# 2014 Annual Report

## YKK GROUP

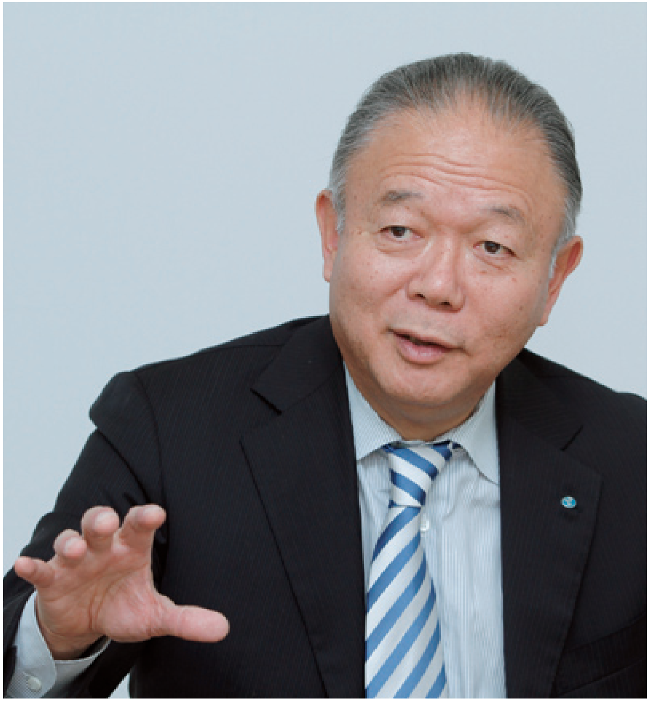
for the year ended March 31, 2014

# Contents

# Messages from the Chairman

## Opening New Horizons for Tomorrow through Technological Development and Innovation - Contributing to Society as a Creative Manufacturer of Value -

### The Never-ending Pursuit of the Culture of *Monozukuri**



The YKK Group has consistently taken on new challenges in the spirit of our “Cycle of Goodness” corporate philosophy and our management principle: “YKK seeks corporate value of higher significance.” In fact, we have built the cornerstone of our current businesses by addressing one challenge after another. Even now, with our core fastening products and architectural products businesses thriving in 71 countries and regions all over the world, our basic stance remains the same.

Our business climate is now entering an era of dramatic, global change. I believe we need to embrace these transformations as opportunities, tackling new challenges more boldly than ever before.

As the Fastening Products Group works to become more cost-competitive and responsive, the Architectural Products Business Group is generating new value in the architecture industry, for everything from residential spaces to high-rise buildings. By further bolstering our technological development and innovation, we will strive to meet a diversifying range of needs and give life to new value through the pursuit of the spirit of *monozukuri* in our many manufacturing initiatives.

We will also continue to reduce our environmental impact and protect nature and biodiversity across all of our businesses. Contributing to the development of a sustainable society is our guiding principle; carrying it out at a high level is our responsibility for the future.

Tadahiro Yoshida
Chairman & CEO
YKK Corporation

Chairman & CEO
YKK AP Inc.

*The art, science and craft of making things with a dedication to continuous improvement, as well as an emphasis on the thing that is being made and the act of making.

# Messages from the President

## Message from YKK Corporation President Masayuki Sarumaru

### Growth Through Taking on New Challenges, Product Appeal and Proposals Supported by Technology: The Three Keys to Success

YKK seeks to achieve growth by continually taking on new challenges. To ensure that we can achieve success in a market environment rapidly changing at an unprecedented pace, the most important challenge for us is the development of innovative technology.

In order to open up new fields for YKK, we need not only to reinforce the technical capabilities we have cultivated over the years, but also to build on a stream of fresh, visionary ideas. I believe that further developing YKK’s technical capabilities through innovation will be the driving force to stay ahead of the competition.

Building a solid foundation based on sound capabilities in technology enhances YKK’s product appeal and proposal capabilities. Going forward, there will be an even greater need to see markets from a global perspective as well as develop new business models. We will continue to provide products that precisely meet the ever-changing, diversifying needs of our customers.

With a continuous awareness of the importance of “execution” and “speed” based on our shared core values,* we will vigorously push forward to achieve success in our many and varied endeavors.

*YKK Core Values
- Do not fear failure, experience builds success. Create opportunities for employees.
- Insist on quality in everything.
- Build trust, transparency and respect.

Masayuki Sarumaru
President
YKK Corporation

## Message from YKK AP President Hidemitsu Hori

### Pleasing customers with our ability to offer solutions and products with strong appeal.

At YKK AP, we create comfortable living spaces using our windows and doors. And with our building Facades, we help add beauty to the urban landscape. YKK AP stands at the forefront of efforts to make daily living and urban spaces more comfortable.

Under the objectives of our Fourth Mid-Term Management Plan, starting from April 2013, YKK AP will work to achieve sustained growth of our AP business by relying on our strengths as a solution-oriented company and one that can create products with strong consumer appeal. To maximize product appeal, we must remember what it means to be a manufacturer, and always try to see our products through the eyes of potential users. To do this, we will work to enhance product appeal by improving speed of development, quality, and cost competitiveness. We also want to boost our ability to suggest the right products based on the customer’s specific needs because we want those who use our products to be both happy and impressed.

For overseas markets, we are working to develop products that are a good fit for the climates and natural features of those countries. YKK AP will maintain its commitment to community-based expansion, with the idea that products manufactured in a particular country or region are best used by the people who live there. Meanwhile, in Japan, demand for new housing is trending downward and efforts to conserve resources are on the rise, meaning we must do more to make the best use of existing housing stock. YKK AP is working with building material distributors around Japan to set up retail outlets ("MADO SHOP") and promote replacement of old, inferior windows. The energy-related challenges we face are not getting any easier, which is one reason that energy conservation in the home has become such a key concern. YKK AP is doing its part to help create eco-friendly, comfortable living spaces through focused efforts to develop products for the home and office that block heat, insulate or promote ventilation to help users cut their energy usage. We can also offer suggestions for incorporating our highly energy-efficient windows and auxiliary products into your space.

YKK AP will maintain its commitment to maximize the performance of architectural spaces. We’re working to conserve energy by building better windows, helping to promote a low-carbon economy and a better society.

Hidemitsu Hori
President
YKK AP Inc.

# Our Business: Fastening Products

## Aggressive Investment in Growth Markets

Based on the goal of developing new strategies for growth, which is part of our Mid-term Management Plan, we are working to achieve the target of selling 10 billion fasteners in 2016. In 2014, the Fastening Products Group will be increasing investment, strengthening product availability in Asia, upgrading and expanding R&D centers, and bolstering new product development capabilities in China. In the fast fashion market, we will strengthen product planning, development, and quick turnaround to prepare for product orders. In response to the needs of customers in the volume zone market, we will establish a cost-competitive edge. Furthermore, we plan to implement concentrated investment (45 billion yen in 2014) in order to strengthen the availability of our products in growing markets, with a focus on Asia. Particularly large investments are being made for the expansion of YKK Vietnam Co., Ltd.'s Nhon Trach Plant and establishment of the copper alloy slider plant adjacent to the PT. YKK Zipco Indonesia copper alloy wire plant (scheduled to be operational in December 2014).


YKK Vietnam Co., Ltd.'s Nhon Trach Plant where expansion is planned

## Development of R&D Centers around the World

In order to respond to customer needs in a timely manner, YKK will continue to promote the expansion of development bases around the world. We will establish fastening R&D centers in five global locations, including Japan, which will perform long-term research on fastening related technology, as well as establish fastening product development offices, which will facilitate the commercialization of products in line with customer demand. In 2014, we plan to add five fastening product development offices in the following locations: Turkey, India, Bangladesh, Vietnam, and Brazil. This will bring the total number of employees at fastening product development offices to roughly 700 in 20 locations around the world by the end of fiscal year ending March 31, 2015.


Bangladesh Plant
Establishment of Fastening Product Development offices beginning in 2014

## Products

● QUICKFIT®

QUICKFIT® is a hook fastener, which utilizes YKK's quick-burst technology, for the assembly of car seats. It is used as a seat-cover tie-down system for automotive foam applications. It makes use of magnets that enable easy installation and reduction of assembly time. At the same time, QUICKFIT® fastener has achieved a significant reduction of weight as compared with conventional products, and allows fewer metals to be used in vehicles. Furthermore, it is suited to the recent market trend for thinner car seats while contributing to the achievement of a luxurious look.

● 45ECH Conceal® Fasteners for Car Seats

Car seats are both soft and firm at the same time. Therefore, flexibility, mechanical strength, and visual attractiveness are required in the fasteners that are used. 45ECH Conceal® fasteners achieve an elegant structure that keeps the fastener concealed even when the seat fabric is stretched. It enables a beautiful finish to car seats.

## Winner of OEKO-TEX® Sustainability Award 2013

OEKO-TEX® is an international safety standard concerning harmful substances. It is widely utilized in the global apparel industry. YKK's meticulous quality assurance and environmentally-friendly manufacturing as well as its corporate initiatives were recognized to make YKK the Quality Management category winner in OEKO-TEX® Sustainability Award 2013 (hosted by the International OEKO-TEX® Association).

As corporate social responsibility (CSR) becomes increasingly important, the apparel industry is no exception in the need to fulfill CSR. The Fastening Products Group is furthering our efforts to guarantee quality through a sound supply chain and product safety.

# Our Business: Architectural Products

## Construction of New Plants for the Expanding Window Business

Under the concept of enabling a low-energy lifestyle, YKK AP proposes an energy-efficient, comfortable lifestyle year-round through the use of APW 330 and other resin-frame windows with excellent thermal-insulation properties. Furthermore, in order to promote the popularization of resin-frame windows, we hosted the APW Forum 2013 in Japan as an awareness-building activity that targeted members of housing-related industries. The event was held at 13 locations with a total attendance of about 4,000.

From 2014, the Architectural Products Business will improve the energy-efficiency of windows as well as step up sales of resin-frame windows in major metropolitan areas. It includes the launch of APW 430, a high-performance triple-glazing resin-frame windows with world-class thermal insulation properties, as well as fire-resistant APW 330, which was certified by the Minister of Land, Infrastructure, Transport, and Tourism as a fire preventive fixture. Furthermore, the Rokko Mado Plant (Kobe, Hyogo Prefecture) and Tohoku Manufacturing Center Mado Plant (Osaki, Miyagi Prefecture) will be constructed to strengthen the nationwide availability of YKK AP resin-frame windows.

Conceptual drawing of the Rokko Mado Plant
(Scheduled to be operational in 2014)

## Expansion of Production Capabilities in China

Construction of the Shenzen No.2 Plant was completed by YKK AP (Shenzen) Co., Ltd. An aluminum extrusion press was added and operation commenced in November 2013. With this addition, the annual production capability of YKK AP (Shenzen) Co., Ltd. became a total of 20,000 tons, which is an increase in production by about 70%. In addition to the installation of a state-of-the-art extrusion press, the new plant realizes an enhancement of manufacturing technological capabilities as well as a cost-competitive production line.

