 |

### Employees under age 30 that left the Company

| | Male | Female |
|---|---|---|
| Office workers | 2 | 2 |
| Seafarers | 1 | 2 |

### Average period of employment in the Company

* Seafarers include those who currently work in the office

| (Years) | Male | Female |
|---|---|---|
| Office workers | 17.4 | 19.5 |
| Seafarers | 14.5 | 3.2 |

### 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

| | 2010 | | 2011 | | 2012 | |
|---|---|---|---|---|---|---|
| | Male | Female | Male | Female | Male | Female |
| Directors, Corporate Officers | 34 | 2 | 32 | 2 | 32 | 2 |
| General Managers | 33 | 0 | 39 | 0 | 40 | 2 |
| Managers or higher | 123 | 20 | 120 | 24 | 120 | 21 |
| Total employees | 455 | 189 | 454 | 184 | 461 | 187 |

## Occupational Accidents

### Number of occupational accidents

* Excludes accidents that occurred while commuting to work

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Office workers | 1 | 0 | 0 |
| Seafarers | 2 | 3 | 3 |

### Lost time caused by occupational accidents

* Lost time of one day or longer

| (Days) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Office workers | 0 | 0 | 0 |
| Seafarers | 0 | 64 | 0 |

### Number of work-related deaths

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| 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

| (Days) | 2010 | 2011 | 2012 |
|---|---|---|---|
| | 13.9 | 14.1 | 13.0 |

### Number of employees that have utilized the maternity leave programme

* Total users, excluding those who have left the Company

| 2010 | 2011 | 2012 |
|---|---|---|
| 19 | 11 | 15 |

### Number of employees that have utilized the parental leave programme

* Total users, excluding those who have left the Company

| 2010 | | 2011 | | 2012 | |
|---|---|---|---|---|---|
| Male | Female | Male | Female | Male | Female |
| 3 | 19 | 2 | 22 | 2 | 31 |

### Percentage of eligible female employees that have utilized the parental leave programme

| 2010 | 2011 | 2012 |
|---|---|---|
| 100% | 100% | 100% |

### Employees making use of shorter working hours for parents

* Total users, excluding those who have left the Company

| 2010 | | 2011 | | 2012 | |
|---|---|---|---|---|---|
| Male | Female | Male | Female | Male | Female |
| 0 | 10 | 0 | 15 | 0 | 20 |

### Number of working mothers

* Mothers with children in compulsory education or younger
* Excludes mothers on maternity or parental leave

| 2010 | 2011 | 2012 |
|---|---|---|
| 28 | 28 | 39 |

### Number of employees that have utilized the family-care leave programme

* Total users, excluding those who have left the Company

| 2010 | | 2011 | | 2012 | |
|---|---|---|---|---|---|
| Male | Female | Male | Female | Male | Female |
| 0 | 1 | 0 | 0 | 0 | 0 |

### Percentage of employees with disabilities

| 2010 | 2011 | 2012 |
|---|---|---|
| 2.28% | 2.30% | 2.22% |

## Education

### Average number of days participating in training programmes

| (Days) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Office workers | 5.3 | 5.3 | 5.1 |
| Seafarers | 34.3 | 40.5 | 37.0 |

### Average expenditure on education and training programmes

| (Yen) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Office workers | 255,352 | 222,803 | 208,805 |
| Seafarers | 479,951 | 532,517 | 499,341 |

● Long-term study; training abroad (examples)

- MBA programme abroad (two years; one person selected every two years)
- Short-term study-abroad programme (four weeks; five to 10 people selected each year)

# Human Resources Data (employees hired through Group companies)

Statistics based on a human resources survey of consolidated subsidiaries in Japan and overseas with respect to personnel composition and training and other personnel-related items (As of March 31, 2013)

## Employee Demographics (excluding NYK)

### Number of employees (six months to permanent)

* Excludes non-Japanese seafarers

| | Male | Female | Total |
|---|---|---|---|
| Office workers | 18,065 | 10,429 | 28,494 |
| Seafarers | 833 | 59 | 892 |
| Total | 18,898 | 10,488 | 29,386 |

### Newly hired employees

| | Male | Female | Total |
|---|---|---|---|
| Office workers, seafarers | 2,120 | 1,647 | 3,767 |

### Number of employees (contracts for less than six months)

| | Male | Female | Total |
|---|---|---|---|
| Office workers | 185 | 225 | 410 |

### Occupational accidents

| | 2012 |
|---|---|
| Number of work-related deaths | 3 |

## Employee Demographics (including NYK)

### Number of office workers

* Includes Japanese seafarers assigned to onshore duties and employees seconded from outside the Group

| Region | Japan | Europe | South Asia | North America | East Asia | Oceania | Latin America | Total |
|---|---|---|---|---|---|---|---|---|
| Number of companies | 68 | 30 | 33 | 10 | 22 | 4 | 3 | 170 |
| Number of office workers | 8,364 | 5,222 | 9,165 | 2,766 | 3,796 | 398 | 372 | 30,083 |

### Number of seafarers

* Excludes seafarers currently working at the office

| | NYK | Japan-based Group companies | International Group companies | Seafarers of chartered vessels | Total |
|---|---|---|---|---|---|
| 263 vessels under management | 292 | 137 | 9,854 | — | 10,283 |
| 583 chartered vessels | — | — | — | 12,826 | 12,826 |
| All 846 vessels | 292 | 137 | 9,854 | 12,826 | 23,109 |

| | |
|---|---|
| Total number of NYK Group employees (office workers and seafarers) | 53,192 |

### Percentage of female employees (presence of female employees in the workplace)

| | Total employees | Female employees | Percentage |
|---|---|---|---|
| Employees (office workers) | 30,083 | 10,665 | 35% |
| Manager or above | 4,101 | 825 | 20% |

### Establishment status of parental leave and family-care leave programmes and number of employees that have utilized them

| | Companies with programme | Establishment percentage | Employees utilizing programme | | |
|---|---|---|---|---|---|
| | | | Male | Female | Total |
| Parental leave | 143 | 99% | 232 | 624 | 856 |
| Family-care leave | 103 | 71% | 236 | 444 | 680 |

* Establishment percentage: Percentage of companies that have established a programme

# Corporate Data

(As of March 31, 2013)

### Established
September 29, 1885

### Paid-in Capital
¥144,319,833,730

### Employees
Consolidated: 28,865 (NYK and consolidated subsidiaries)
Non-consolidated: 1,603 (Land: 1,271; Sea: 332)

### Headquarters
3-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-0005, Japan
Telephone: +81-3-3284-5151
Website: http://www.nyk.com/english/

### Common Stock
### Number of authorised shares:
2,983,550,000 shares
### Number of issued and outstanding shares:
1,700,550,988 shares (including treasury stock: 4,334,011)

### Stock Exchange Listings
First Section of the Tokyo Stock Exchange,
the Osaka Securities Exchange,
and the Nagoya Stock Exchange

### Share Registrar and Special Management of Accounts
Mitsubishi UFJ Trust and Banking Corporation
Head Office: 4-5, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8212, Japan
Contact Information: Transfer Agency Department,
10-11, Higashisuna 7-chome,
Koto-ku, Tokyo 137-8081, Japan
Telephone: +81-3-6701-5000

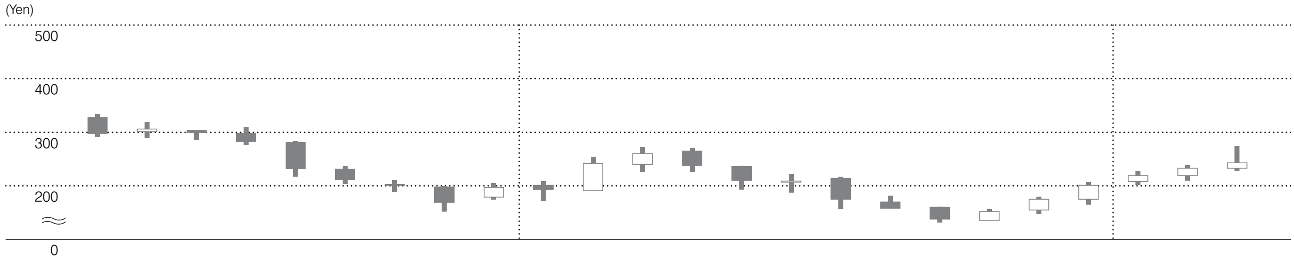
### Method of Public Notice
The Company's public notices are available through electronic distribution.
Website: http://www.nyk.com/koukoku/
However, in the event that electronic distribution is impossible, due to an accident or other unavoidable circumstances, the Company's public notices will appear in the *Nihon Keizai Shimbun*, published in Tokyo, Japan.

### American Depositary Receipts
Symbol: NPNYY
CUSIP: 654633304
Exchange: OTC
Ratio (ADR: shares of common stock): 1:2
Depositary: The Bank of New York Mellon
101 Barclay Street, New York, NY 10286, U.S.A.
Toll-free:
Within the United States: +1-888-BNY-ADRS
(+1-888-269-2377)
From overseas: +1-201-680-6825
Website: http://www.adrbnymellon.com/

### Stock Price Range and Trading Volume

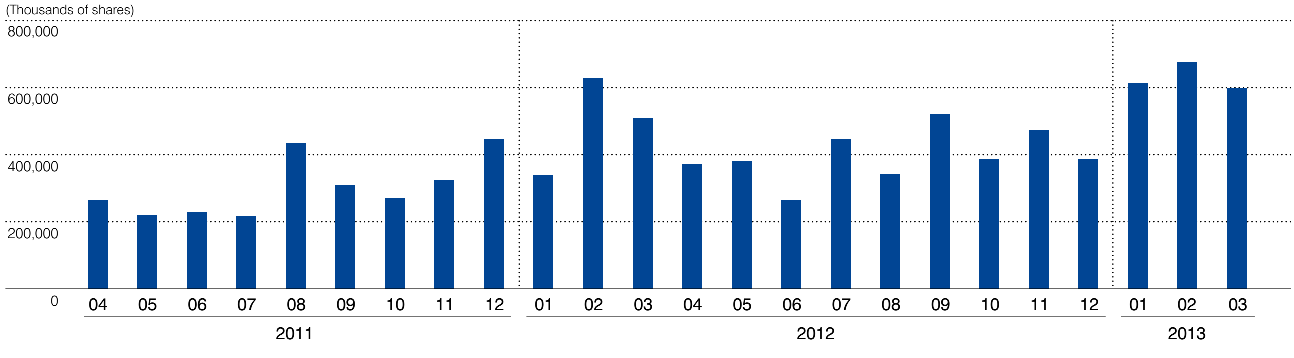
**Stock Price**

(Yen)