Meanwhile, YKK AP (Suzhou) Co., Ltd. will begin construction on a new wing (window plant), which is scheduled to be operational in 2014, and reinforce the expansion of sales for Chinese domestic demand.

Pile driving ceremony for the YKK AP (Suzhou) Co., Ltd. Mado Plant

## Green Remodel Fair Held at Four Locations in Japan by the TDY Alliance

Since 2008, the TDY Alliance, consisting of TOTO, DAIKEN, and YKK AP, has been promoting "green remodeling," which utilizes the technologies possessed by the three companies while contributing to the environment. The alliance has been proposing remodeling that enables housing that gives consideration to the health of its occupants, enjoys a long life-span, and reduces $CO_2$ emissions. In 2013, Green Remodel Fair 2013 was held in Tokyo, Nagoya, Osaka, and Fukuoka. It achieved major success, with a combined attendance of about 77,000 visitors.

Going forward, the alliance will contribute to the realization of housing that meets the needs of a graying society, such as through the reinforcement of its Sonaeru (making preparations) Remodeling proposal that makes it possible for occupants to live in their homes in comfort for an even longer amount of time.


Green Remodel Fair 2013 Nagoya venue

## Receipt of Awards for Green Products and Technology

● Chairperson's Award, Eco-Products Awards Steering Committee, Eco-Products Awards (APW 330)

APW 330 won the Chairperson's Award, Eco-Products Awards Steering Committee, in the Eco-Products Category of the 10th Eco-Products Awards (hosted by the Eco-Products Awards Steering Committee). Recognized was the reduction in use of heating and cooling systems through the excellent thermal insulation property of resin-frame windows, which reduces annual air conditioning fees as well as $CO_2$ emissions by approximately 25% as compared with aluminum doubled-glazed glass windows.

● ECHO (Eco Conscious and Human Oriented) CITY Product Awards 2013 (Special Award) (Non-welded Method)

The Non-welded Method sash construction technique for reinforced concrete structures received the Special Award of ECHO CITY Product Awards 2013.

The Awards, hosted by Nikkei Architecture and Nikkei Home Builder, recognize superior architectural materials and equipment that improve the future of cities, architecture, and housing. The Non-welded Method secures sashes with resins in place of the conventional method of welding. Because no flames are involved in the process, it reduces the risk of fires as well as does away with the need to use workers with a license for arc welding. Furthermore, there is no need to correct any distortion in the sash caused by the heat of welding, thereby enhancing workmanship quality.

# Our Business: Machinery & Engineering

## Enhancement of the Competitive Edge of Group Businesses through the Reinforcement of Engineering Development Capabilities

The YKK Group has achieved growth globally through an integrated production system that encompasses materials, manufacturing facilities and products.
The Machinery and Engineering Group supplies specialized machinery to YKK Group plants in Japan as well as overseas. It develops materials, machinery and equipment as well as manufactures machine parts, with emphasis on its policy to develop machinery and equipment that are adapted to the manufacturing sites of the Fastening Products Group and the Architectural Products Business Group.
To reinforce the elemental technology required to supply specialized machinery, the Machinery and Engineering Group will further develop its in-house development of technology in the medium- to long-term, while also promoting the adoption of external technology through collaboration with academia as well as other companies.

## The Development of Machinery and Equipment Adapted to Manufacturing Sites

The Kurobe Manufacturing Center plays a role as the core of YKK Group technologies. There, we will realize production efficiency through automation with a focus on five to ten years into the future and aim to create a production framework that will enable YKK to maintain its competitive edge even in Japan.
To do so, we will restructure the machinery parts plant, which has been in operation for more than 50 years since 1962, and establish a new plant dedicated to the production of fastening products. The plant will be equipped with an environment (temperature, vibration, etc.) that is energy efficient as well as capable of dealing with the stable production of precision parts.
Construction of the new plant is scheduled to be completed and be partly operational during 2015, with full-scale operation planned to begin in 2016.
We will aim to enhance stable production and productivity as well as realize an integrated production factory, from order receipt to shipping. Our target is to reduce equipment production costs by between 20% and 30%.

<Summary of and Vision for the New Plant>
Total investment: 6 billion yen (of which 2.5 billion yen will be made in 2014)
(Total investment to be made between 2014 and 2016; includes expenses for the installation of new processing equipment)

Vision for New Plant after Completion (figures in parentheses are for actuals in 2012 and outlook for 2016)
- Work area: 50% reduction (40,000m$^2$ → 20,000m$^2$)
- Transport distance: 80% reduction (1.7km → 0.4km)
- No. of installed machinery/equipment: 40% reduction (700 units → 400 units)

# Working Cooperatively with Communities

## Kurobe: Creating a Low-Energy Community and Housing

Passive Town - Kurobe Model, a town project based on an architectural concept called passive and low energy design*, has commenced at the site of the old YKK Kayado company housing in Kurobe, Toyama Prefecture. This project plans to build a 250 unit multi-family rental complex by 2025. Two housing complexes and one commercial building will be built in Phase 1 of this project. Construction began in July 2014 and is scheduled to be completed in September 2015. The buildings will aim to reduce overall energy consumption by more than 60% (compared with conventional multi-family housing in the Hokuriku district) through the use of solar energy, geothermal energy and biomass energy for heating, cooling, and hot-water supply, in addition to passive design. We will contribute to the realization of a sustainable society by creating Low-Energy housing and community that make full use of passive design and the potential endowed in Kurobe's natural environment.

*Passive design is a design principle for reducing the use of heating and cooling energy through the architectural utilization of natural energy, such as solar and wind energy, while creating a comfortable indoor environment.

Conceptual model of Passive Town - Kurobe Model

## "Subsistence Reel *Gardening Project" in Swaziland

YKK Southern Africa (Pty) Ltd. established a sustainable gardening project in Swaziland. The main objective is to address the basic need for food security and health, in a manner which increases education, nutrition levels, responsibility and environmental care. The YKK CSR Team has the hands-on role of training the community and monitoring the progress. YKK Southern Africa (Pty) Ltd. remains committed to nurturing the Swaziland community and economy by providing the means for creating and maintaining these vegetable gardens and empowering the community through continued support, skills transfer and training.

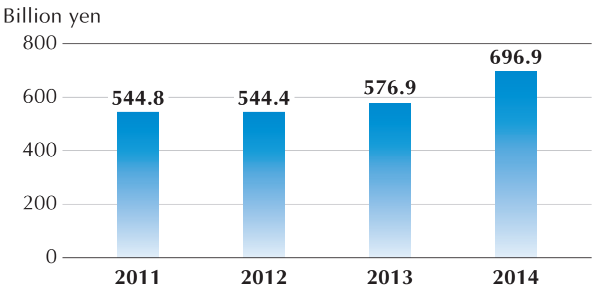
*This is a method in which a meshed tape that has been pre-soaked in fertilizer is used to wrap seeds for planting.

Planting seed and fertilizer tape

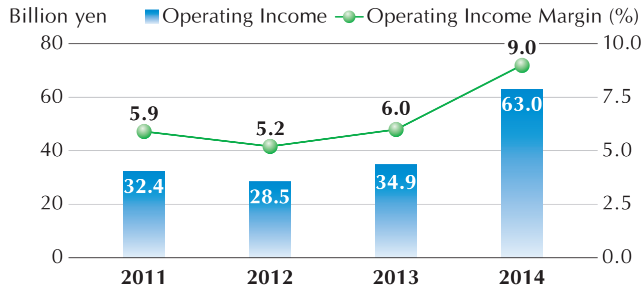
# Financial Highlights

For years ended March 31

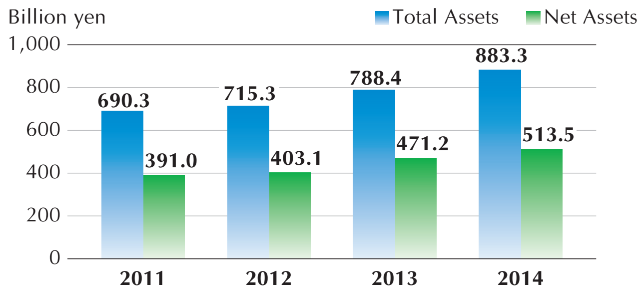
## Net Sales



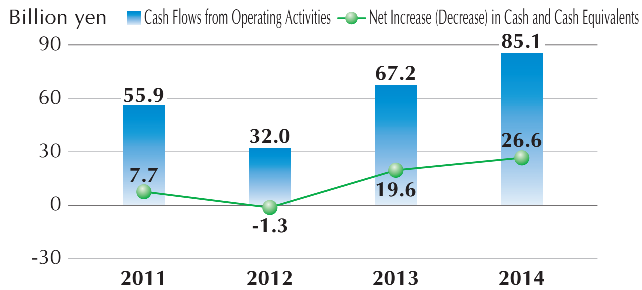

## Operating Income



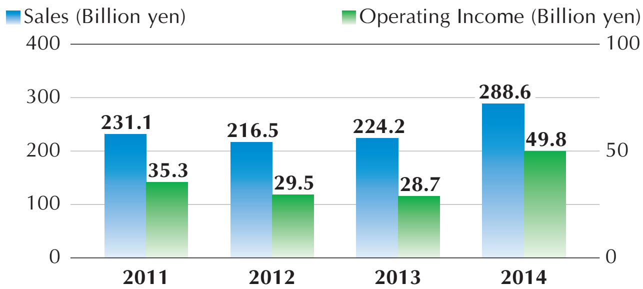

## Total Assets/Net Assets



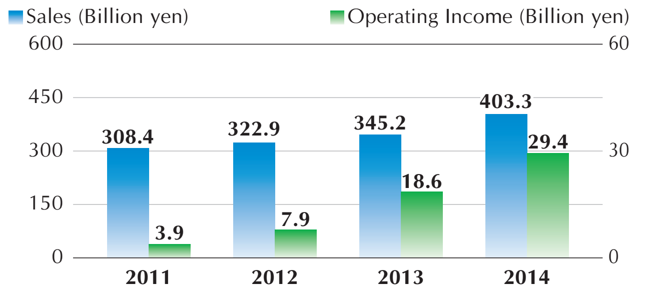

## Cash Flows from Operating Activities



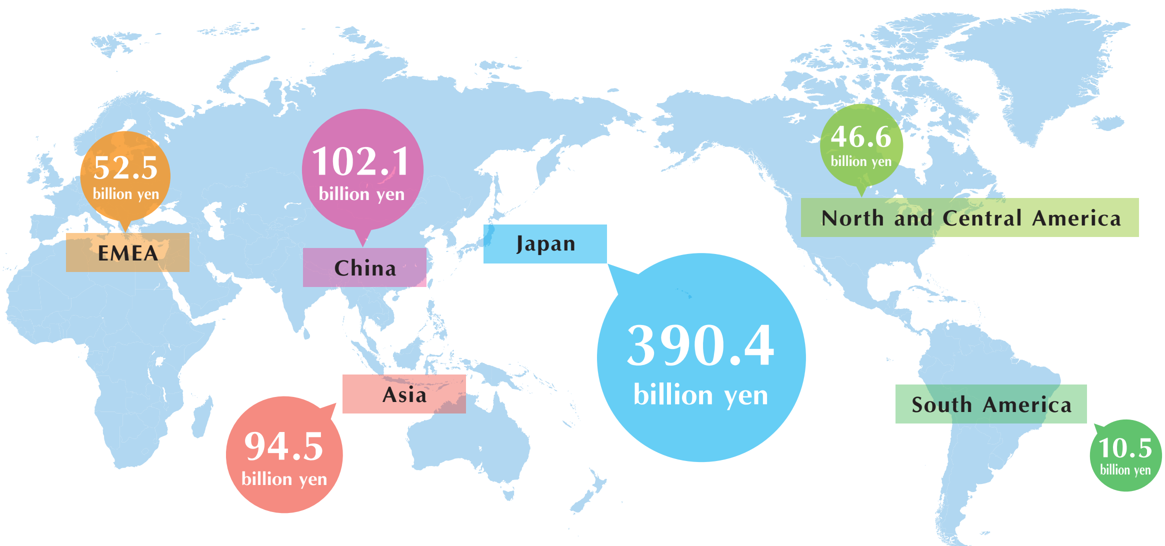

## Sales/Operating Income of Fastening Products




## Sales/Operating Income of Architectural Products




## Net Sales Breakdown by Region (Year ended March 31, 2014)




Notes:
1. EMEA: Europe, Middle East and Africa
2. The YKK Group identified Asia as one of the region from fiscal year 2014, and within Asia, China is separately recognized.
3. Sales are classified by country or region based on the location of customers.

# Key Financial Data and Trends

## (1) Consolidated financial data

| Fiscal year | | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Year ended | | March 31, 2010 | March 31, 2011 | March 31, 2012 | March 31, 2013 | March 31, 2014 |
| Net sales | Millions of yen | 556,439 | 544,896 | 544,434 | 576,965 | 696,929 |
| Ordinary income | Millions of yen | 16,572 | 30,976 | 26,681 | 33,681 | 66,022 |
| Net income | Millions of yen | 3,828 | 10,136 | 16,334 | 32,692 | 44,908 |
| Comprehensive income | Millions of yen | – | (6,090) | 14,336 | 70,777 | 70,447 |
| Net assets | Millions of yen | 399,866 | 391,095 | 403,169 | 471,271 | 513,543 |
| Total assets | Millions of yen | 689,593 | 690,322 | 715,364 | 788,440 | 883,336 |
| Net assets per share | Yen | 326,352 | 318,900 | 328,395 | 384,171 | 417,986 |
| Basic net income per share | Yen | 3,192 | 8,453 | 13,622 | 27,265 | 37,453 |
| Diluted net income per share | Yen | – | – | – | – | – |
| Equity ratio | % | 56.7 | 55.4 | 55.0 | 58.4 | 56.7 |
| Return on equity | % | 1.0 | 2.6 | 4.2 | 7.7 | 9.3 |
| Price earnings ratio | Times | – | – | – | – | – |
| Cash flows from operating activities | Millions of yen | 68,431 | 55,955 | 32,076 | 67,214 | 85,186 |
| Cash flows from investing activities | Millions of yen | (32,636) | (31,635) | (39,667) | (44,013) | (60,708) |
| Cash flows from financing activities | Millions of yen | (21,795) | (13,465) | 6,636 | (11,719) | (3,784) |
| Cash and cash equivalents at end of year | Millions of yen | 90,429 | 98,201 | 96,891 | 116,510 | 143,131 |
| Employees<br>The numbers in square brackets represent the average number of part-time employees not included in the numbers of regular employees. | Number | 37,597<br>[5,595] | 38,080<br>[7,031] | 37,719<br>[7,127] | 38,235<br>[7,123] | 40,306<br>[6,828] |

Notes:
1. Net sales are presented exclusive of consumption tax.
2. Diluted net income per share is not presented because the Company had no dilutive securities.
3. Price earnings ratio is not presented because the stock is not listed.
4. For the year ended March 31, 2010, 43 foreign consolidated subsidiaries were consolidated by using their financial statements as of the parent fiscal year end (a 15-month period), prepared solely for consolidation purposes. The fiscal year end of a total of 47 foreign consolidated subsidiaries was changed from December 31 to March 31. Therefore, their fiscal year included 15 months of operating results.
5. The scope of employees has changed from the year ended March 31, 2014, as the number of employees includes non-regular employees, senior-aged employees and other applicable employees, which were previously included under the average number of part-time employees.

*This document includes excerpts translated from the Yukashoken-Houkokusho filed with the Financial Services Agency, on which Ernst & Young ShinNihon LLC expressed an unqualified audit opinion.

# Overview of Business Performance

## (1) Operating results

(Economic environment)

In the current fiscal year, the Japanese economy was in a period of moderate recovery, as a result of upswings in corporate performance, mainly in the exporting industry, supported by effective government policies, in addition to a rush of demand preceding the increase in consumption tax.

Looking at global markets, amidst measures for the Euro crisis, effects from reductions in monetary easing in the USA, and continuing concerns regarding growth in China and other emerging countries, the USA is continuing a gradual recovery, while in Europe there are also visible signs of an economic recovery.

(Consolidated performance in the current fiscal year)

In such an economic environment, the Group has shifted to the implementation of its "Fourth mid-term Management Plan starting from April 2013." The "Fourth mid-term Management Plan" is the first management plan to be implemented since the appointment of a new Chairman & CEO, and Presidents of the Company and YKK AP in June 2011. As mid-term business policies, the Company has adopted aims of "Evolution and Innovation of Technology - Evolution of existing business & Innovation for increase sales volume," while YKK AP has adopted aims of "Product appeal capability, Proposal capability for sustainable growth of AP division."

Amidst dramatically changing business environments, the Group has advanced its businesses based on applicable mid-term management plans. The Company, which focuses on the Fastening Products Group, including the Machinery & Engineering Group, and YKK AP, which centers on the AP business, carry out swift decision-making, and the Machinery & Engineering Group supports both businesses through its technological competencies.

As a result, in the current fiscal year, net sales increased by 20.8% to 696,929 million yen, operating income increased by 80.6% to 63,028 million yen, ordinary income increased by 96.0% to 66,022 million yen and net income increased by 37.4% to 44,908 million yen.

Net sales and operating income per business are summarized as follows:

### 1 ) Fastening Products Group

In terms of the business environment surrounding the Fastening Products Group, the global economy is moderately recovering, individual consumption is picking up along with economic growth, and low-end apparel markets are expanding due to deflation and growth in emerging countries. In addition, sewn products market continues to shift from China to other Asian countries, and there is an increased demand for shorter lead times in apparel materials procurement and more diverse product lineups. Under these business conditions, the Fastening Products Group achieved increases in revenue and profits resulting from the fruits of group's sales expansion efforts for the luxury sector in Europe, and domestic demand in China, in addition to an inventory adjustment phase by customers in the sports apparel and outdoor segments.

By region, the group achieved revenue growth in every region. More specifically, looking at the North and Central America region, government demand was slow mainly due to fiscal tightening in the US, but revenue increased as a result of exchange-rate fluctuations. In South America there was solid growth in the core jeans sector.

In Europe, the Middle East and Africa (EMEA), in addition to the success of product development and service enhancements in the luxury market, sales of fast fashion for YKK METAL VE PLASTIK URUNLERI SANAYI VE TICARET A.S. were also robust. The group maintained steady growth in China due to sales expansion measures, including enhancing prices, turnaround times and services for customers, as well as in the Asian region (excluding China and Japan), due to the settlement of inventory adjustments by customers in the sports apparel and outdoor segment and steady capture of customer demand resulting from apparel manufacturing shifts out of China. Even in Japan, the group's performance has reversed and is headed toward a recovery as a result of increased sales promotion activities aimed at major customers and improvements in the luxury bag market.

As a result, net sales (including intersegment sales) increased by 28.7% to 288,632 million yen. Operating income increased by 73.3% to 49,883 million yen. Although operating income declined due to rising labor costs mainly in China and the Asian region, and increased fixed manufacturing costs incurred to increase manufacturing capacities, the group achieved robust growth in profits as a result of sales volume growth and improved capacity utilization, productivity enhancements through the installation of new equipment and facilities, continuous cost-cutting measures, including changes in materials procurement methods, and lower market prices for materials, such as bronze and zinc.

### 2 ) Architectural Products Group

Regarding the domestic environment surrounding the AP Group, the number of new housing projects in Japan increased by 10.6% to 987,000 during the period from April 1, 2013 to March 31, 2014 due to the continuing depreciation of the yen and higher stock prices resulting from government economic and fiscal measures, improvements in corporate earnings and consumer trends and a rush of demand preceding the increase in consumption tax.

** Emphasis has also been placed on energy conservation products in living environments due to recent concerns over power supply. Looking

at overseas markets, the US is experiencing a moderate recovery due to an improved job climate and increased housing investment, while emerging country markets are experiencing sustained growth. Under such a business environment, the Company carried out the following priority objectives based on the "Fourth mid-term Management Plan" started in the prior fiscal year.
Towards the expansion of the window business, APW forums and window forums were held in 13 cities throughout Japan, in which the role and importance of windows in construction was presented to stakeholders in the housing industry. To expand manufacturing supply centers, preparations were carried out for the construction of new Mado plants at our Tohoku Manufacturing Center and in Rokko Island. For the enhancement of the remodeling market, efforts were made to improve the quality of "MADO shops" launched in April 2010, and respond to a broad range of needs. To enhance its range of exterior items, the group made efforts to expand functionality-focused products. To enhance the building business, the group increased orders based on proposals of differentiated products, such as the expansion of its popular "smart door" series of building products, and the establishment of new targets for "serviced-housing for senior living" in housing complexes. In addition, through the development of specialized products and construction methods for remodeling, the group focused on proposals for increasing the energy conservation performance of office buildings and housing complexes. The group is steadily expanding the AP business overseas through the development of products tailored to regional weather conditions and climates based on the product's technological competencies. To establish the YKK AP FACADE brand, the group carried out 3D and video presentations, and implemented project management frameworks.
As a result, net sales (including intersegment sales) increased by 16.8% to 403,302 million yen. Although, the cost raw materials rose, operating income increased by 58.4% to 29,477 million yen as a result of net sales growth and manufacturing cost reduction measures.

**3 ) Other businesses**

Other businesses consist of the domestic real estate business and aluminum smelting business. Net sales (including intersegment sales) in other businesses increased by 4.4% to 57,422 million yen. On the other hand, operating income decreased by 1,374 million, resulting in an operating loss of 371 million yen.