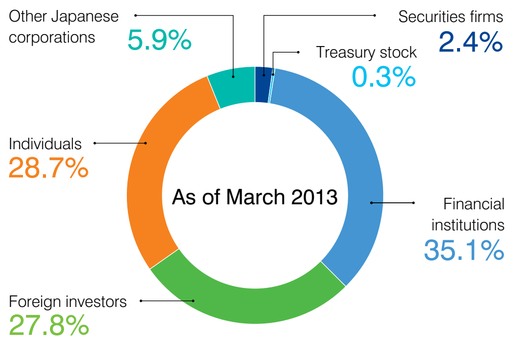



**Trading Volume**

(Thousands of shares)



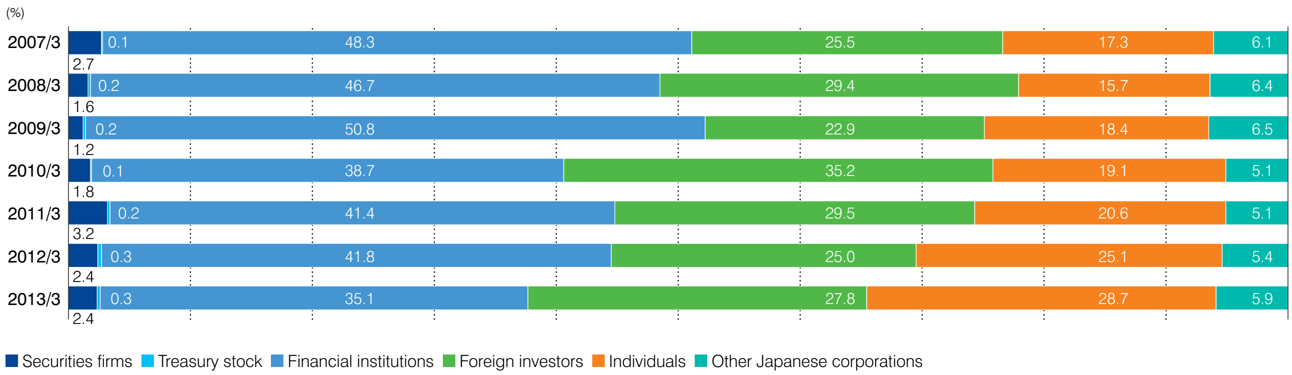
## Shareholder Composition



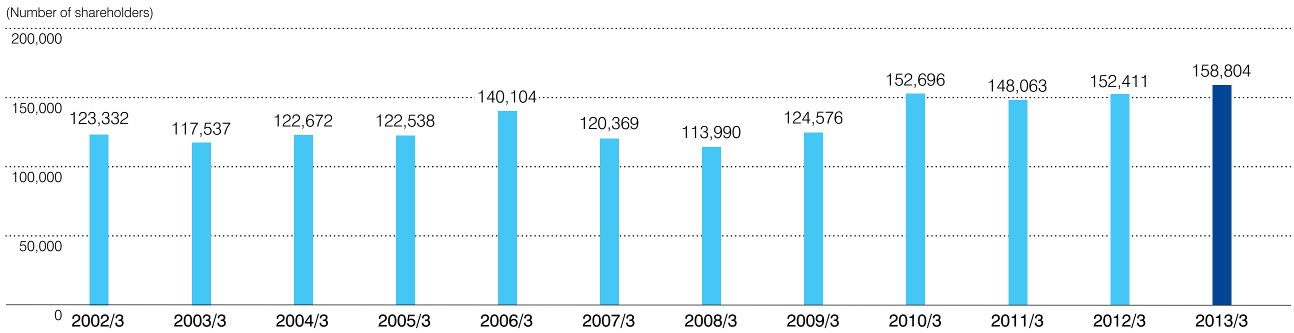

## Principal Shareholders

| Name | Number of shares held (Thousands) |
|---|---|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 102,218 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 85,550 |
| The Master Trust Bank of Japan, Ltd. (Mitsubishi Heavy Industries, Ltd. Account, (Retirement Allowance Trustee Account)) | 54,717 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 42,937 |
| Meiji Yasuda Life Insurance Co. | 34,973 |
| SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS | 34,456 |
| Japan Trustee Services Bank, Ltd. (Trust Account 9) | 31,273 |
| Mizuho Corporate Bank, Ltd. | 22,867 |
| MELLON BANK TREATY CLIENTS OMNIBUS | 22,016 |
| National Mutual Insurance Federation of Agricultural Cooperatives | 18,318 |

## Shareholder Composition




## Number of Shareholders



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