## (2) Cash flows

Cash and cash equivalents at the end of the current fiscal year increased by 26,620 million yen from the balance at the end of the prior fiscal year to 143,131 million yen. Cash flows from each activity are summarized as follows:

(Cash flows from operating activities)
Cash and cash equivalents provided by operating activities increased by 17,972 million yen from the prior fiscal year to 85,186 million yen in the current fiscal year. This was due to the increase in notes and accounts receivable-trade was 18,636 million yen in the current fiscal year compared to the 1,833 million yen increase in the prior fiscal year, while income before income taxes and minority interests increased by 31,661 million yen from the prior fiscal year to 64,253 million yen in the current fiscal year.

(Cash flows from investing activities)
Cash and cash equivalents used in investing activities increased by 16,694 million yen from the prior fiscal year to 60,708 million yen in the current fiscal year. This was mainly caused by an 11,381 million yen increase from the prior fiscal year in expenditures for purchases of property, plant and equipment, due to increased capital investment. Purchases of property, plant and equipment totaled 52,110 million yen in the current fiscal year.

(Cash flows from financing activities)
Cash and cash equivalents used in financing activities was 3,784 million yen in the current fiscal year, a decrease of 7,934 million yen compared to the prior fiscal year. This was mainly due to an increase in bond redemptions, which totaled 10,000 million yen in the prior fiscal year.

# Issues and Outlook for the Fiscal Year Ahead

The YKK Group (YKK Corporation and its affiliated companies) has set the “Fourth mid-term Management Plan” starting from April 2013. We have formulated the Business Plan fiscal year ending March 31, 2015 with an awareness of the expansion of the Asian sewn products market and future trends in China's sewn products market for the Fastening business, and the impact of a decline in new home construction starts accompanying the increase in the consumption tax rate, as well as revitalization of renovation/remodeling market in the case of AP business.

The Company believes that the most important areas to succeed in intense business conditions and achieve the mid-term business policy are “Product appeal capability & Proposal capability” and “Technology capability.” In addition, the Company set out the mid-term targets of “8% operating income margin” and “5% ROA,” based on the respective mid-term policies set forth by the Company and YKK AP.

**1 ) Fastening Products Group**

In the Fastening Products Group, the Company set its mid-term business policy with the goal of “Development of brand new strategy for growth (toward 10 billion pcs sales).” Under the policy, in fiscal year ending March 31, 2015 the Company will further increase investment and supply capabilities and expand development sites in Asia, and strengthen new product development in China. In the fast fashion segment, the Company will aim to strengthen the product lineup through product planning/ development and shortened lead times. In addition, since there are many low-end customers, the Company will establish cost competitiveness in order to meet these customers’ needs.

Specifically, through the five "Fastening R&D centers" around the world (including Japan) with “long-term fastening-related technology research functions,” and "fastening product development offices" responsible for "Commercialization and development aimed at meeting customer demand," the company is expanding development centers in order to push forward efforts tailored to markets and respond to customer demand in a timely manner by clarifying respective functions. For product development by region, the Company strengthens development structure for EXCELLA® for luxury bags and clothing in the EMEA, with a focus on Europe. In North and Central America, the Company strengthens the High-Function product development in coordination with customers, and conducting R&D centered on vehicle seat fastening products and related processing lease equipment. In China and Asia, the Company is carrying out product variation development in order to meet market demand for fast fashion, which offers a wide range of affordable clothing, as well as development of low-end products for domestic demand in emerging countries.

In order to increase availability to respond to increasing demand in Asia, the Company is actively investing in growing markets by expanding the "YKK VIETNAM CO., LTD. Nhon Trach plant" and constructing a copper alloy slider plant on the premises of copper alloy wire plant at PT. YKK ZIPCO INDONESIA.

**2 ) Architectural Products Group**

In the AP Group mid-term business policy, the Company has set a business strategy of "Product appeal capability, Proposal capability for suitable growth of AP division" aimed at strengthening sales capabilities and achieving business growth. The Company will achieve its mid-term business plan by executing the following 6 priority steps; (1) expansion of the window business, (2) enhancement of remodeling market, (3) enhancement of range of exterior items, (4) enhancement of building business, (5) expansion of overseas AP business, and (6) establishment of YKK AP FACADE brand.

For the expansion of the window business, the new high-performance triple-glass vinyl window "APW430" and the fireproof vinyl window "APW330 Fire Window" were released for sale in April 2014, and the Company plans to step up proposals for vinyl windows in metropolitan areas by further enhancing its brand. Moreover, in terms of manufacturing and supply frameworks, the Company plans to improve manufacturing and supply by establishing new Mado plants at Tohoku Manufacturing Center and in Rokko Island. To enhance its remodeling market, in addition to products developed and launched to date that were energy conservation and convenience-oriented, from fiscal year ending March 31, 2015, the company aims to develop products that are earthquake resistant from the aspect of safety and security. For expansion of overseas AP business, as the basis of revenue has already been established in each region, the Company will continue to develop and offer products applicable to each region.

**3 ) Technology supporting two Groups**

The Machinery & Engineering Group has been the technical core function in the YKK Group, with intentions to further cooperate with the Fastening Products Group and AP Group, by prioritizing the principles, "Strengthening business competitiveness" and "Independence of business." The Company has set "Development of machinery and equipment suitable for production sites for both fastening and AP," as a major approach, and will identify technology development areas in order to improve and develop both specialized machines for fasteners and window manufacturing lines. "Further engineering development from a mid-and-long term view" continues to be another major approach, in addition to the enhancement of element technologies, materials development and manufacturing process development. Therefore, the establishment of future directions and infrastructure enhancement of important technology development areas need to be carried out to strengthen the YKK Group's business competitiveness and Machinery & Engineering Group's manufacturing competitiveness.

# Business and Other Risks

The significant risks that may affect the financial position and operational performance of the YKK Group (YKK Corporation and its affiliated companies) can be summarized under the following risk factors.
Any future forecasts included in the following descriptions are based on the estimates or judgments of management as of the end of the current fiscal year.

1 ) **Risks involved in international activities and overseas expansion**
The Group has businesses in 71 countries, covering regions of Central and North America, South America, Europe, the Middle East, Africa, Asia, and Oceania. In these countries and regions, the Company may be affected by political uncertainty, terrorism, war and other factors. Each of these factors could adversely affect the Group's business performance if any unfavorable events happen during business expansion.

2 ) **Economic factors**
The Group's business may be affected by economic conditions such as market reductions or price competition from manufacturing or sales-based competitors in each country or region. Any sharp increase in the price of raw materials, which may be triggered by market supply and demand forces, could adversely affect the Group's business performance.

3 ) **Fluctuation in foreign currency exchange rates**
As transactions such as sales, expenses and assets in local currencies are converted to Japanese yen in preparing the consolidated financial statements of the Group, any fluctuation in foreign exchange rates would affect the Group's financial position and results of operations after the conversion.

4 ) **Decline in price of capital holdings**
A sharp decline in the price of listed stocks held by the Group could adversely affect the Group's business performance by resulting in impairment losses or losses on the valuation of investments.

5 ) **Employee retirement benefit expenses and obligations**
The amounts of retirement benefit obligations and related expenses of the Group are calculated using various actuarial assumptions. If the actual results differ from those assumptions or if any of the assumptions change, it affects the amount of obligations and expenses to be recognized. In particular, in the event of a decrease in the discount rate or the projected rate of return on plan assets, there could be an adverse impact on the Group's business performance and financial position.

6 ) **Loss on business restructuring**
The Group continues to improve its profitability and increase its business value by conducting business restructuring, such as a withdrawal from unprofitable operations, promoting a horizontal international specialization system, and executing cost reduction. Accompanying this business restructuring, certain extraordinary losses could be incurred.

7 ) **Defective products**
Although the Group manufactures various products that meet its strict quality control standards, if any defective products are found and a resulting significant product liability is incurred, it could adversely affect the Group's business performance and financial position.

8 ) **Government restrictions**
The Group has business and investment licenses in countries and regions where it operates and in certain cases is restricted by government regulations. The Company is also restricted by trade laws, monopoly prohibitions, intellectual property agreements, and consumer, taxation, and environmental laws, and these regulations could limit its activities. In case of any failure to comply with these regulations, it could adversely affect the Group's business performance and financial position.

9 ) **Natural disasters**
If natural disasters, such as earthquakes, damage manufacturing bases and equipment, or if a health epidemic occurs, there would be negative impact on performance due to delays in manufacturing and shipping caused by suspension of operations, and furthermore, unexpected expenses for repair or replacement of the damaged manufacturing bases.

10) **IT risks**
The Group designs and operates various information systems.
Although the Company analyzes the IT risks and ensures appropriate allocation of authority, establishes a checking and oversight system, and takes measures to protect itself from outside intrusion, unauthorized access or a computer virus attack could result in a leak of customer information, or loss or falsification of data could occur.
Any leak, loss or falsification of important information could adversely affect the Group's business performance.

# Research and Development Activities

As with the YKK Group's business development, its activities to promote research and development (R&D) also focus on six regional bases; Japan (the core operation), North and Central America, South America, Europe, the Middle East and Africa (EMEA), and Asia. The R&D costs of the entire Group for the current fiscal year were 18,175 million yen.
The Group's major accomplishments during the current fiscal year can be summarized as follows.

## (1) Fastening Products Group

The Fastening Products Group was committed to the fourth mid-term business policy of "Development of a brand new strategy for growth (toward 10 billion unit sales)" and decided to focus on "Measures for focusing on areas to improve" and "Comprehensive strategies for focusing on segments to improve." In particular, the company aims to enhance product development in the massive Chinese market, as well as the Asian market, which is expected to become a large market in the future. The Company will also focus on advance approaches for price-conscious fast fashion as an enhanced segment, as well as improve cost competitiveness and conduct efforts in strengthening turnaround time responses. In addition, the Company aims to further enhance product values for customers by establishing a system to produce services or products that correspond to customers' needs.

Although the global economy recovered at a moderate pace in fiscal year ended March 31, 2014, the prolonged European crisis and economic slowdown in China continue to remain concerns. The Company recognized the need to respond more quickly to changes and focused on product development, by maintaining its position of being one step ahead in technological superiority.

There have been significant accomplishments made in the period. In zippers, the Company has developed new products, such as thin and light knitted zippers, double element coil zippers, curve adaptable luxury metal fasteners, resin coated sliders, spherical element metallic plastic injected zippers, structure detachable tab sliders of various sizes, and has offered waterproof plastic injected zippers, a series of metallic plastic injected zippers. The plastic products division of the Company has launched a range of buckles for backpacks, a series of buckles in the field of safety, and a variety of snap hooks. The plastic products group has also continued to develop various products in order to be sufficiently responsive to the needs of customers. In snaps and buttons, the Company has enhanced its line of products by developing new items for jeans and snaps, mold variations, assembly and attaching machines, and reduced costs through materials and technical improvements. For TFM (Transportation Fastening Material), the Company has steadily increased sales by continuing to develop products exclusively for the automotive market. TFM has begun offering concealed invisible zippers for car seats, “POWER HOOK”® for seats, developing products for new applications, and achieving cost reductions.

In terms of "Measures for focusing on areas to improve," in response to rapid product development sought out by markets, the Company will enhance product development frameworks for luxury bags and luxury apparel, primarily for the European market. In North and Central America, the Company plans to strengthen development of highly-functional products, and focus on the R&D of automotive seat fastening products and processing lease equipment. In China and Asia, the Company plans to enhance product variation development in order to meet market demand for fast fashion; which offers a wide range of affordable clothing, as well as development of low-end products for domestic demand in emerging countries. Particularly in Asia, in response to the processing export market expansion due to apparel manufacturing shifts out of China, and expected large market growth resulting from domestic demand growth arising out of economic growth. The Company is expanding R&D centers in Indonesia and product development centers in India, Bangladesh and Vietnam. For "Comprehensive strategies for focusing on segments to improve," in order to achieve the mid-term business plan, the Company will focus on the crucial challenge of becoming competitive in the large-scale price-conscious market. In addition, the Company will develop low-cost metal and coil products, carry out production technology-based projects to maintain competitiveness in the growing Asian market and strengthen cost competitiveness. To address product variations and turnaround times sought after in fast fashion, the Company plans to assemble a project team at SHANGHAI YKK ZIPPER CO., LTD to improve turnaround times and aims to strengthen snap and button product development in this region.
Research and development costs related to this business stood at 6,793 million yen.

## (2) Architectural Products Group

In domestic AP business, the Company produces and improves products from the users' point of view, while considering social and environmental factors such as long-life housing, strengthening demands for safety and security and the prevention of global warming. In particular, the Company is promoting the realization of comfortable living environments "low energy lifestyles" by improving thermal insulation performance of windows, and reducing dependence on air-conditioners and other devices.

From a technological development standpoint, along with carrying out technological development that creates user value (e.g., security, environmentally-conscious, comfortability, universal design), the company aims to enhance elemental technologies for materials, components, systems that constitute a product, as well as establish construction technologies, after-sales maintenance technologies and supply technologies to ensure the final quality of its products.

As major accomplishments in its APW series for the windows category, the Company offered a full range of items as well as released high-performance "APW430" triple glazed pvc window, which are world leading thermal insulation performance of windows, and plans to enhance "low energy" proposals.

In addition, in terms of residential fire-prevention products, in order to completely shift to qualified

products, the company released a basic lineup of aluminum-plastic composite windows, aluminum windows and front doors. On the other hand, in the building segment, the Company renewed its core EXIMA series for the first time in 14 years, by further enhancing its range of products. The renewed series has been widely acclaimed for its balance between price and performance. As a response for after-sales maintenance services for customers, the company developed general-purpose crescent locks and sliding-door locks even compatible with sashes manufactured by other companies.
Through the development of these products, the Company is committed to providing safe and comfortable living environments to its customers.

The Company's main tasks for the future include enhancing development and technological capabilities in order to ensure competitive advantage of its products, expanding the overseas AP business, strengthening its remodeling business to cope with shrinking new construction demand.
To strengthen its development and technological capabilities, the Company opened the Value Verification Center (VVC) to confirm the existence of various product values from the consumers' viewpoint. In the course of product development processes, such as verification of usability, performance, function, construction and safety under actual usage environments, and at product completion, the Company pursues high product quality.
Looking at global expansion, the Company will focus on R&D to achieve globally competitive quality and costs for raw materials, parts and components, the development and standardization of functional parts targeting high-end markets, and will continue technological development to enrich its product lineups. Specifically, the Company plans to introduce its renewed core products in ASEAN countries. In terms of enhancing remodeling, the company will respond to increasing remodeling demand using its line of windows and doors. In particular, the Company plans to strengthen its front-door products utilizing growth in remodeling. Specifically, the Company plans to promote its popular smart doors for use in remodeling as well as augment its available designs of sliding doors by offering a wide range of styles from western-style to modern design sliding doors.
The Company plans to pursue price competitiveness as a specialty manufacturer and further enhance technological capabilities, and is committed to developing and launching products that transform and lead markets.
The Company invested 8,403 million yen in these R&D activities.

## (3) Other businesses

As part of efforts to further improve the YKK Group's technological development capabilities, the Machinery and Engineering Group enhances development technology to improve specialized machinery and engineering for YKK fasteners production lines and to improve the specialized machinery and engineering for AP Windows manufacturing lines. The Company worked on two important policies; “Develop manufacturing facilities adapted to conditions in manufacturing lines at each factory” and “Technology development from the mid to long-term perspective.” The Machinery and Engineering Group also continues to strengthen and maintain the idea of integrated manufacturing system which is the YKK Group's operating foundation.
As its major accomplishments related to the development of the fastening products business, the Company developed peripheral equipment, including slider cell assembly machines and mixed plating sorting machines, and manufacturing line-related technologies, such as automated transporting lines for completed products and production schedulers. The improvement stabilized and made lines more efficient, and accordingly improved operating rates at fastener plants. In fiscal year ending March 31, 2015, the Company intends to develop manufacturing facilities appropriate for slider assembly and finishing processes, and also focus on further improvement of its equipment lineup and development of line technology.
In developments related to the AP business, the Company enhanced its window manufacturing technologies through the development of APW310 and 330-related facilities, resin extrusion facilities, mold development operations, and large-scale manpower saving glass facilities. In addition, the Company made efforts to improve energy efficiency and quality by enhancing small and medium volume lines, and reconstructing aluminum extrusion facilities. In fiscal year ending March 31, 2015, the Company will focus on facility development and streamlining to achieve further cost competitiveness by improving and upgrading major lines of the window business.
As for development related to fundamental technology, the Company developed materials with prospective use in the mid to long-term future, which is directly linked to product differentiation, by working with the Fastening Products Group and the AP Group. For example, the Company has improved high-functional aluminum fasteners by improving corrosion resistance and its slidability, iridescent coil fasteners that change colors and shine depending on angle of view, and molds and machine components with stabilized performance. In fiscal year ending March 31, 2015, the Company intends to work on the development of new metal and plastic materials for fasteners, as well as expand mass production operations. The Company also plans to enhance metal processing and molding technologies to achieve differentiation in the fastening products and window businesses.
In the analysis division, the Company was certified in 2011 as the first Firewalled Lab in Japan by the CPSC, and strengthened structures to address regulations related to lead content in regions such as in Europe and the USA. The Company established an organic tin analysis method as a method of analysis of extremely harmful substances. In fiscal year ending March 31, 2015, the Company will establish vibration assessment technology for machinery and equipment, implement front-loading structures and create a platform for resolving technological issues at overseas plant centers.
The Company aims to introduce external technologies through collaboration with other companies and universities, while it continues to work on internal developments in necessary technologies to improve its core areas. Research and development costs for these activities totaled 2,978 million yen.

# Corporate Governance

## (1) Status of corporate governance

Basic corporate governance policy

The philosophy of the YKK Group (YKK Corporation and its affiliated companies) is based on the spirit of "Cycle of Goodness," which means "No one prospers without rendering benefit to others." Under this spirit, being consistently fair is the foundation for various management activities. The YKK Group seeks a corporate value of higher significance, a value that represents the commitment, direction, and consistency of management. As part of this philosophy, the Group always strives to improve its corporate governance practices for enhanced corporate value.

YKK Corporation has established several management bodies to implement corporate governance practices. The Board of Directors functions as an executive decision making and monitoring body, while the Board of Corporate Auditors provides management oversight.

For business operations and promotion, YKK Corporation appoints Officers and secures their commitment to fulfill all obligations arising towards their duties.

Matters Regarding the Corporate Governance of Filing Companies

### 1) Details of Company Bodies

YKK has adopted the corporate auditor system and implemented structural reform of its management. As a result, the corporate board was reformed and the Officer system was adopted in June 1999. These initiatives were aimed at ensuring faster decision-making and operational execution by segregating management and business operations.

(a) Directors and Board of Directors

- The Board of Directors sets forth management policies, allocates management resources, and oversees operational execution by Officers, in addition to performing the roles stipulated in the Companies Act.

- The Articles of Incorporation prescribe that the number of directors shall be 10 or less, and that the term of office of directors shall be one year, in order to ensure accurate decisions based on active and thorough discussions.

- To further strengthen the consolidated management of the Group, the Board of Directors was restructured in June 2003, appointing executive vice presidents for YKK AP Inc., the Fastening Products Group and Other Groups and YKK Corporation, as members of the Board of Directors.
  In the interest of stronger corporate governance and further improving practices, two external directors were also appointed in June 2007.In a bid to further improve the management of the consolidated group, YKK Corporation has elected internal directors to make them responsible for global management in the six major geographical regions. It also appointed two external directors to leverage their deep insight, experiences and knowledge for the improvement of management.

- While directors devote themselves to achieving optimum performance results for the entire Group, Officers are committed to playing the crucial role of achieving division targets by executing business operations with responsibility and authority based on the policies determined by the Board.

- In April 2004, YKK Corporation recognized that the maintenance of an appropriate annual pension fund by the parent company was an important management issue and appointed a Director in charge of Annual Pension Policy.

- In April 2005, the Chief Financial Officer (CFO) and Chief Risk Management Officer (CRO) were appointed to further enhance consolidated management.

- YKK Corporation has improved the mechanisms for delivering information to directors, including a system to provide external directors with advance narrative explanations of the agenda by the General Administration Department, to ensure that the deliberations and discussions at the Board of Directors are carried out efficiently and proactively.

- The Articles of Incorporation require that a quorum of shareholders is necessary for a vote on the election of directors to take effect. A third or more of shareholders who have voting rights in an election must attend the general shareholders' meeting, and the majority of shareholders present at the meeting must vote for the election.

The Articles of Incorporation also provide that resolutions on the election of directors shall not be made by cumulative votes.

(b) Introduction of the Group Officer System
While the YKK Group promotes Global Business Management by centering on Fastening Products and AP businesses (its core businesses) and Machinery & Engineering (a function to support consistent production by the core businesses), it also practices Regional Management in each of six major geographical regions, including Japan. To further increase the corporate value of the YKK Group under this consolidated management structure, Group Officers were appointed effective April 2004, from among the Officers of the core companies as well as from each of the regional headquarters.

(c) Establishment of the Advisory Board
The Advisory Board has been in place since July 2001 to bring together wisdom from key external figures to help the Chairman & CEO, President and other related directors with general management issues and specific matters of significance.

**2 ) Development Status of the Internal Control System and Risk Management System**

The following is a description of the status of the development and improvement of the internal control system:

(a) Development and improvement of the system to ensure that the performance of directors complies with laws, regulations, ordinances and the articles of incorporation.

- Directors strictly comply with the Board of Directors' regulations and regulations pertaining to the performance of directors' duties for the execution of business, and conduct appropriate operations based on the principle of segregation of duties.

- A director in charge of compliance is assigned to develop the YKK Group compliance system. This director reports the development and conformity status of the compliance structure to the other directors and corporate auditors.

- Directors regularly take compliance training programs presented by lawyers and others, and submit to the Company a written oath to comply with laws and regulations in executing their duties as directors. (These programs have been implemented since March 2006.)

(b) System to store and control information related to the execution of duties of directors

- The maintenance period for important documents (including electronic records) is determined based on internal regulations, such as document control regulations and confidential information control regulations, in order to implement appropriate document control.

- Relevant departments prepare and maintain minutes of important meetings such as meetings of the Board of Directors and Management Meeting, to provide accurate descriptions of the proceedings, deliberation results, and important statements in accordance with the regulations applied to each meeting.

(c) Regulations and other systems to address any risk of loss

- In April 2005, the Chief Risk Management Officer (CRO) was appointed, and the Quality Control Committee, Trade Control Committee, Risk Management Committee, Confidential Information Control Committee, Committee for Technology Protection, and IT Security Committee were established, to promote the management of risks to which the YKK Group is exposed.

- In April 2005, the Chief Financial Officer (CFO) was appointed to control financial risks based on the YKK Group's basic policies on the management of such financial risks. The CFO also developed and promoted an internal control system over financial reporting, which has been in place since April 2008.An investment council chaired by the CFO was established in February 2006 as a body that appropriately manages the investment risks to which the YKK Group is exposed. The CFO also developed and promoted an internal control system over financial reporting, which has been in place since April 2008.

- The Company is committed to addressing risks adequately and promptly in accordance with the Guidelines for Addressing Risks (developed in April 2005 and revised in March 2010).

(d) System to ensure that the duties of directors are effectively executed

- In June 1999 the Officer System was introduced to enable a faster execution of business and operations by separating management and execution. This allows directors to devote themselves to the realization of the optimum results of the entire Group. Officers execute actions related to individual businesses and operations with responsibility and authority in accordance with the policies determined by the Board of Directors.

- In July 2003 the Management Meeting was established to increase the efficiency of discussions held by the Board of Directors. The directors at the meeting thoroughly discuss the YKK Group management philosophies, policies and strategies, and important matters to be resolved at the Board of Directors meetings.

- The Management Meeting determines the environmental policies of the YKK Group.

- The Environmental Policy Promotion Committee was established at the Management Meeting. Its purpose is to determine the environmental policies of the Company and monitor whether those policies are actually realized in business operations.

(e) Systems to ensure that employees comply with laws, regulations, ordinances and the articles of incorporation in executing their duties

- The Corporate Legal and Compliance Group was established under the Officer in charge of compliance, and develops a compliance system in cooperation with external compliance advisors.

- YKK Group companies have established a YKK Global Criteria of Compliance (YGCC) in April 2013 as a compliance benchmark for the purpose of steadily developing and implementing appropriate and effective compliance programs, and are maintaining and operating compliance frameworks. The Company is making efforts to maintain and strengthen compliance frameworks by conducting periodic evaluations and improvement activities based on compliance benchmarks.

- In January 2006, the YKK Group Internal reporting system was established to prevent violations of laws, regulations and internal rules, and to protect those who report such violations.

- The Company organized its structure to prevent association with criminal and antisocial bodies or persons by preparing rules, assigning a department in charge, reviewing contractual clauses and building relationships with public authorities, such as the police and related groups, and cooperating with them as necessary.

- The Internal Auditing implements internal audits from the perspectives of legitimacy and rationality, and reports the results to the President, executives and others periodically.

(f) Systems to ensure appropriate business operations of the corporation and the corporate group (consisting of the parent company and subsidiaries)

- With Group Officers appointed from significant subsidiaries (core companies) and regional headquarters in the six major geographical regions in April 2004, each regional headquarters functions and oversees the business operations of subsidiaries, under the consolidated management structure of the Group.

- Important matters in relation to the operations of subsidiaries are subject to discussion and resolution at the corporate board level based on the relevant requirements of the Board of Directors.

- YKK Corporation monitors the business performance and financial position of subsidiaries by receiving and reviewing a monthly report on the consolidated performance results from the director in charge, at the Board meeting.

(g) Matters regarding the support personnel required by the corporate auditors and their independence from the corporate auditors.

- The Auditors' Secretariat was organized effective as of April 1, 2007, and staff members are assigned to exclusively assist corporate auditors in fulfilling their duties.

- Transfer and appraisal of the personnel in the staff of the Auditors' Secretariat require the approval of the corporate auditor.

(h) System for directors and employees to report to the corporate auditors, system with regard to other matters related to reporting to the corporate auditors

- The main business operations and the status of the development and improvement of the internal control system shall be reported to corporate auditors on a timely and regular basis. If any significant matter that materially affects the Company arises, that matter shall be promptly reported to the corporate auditors.

- When material violations of laws and regulations are detected through the whistle-blowing system, the “Secretariat of YKK Group's Whistle-blowing System” will report the details of the report and the result of the investigation to the corporate auditors.

(i) Other system to ensure that corporate auditors effectively implement the audits

- In addition to attending the meetings of the Board of Directors, the corporate auditors are permitted to attend all important meetings, such as the meetings of the Officers.

- The  Chairman & CEO, President periodically exchange views and opinions with corporate auditors.

- The internal audit department has been enhancing the practicability of audits carried out by the corporate auditors by reporting the activities of the internal audit department to the corporate auditors from time to time.

- The corporate auditors are also engaged in the audit of (core) subsidiaries in Japan as the corporate auditors of those subsidiaries. The corporate auditors and the internal audit departments of subsidiaries in and outside of Japan are required to report to the corporate auditors of YKK Corporation periodically upon the latter's request.  This achieves a system to ensure that the audits of all of the subsidiaries are implemented effectively.

**3 ) Details of compensation paid to directors and corporate auditors**

Compensation paid to directors and corporate auditors at the Company consists of short-term (monthly) compensation, bonus allowances to directors and corporate auditors (taking into consideration consistency with the basic dividend policy, which is continuing to provide stable dividends), and a retirement allowance as long-term compensation.

The following chart shows the amount of compensation paid to directors and corporate auditors for the current fiscal year.

| Classification | No. of persons | Amount of compensation paid (Millions of yen) |
|---|---|---|
| Directors | 9 | 366 |
| (External Directors) | (2) | (22) |
| Corporate Auditors | 5 | 54 |
| (External Corporate Auditors) | (3) | (31) |
| Total | 14 | 421 |
| (External Directors and Corporate Auditors) | (5) | (54) |

(Note) 1. The upper limit of compensation, decided by a resolution of the general shareholders' meeting, is 30 million yen per month for directors (including adequate additional compensation of an Officer's salary, for directors who also hold a post as an Officer) (resolved at the 70th annual general shareholders' meeting held on June 29, 2005). Corporate auditors' monthly compensation is 4 million yen (resolved at the 61st annual general shareholders' meeting held on June 27, 1996).

2. “No. of persons” includes 1 corporate auditor who retired at the 78th annual general shareholders' meeting held on June 27, 2013.

3. The above amounts include a 64 million yen provision reserved for directors' and corporate auditors' retirement benefits, recognized as an expense for the current fiscal year (including 2 million yen for external directors and 3 million yen for external corporate auditors).

4. The above amounts include the following estimated amounts of bonuses to directors and corporate auditors, which will be put forward for resolution at the 79th annual general shareholders' meeting on June 27, 2014.
- 76 million yen for 9 directors (including 6 million yen for 2 external directors)
- 13 million yen for 4 corporate auditors (including 9 million yen for 3 external corporate auditors)

5. Besides the above amounts, included are retirement benefits of 24 million yen paid to 1 director who retired at the 78th annual general shareholders' meeting held on June 27, 2013.
This amount includes a provision reserved for directors' retirement benefits disclosed in the business report for the prior fiscal years.

**4 ) Status of internal audit and audit by corporate auditors**

(a) Audit by corporate auditors

- The number of corporate auditors is four, while the number of external corporate auditors is three.

- Each corporate auditor complies with audit standards for corporate auditors set forth by the Board of Corporate Auditors; complies with audit policy and segregation of duties; attends important meetings, such as the meetings of the Board of Directors; holds regular meetings with the Chairman & CEO, President to exchange views and opinions; collects information and improves the audit environment through liaisons with the internal audit department; and thereby audits the execution of duties by directors.

- The corporate auditors strive to improve the efficiency and effectiveness of their audit practices by receiving a report from the Internal Auditing and the risk management committees, which details the action plan and the implementation results of internal audits.

- The corporate auditors hold regular meetings with accounting auditors to receive reports on their execution of duties and to mutually exchange views and opinions.

(b) Internal audit

- In April 2003 the Internal Auditing was established as an internal audit section. Currently, 11 members work for this office.

- In addition to the statutory audit performed by four corporate auditors, the Internal Auditing implements internal audits such as operational audits, compliance audits and internal control audits, and thereby achieves more effective auditing practices.

- Internal auditing is effectively conducted, not only by the Internal Auditing, but also in cooperation with staff members of other divisions.

**5 ) Relationships among YKK and external directors and external corporate auditors**

One external director, Mr. Yukio Yanagida, is a founding partner lawyer of Yanagida & Partners. The firm provides legal services to YKK Corporation, however, they are limited to routine services. This does not mean that the external director has a direct personal interest in the Company. In addition, there are no business relationships between the external director, Mr. Keinosuke Ono, and the Company.
One external corporate auditor, Mr. Satoshi Kawai, is a partner at the law firm of Mori Hamada & Matsumoto. The firm provides legal services to YKK Corporation, but they are limited to routine services. This does not mean that the external corporate auditor has a direct personal interest in the Company. Another external corporate auditor, Mr. Hiroshi Akiyama, is a partner lawyer of Yanagida & Partners. The firm provides legal services to YKK Corporation, but they are limited to routine services. This does not mean that the external corporate auditor has a direct personal interest in the Company. In addition, there are no business relationships between the external corporate auditor, Mr. Yoshio Osawa, and the Company.

**6 ) Status of accounting audits**

Hiroaki Kosugi, Osamu Sakanaka, and Toshikatsu Sekiguchi, Certified Public Accountants (CPAs) from Ernst and Young ShinNihon LLC, provide the Company's accounting auditing services. They also conduct timely audits at the year-end, and during the year. In all, 13 CPAs, 13 accountant assistants and 14 other staff members are engaged in the accounting auditing services for the Company.

**7 ) Indemnification from liability of directors and corporate auditors**

Pursuant to Article 426, Paragraph 1 of the Companies Act, the Articles of Incorporation of YKK Corporation provide that any directors and corporate auditors who fail to fulfill their duties may be indemnified from liability, to the extent of the limits prescribed by the same law. The objective of this provision is to enable directors and corporate auditors to fulfill their duties at the level at which they purport to be fulfilling their duties.

**8 ) Requirement for a special resolution at the general shareholders' meeting**

The Articles of Incorporation of YKK Corporation provide that the resolution prescribed in Article 309, Paragraph 2 of the Companies Act shall be approved by the votes of two-thirds or more of shareholders present at the general shareholders' meeting, attended by shareholders holding one-third or more of voting rights. The objective of the requirements is to achieve smooth operation of the general shareholders' meeting by lowering the quorum required for special resolutions.

## (2) Fees for audit engagement

### 1 ) Fees for auditing by certified public accountants, and others

| Division | For the prior fiscal year | | For the current fiscal year | |
|---|---|---|---|---|
| | Fees for audit and attest engagements (Millions of yen) | Fees for non-audit engagements (Millions of yen) | Fees for audit and attest engagements (Millions of yen) | Fees for non-audit engagements (Millions of yen) |
| Filing company | 75 | 14 | 74 | 1 |
| Consolidated subsidiaries | 18 | – | 18 | 0 |
| Total | 93 | 14 | 93 | 1 |

**2 ) Other significant fees**

For the prior fiscal year
The consolidated subsidiaries of the Company, including YKK Corporation of America and YKK U.S.A., paid fees of 240 million yen for audit and attest engagements and 29 million yen for non-audit attest engagements to Ernst and Young member firms, companies that are within the same network of firms as the accounting auditor engaged in services for the Company.

For the current fiscal year
The consolidated subsidiaries of the Company, including YKK Corporation of America and YKK U.S.A., have paid fees of 293 million yen for audit and attest engagements and 35 million yen for non-audit attest engagements to Ernst and Young member firms, companies that are within the same network of firms as the accounting auditor engaged in services for the Company.

**3 ) Non-audit engagements provided by auditing certified public accountants to the filing company**

For the prior fiscal year
Advisory services on the group accounting policies and other similar services.

For the current fiscal year
Advisory services on the annual reports preparation and other similar services.

**4 ) Decision-making policy regarding fees for audit engagements**

N/A. However, fees are determined in consideration of the number of days of the engagement.

# Consolidated Balance Sheets

(Millions of yen)

| | Prior Fiscal Year (As of March 31, 2013) | Current Fiscal Year (As of March 31, 2014) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and deposits | 101,936 | 128,158 |
| Notes and accounts receivable - trade | 157,167 | 179,942 |
| Securities | 20,795 | 22,873 |
| Inventories | 116,597 | 125,984 |
| Deferred tax assets | 9,903 | 11,806 |
| Other | 20,135 | 20,944 |
| Allowance for doubtful accounts | (2,887) | (2,492) |
| Total current assets | 423,648 | 487,218 |
| Noncurrent assets: | | |
| Property, plant and equipment: | | |
| Buildings and structures | 347,518 | 359,370 |
| Accumulated depreciation | (238,070) | (251,801) |
| Buildings and structures, net | 109,447 | 107,568 |
| Machinery, equipment and vehicles | 466,798 | 497,145 |
| Accumulated depreciation | (379,708) | (397,023) |
| Machinery, equipment and vehicles, net | 87,090 | 100,122 |
| Land | 64,247 | 64,793 |
| Construction in progress | 6,183 | 16,816 |
| Other | 78,052 | 79,108 |
| Accumulated depreciation | (67,421) | (66,471) |
| Other, net | 10,630 | 12,636 |
| Total property, plant and equipment | 277,600 | 301,937 |
| Intangible assets | 18,628 | 21,186 |
| Investments and other assets: | | |
| Investment securities | 19,443 | 24,538 |
| Deferred tax assets | 6,786 | 7,173 |
| Other | 44,343 | 43,487 |
| Allowance for doubtful accounts | (2,009) | (2,206) |
| Total investments and other assets | 68,563 | 72,993 |
| Total noncurrent assets | 364,791 | 396,118 |
| Total assets | 788,440 | 883,336 |

(Millions of yen)

| | Prior Fiscal Year (As of March 31, 2013) | Current Fiscal Year (As of March 31, 2014) |
|---|---|---|
| **Liabilities** | | |
| Current liabilities: | | |
| Notes and accounts payable - trade | 54,922 | 67,077 |
| Short-term loans payable | 6,159 | 5,365 |
| Current portion of long-term loans payable | 39 | 43 |
| Income taxes payable | 4,926 | 10,675 |
| Deferred tax liabilities | 558 | 419 |
| Provision for bonuses | 15,010 | 20,249 |
| Deposits received from employees | 31,207 | 31,976 |
| Other | 44,485 | 52,423 |
| Total current liabilities | 157,310 | 188,230 |
| Noncurrent liabilities: | | |
| Bonds payable | 19,997 | 19,997 |
| Long-term loans payable | 2,094 | 2,062 |
| Deferred tax liabilities | 1,642 | 1,339 |
| Net defined benefit liabilities | – | 120,073 |
| Provision for retirement benefits | 97,678 | – |
| Provision for directors' retirement benefits | 614 | 655 |
| Reserve for various competition-law related expenses | 24,597 | 24,597 |
| Other | 13,233 | 12,835 |
| Total noncurrent liabilities | 159,858 | 181,562 |
| Total liabilities | 317,168 | 369,793 |
| | | |
| **Net assets** | | |
| Shareholders' equity: | | |
| Capital stock | 11,992 | 11,992 |
| Capital surplus | 34,938 | 34,938 |
| Retained earnings | 439,787 | 482,537 |
| Treasury stock | (8) | (9) |
| Total shareholders' equity | 486,709 | 529,458 |
| Accumulated other comprehensive income: | | |
| Valuation difference on available-for-sale securities | 2,912 | 3,805 |
| Deferred gains or losses on hedges | 1,020 | 664 |
| Foreign currency translation adjustments | (30,009) | (7,226) |
| Remeasurements of defined benefit plans | – | (25,528) |
| Total accumulated other comprehensive income | (26,075) | (28,285) |
| Minority interests | 10,637 | 12,370 |
| Total net assets | 471,271 | 513,543 |
| Total liabilities and net assets | 788,440 | 883,336 |

# Consolidated Statements of Income

(Millions of yen)

| | Prior Fiscal Year (From April 1, 2012 To March 31, 2013) | Current Fiscal Year (From April 1, 2013 To March 31, 2014) |
|---|---|---|
| Net sales | 576,965 | 696,929 |
| Cost of sales | 378,463 | 443,546 |
| Gross profit | 198,501 | 253,383 |
| Selling, general and administrative expenses | 163,595 | 190,354 |
| Operating income | 34,906 | 63,028 |
| Non-operating income: | | |
| Interest income | 1,214 | 1,763 |
| Dividends income | 335 | 476 |
| Gain on sales of scrap | 313 | 609 |
| Foreign exchange gains | 73 | 529 |
| Miscellaneous income | 2,694 | 2,523 |
| Total non-operating income | 4,632 | 5,901 |
| Non-operating expenses: | | |
| Interest expenses | 873 | 798 |
| Compensation expenses | 1,967 | 234 |
| Miscellaneous loss | 3,016 | 1,875 |
| Total non-operating expenses | 5,857 | 2,907 |
| Ordinary income | 33,681 | 66,022 |
| Extraordinary income: | | |
| Gain on sales of noncurrent assets | 360 | 330 |
| Insurance proceeds | – | 669 |
| Gain on sales of stocks of subsidiaries and affiliates | – | 139 |
| Other | 150 | 118 |
| Total extraordinary income | 511 | 1,258 |
| Extraordinary loss: | | |
| Loss on sales of noncurrent assets | 20 | 47 |
| Loss on retirement of noncurrent assets | 1,224 | 1,680 |
| Impairment loss | 114 | 401 |
| Environmental expenditures | – | 580 |
| Other | 240 | 318 |
| Total extraordinary loss | 1,600 | 3,028 |
| Income before income taxes and minority interests | 32,592 | 64,253 |
| Income taxes - current | 10,333 | 20,144 |
| Income taxes - deferred | (11,113) | (2,247) |
| Total income taxes | (780) | 17,897 |
| Income before minority interests | 33,372 | 46,356 |
| Minority interests in income | 680 | 1,448 |
| Net income | 32,692 | 44,908 |

# Consolidated Statements of Comprehensive Income

(Millions of yen)

| | Prior Fiscal Year (From April 1, 2012 To March 31, 2013) | Current Fiscal Year (From April 1, 2013 To March 31, 2014) |
|---|---|---|
| Income before minority interests | 33,372 | 46,356 |
| Other comprehensive income: | | |
| Valuation difference on available-for-sale securities | 2,106 | 891 |
| Deferred gains or losses on hedges | 360 | (356) |
| Foreign currency translation adjustments | 34,866 | 23,555 |
| Share of other comprehensive income of associates accounted for using equity method | 71 | 0 |
| Total other comprehensive income | 37,405 | 24,090 |
| Comprehensive income | 70,777 | 70,447 |
| | | |
| Comprehensive income attributable to: | | |
| Owners of the parent | 69,031 | 68,226 |
| Minority interests | 1,746 | 2,220 |

# Consolidated Statements of Changes in Net Assets

Prior Fiscal Year (From April 1, 2012 To March 31, 2013)

(Millions of yen)

| | Shareholders' equity: | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of current period | 11,992 | 34,938 | 409,253 | (7) | 456,175 |
| Changes in items during the period | | | | | |
| Dividends from surplus | | | (2,158) | | (2,158) |
| Net income | | | 32,692 | | 32,692 |
| Purchases of treasury stock | | | | (0) | (0) |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes in items during the period | – | – | 30,534 | (0) | 30,533 |
| Balance at the end of current period | 11,992 | 34,938 | 439,787 | (8) | 486,709 |

| | Accumulated other comprehensive income: | | | | Minority interests | Total net assets |
|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustments | Total accumulated other comprehensive income | | |
| Balance at the beginning of current period | 803 | 659 | (63,878) | (62,414) | 9,408 | 403,169 |
| Changes in items during the period | | | | | | |
| Dividends from surplus | | | | | | (2,158) |
| Net income | | | | | | 32,692 |
| Purchases of treasury stock | | | | | | (0) |
| Net changes in items other than shareholders' equity | 2,108 | 360 | 33,868 | 36,338 | 1,229 | 37,568 |
| Total changes in items during the period | 2,108 | 360 | 33,868 | 36,338 | 1,229 | 68,102 |
| Balance at the end of current period | 2,912 | 1,020 | (30,009) | (26,075) | 10,637 | 471,271 |

Current Fiscal Year (From April 1, 2013 To March 31, 2014)

(Millions of yen)

| | Shareholders' equity: | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of current period | 11,992 | 34,938 | 439,787 | (8) | 486,709 |
| Changes in items during the period | | | | | |
| Dividends from surplus | | | (2,158) | | (2,158) |
| Net income | | | 44,908 | | 44,908 |
| Purchases of treasury stock | | | | (0) | (0) |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes in items during the period | – | – | 42,749 | (0) | 42,749 |
| Balance at the end of current period | 11,992 | 34,938 | 482,537 | (9) | 529,458 |

| | Accumulated other comprehensive income: | | | | | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at the beginning of current period | 2,912 | 1,020 | (30,009) | – | (26,075) | 10,637 | 471,271 |
| Changes in items during the period | | | | | | | |
| Dividends from surplus | | | | | | | (2,158) |
| Net income | | | | | | | 44,908 |
| Purchases of treasury stock | | | | | | | (0) |
| Net changes in items other than shareholders' equity | 892 | (356) | 22,782 | (25,528) | (2,209) | 1,732 | (477) |
| Total changes in items during the period | 892 | (356) | 22,782 | (25,528) | (2,209) | 1,732 | 42,271 |
| Balance at the end of current period | 3,805 | 664 | (7,226) | (25,528) | (28,285) | 12,370 | 513,543 |

# Consolidated Statements of Cash Flows

(Millions of yen)

| | Prior Fiscal Year (From April 1, 2012 To March 31, 2013) | Current Fiscal Year (From April 1, 2013 To March 31, 2014) |
|---|---|---|
| **Net cash provided by (used in) operating activities** | | |
| Income before income taxes and minority interests | 32,592 | 64,253 |
| Depreciation and amortization | 35,971 | 38,570 |
| Impairment loss | 114 | 401 |
| Increase (decrease) in allowance for doubtful accounts | (743) | (278) |
| Increase (decrease) in provision for retirement benefits | 4,133 | – |
| Increase (decrease) in net defined benefit liabilities | – | (4,518) |
| Interest and dividends income | (1,550) | (2,240) |
| Interest expenses | 873 | 798 |
| Equity in (earnings) losses of affiliates | (19) | (6) |
| Loss on retirement of property, plant and equipment | 1,213 | 1,111 |
| Loss (gain) on sales of property, plant and equipment | (339) | (283) |
| Decrease (increase) in notes and accounts receivable - trade | (1,833) | (18,636) |
| Decrease (increase) in inventories | 2,803 | (1,956) |
| Increase (decrease) in notes and accounts payable - trade | (9,426) | 11,101 |
| Other, net | 12,033 | 8,919 |
| Subtotal | 75,823 | 97,236 |
| Interest and dividends income received | 1,572 | 2,281 |
| Interest expenses paid | (952) | (747) |
| Income taxes paid | (9,229) | (13,583) |
| Net cash provided by (used in) operating activities | 67,214 | 85,186 |
| **Net cash provided by (used in) investing activities** | | |
| Net decrease (increase) in short-term loans receivable | (36) | 185 |
| Payments into time deposits | (7,165) | (10,681) |
| Proceeds from withdrawal of time deposits | 7,532 | 9,311 |
| Purchases of property, plant and equipment | (40,728) | (52,110) |
| Proceeds from sales of property, plant and equipment | 1,943 | 1,329 |
| Purchases of intangible assets | (5,662) | (5,125) |
| Proceeds from sales of intangible assets | 12 | 7 |
| Purchases of investment securities | (858) | (227) |
| Proceeds from sales of investment securities | 595 | – |
| Purchases of stocks of subsidiaries and affiliates | – | (3,623) |
| Payments of long-term loans receivable | (0) | – |
| Other, net | 354 | 225 |
| Net cash provided by (used in) investing activities | (44,013) | (60,708) |
| **Net cash provided by (used in) financing activities** | | |
| Net increase (decrease) in short-term loans payable | 1,142 | (985) |
| Repayments of finance lease obligations | (247) | (214) |
| Proceeds from long-term loans payable | 1,053 | 77 |
| Repayments of long-term loans payable | (1,041) | (103) |
| Redemption of bonds | (10,000) | – |
| Purchases of treasury stock | (0) | (0) |
| Cash dividends paid | (2,143) | (2,168) |
| Cash dividends paid to minority shareholders | (482) | (388) |
| Net cash provided by (used in) financing activities | (11,719) | (3,784) |
| Effect of exchange rate change on cash and cash equivalents | 8,138 | 5,926 |
| Net increase (decrease) in cash and cash equivalents | 19,618 | 26,620 |
| Cash and cash equivalents at beginning of period | 96,891 | 116,510 |
| Cash and cash equivalents at end of period | 116,510 | 143,131 |

# Notes to the Consolidated Financial Statements

## Significant Accounting Policies

**1. Scope of consolidation**

(1) Number of consolidated subsidiaries............106
Number of newly established consolidated subsidiaries ............................................... 1
YKK AP FACADE VIETNAM CO., LTD.
Number of unconsolidated subsidiaries due to a disposition of stocks .................................... 1
YKK WEST INDIES LIMITED
Number of companies excluded from the consolidation due to mergers with other consolidated subsidiaries............................... 1
YKK SNAP FASTENERS ITALIA SpA

(2) Number of unconsolidated subsidiaries ............ 5
Name of major unconsolidated subsidiaries:
Y2K HOLDINGS CORPORATION
Reason for exclusion from consolidation:
These companies have been excluded from the consolidation because they are small, and their total assets, net sales, net income (the equity portion) and retained earnings (the equity portion) do not have a significant effect on the consolidated financial statements.

**2. Application of equity method**

(1) Number of companies accounted for using the equity method ........................................... 1
Affiliated company: 1
YKK PHILIPPINES INC.

(2) Number of companies not accounted for using the equity method ........................................... 7
Unconsolidated subsidiaries: 5
Y2K HOLDINGS CORPORATION and others
Affiliated companies: 2
L-Y PHILIPPINES INC. and others
Reason for not using the equity method:
These companies are not accounted for using the equity method because their impact is not significant on the consolidated financial statements in terms of their total net income (the equity portion) and retained earnings (the equity portion), and they are not significant as a whole.

**3. Accounting period of consolidated subsidiaries**

The fiscal year end of certain foreign consolidated subsidiaries, including Shanghai YKK Zipper is December 31. These subsidiaries are consolidated using their financial statements as of the parent fiscal year end, which are prepared solely for consolidation purposes.

**4. Significant accounting policies**

(1) Valuation method for assets

a) Securities:
1) Held-to-maturity debt securities
Held-to-maturity debt securities are carried at amortized cost (Straight-line).
2) Other securities
Marketable securities
Marketable securities are carried at fair value as of the parent fiscal year end, with changes in unrealized gains or losses included directly in net assets. Cost of securities sold is determined using the moving average method.
Non-marketable securities
Non-marketable securities are carried at cost, which is determined using the moving average method.

b) Derivatives:
Derivative financial instruments are stated at fair value.

c) Inventories:
Inventories are mainly stated at cost based on the average method (the balance sheet amounts are determined including any required write-downs based on any decrease in profitability).

(2) Depreciation of assets

a) Property, plant and equipment (excluding leased assets):
Depreciation is calculated using the straight-line method.

The estimated useful lives are as follows:

| | |
|---|---|
| Buildings and structures | 2 - 50 years |
| Machinery, equipment and vehicles | 2 - 15 years |

b) Intangible assets (excluding leased assets):
Intangible assets are amortized using the straight-line method.
Software for internal use is amortized over a period of mainly 5 years.

c) Leased assets:
Leased assets held under finance lease transactions, where ownership is not transferred Depreciation of leased assets is calculated using the straight-line method over the lease terms with no residual value

(3) Basis for significant reserves

a) Allowances for doubtful accounts:
Allowances for doubtful accounts are provided at an amount sufficient to cover probable losses on collection. The allowances consist of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the historical actual percentage of collection losses on normal receivables.

b) Provision for bonuses:
Accrued bonuses of the Company and its domestic consolidated subsidiaries have been provided based on the estimated amount of

bonuses to be paid to employees that relates to the current fiscal year.

c) Provision for directors' retirement benefits
Provision for directors' retirement benefits of the Company and certain domestic consolidated subsidiaries has been made at an amount to be required at the year end based on the Company's bylaws.

d) Reserve for various competition-law related expenses:
On September 19, 2007, the Company and its European subsidiaries, YKK Holding Europe B.V., and YKK Stocko Fasteners GmbH received a decision from the European Commission with an order for these three YKK companies to pay fines totaling €150.25 million for alleged violations of European competition law with respect to hard haberdashery products (snap and buttons) and zippers (slide fasteners). The three YKK companies filed an appeal with the General Court, but in June 2012, the General Court dismissed the claim.
The three YKK companies appealed to Court of Justice of the European Union in September 2012, as the decision of the Court was difficult to accept.
Although a judgment has not been rendered by the court as it is currently pending, the three YKK companies recorded a reserve for the fines ordered in the decision.

(4) Accounting for retirement benefits

a) Attribution to periods of expected benefits
Company and its domestic consolidated subsidiaries calculate retirement benefits obligations by using the straight-line method to attribute expected benefits to the periods up to the current fiscal year.

b) Amortization of actuarial gains and losses and past service costs
The Company and its domestic consolidated subsidiaries amortize past service costs using the straight-line method over the average remaining years of service of eligible employees.
Amortization of actuarial gains or losses begins in the year after the year in which the gain or loss is recognized, and is recorded using the straight-line method over a period within the average remaining years of service of eligible employees.

(5) Reporting of significant revenues and expenses

Recognition of sales and costs of construction contracts
Revenues and costs from construction contracts have been accounted for based on the percentage of completion method, if the outcome of the construction contracts can be estimated reliably (the percentage of completion is estimated based on costs incurred). The completed contract method has been applied for all other construction contracts.

(6) Translation of significant assets and liabilities denominated in foreign currencies into yen

Current and noncurrent monetary accounts denominated in foreign currencies are translated into yen at the rates of exchange in effect at the consolidated balance sheet date, and differences arising from the translation are included in the consolidated statements of income.

All asset and liability accounts of foreign consolidated subsidiaries and affiliates are translated into yen at the rates of exchange in effect at the consolidated balance sheet date, and all income and expense accounts are translated into yen at the average exchange rate during the year. Differences arising from the translation are presented as foreign currency translation adjustments and minority interests in net assets.

(7) Hedge accounting

a) Hedge accounting
Deferral hedge accounting is adopted, in principle. Forward foreign exchange contracts are subject to appropriation if they satisfy the requirements for appropriation treatment.

b) Hedging instruments and hedged items
Hedging instruments and hedged items for which hedge accounting is adopted in the current fiscal year are as follows:
Hedging instruments: Forward foreign exchange contracts, currency options
Hedged items: Receivables and payables denominated in foreign currencies, forecasted transactions denominated in foreign currencies.

c) Hedging policy
Foreign exchange fluctuation risk is hedged in accordance with the Company's internal policies.

d) Assessment of hedge effectiveness
Hedge effectiveness is assessed quarterly, based on the change in market value of hedged items and the change in market value of hedging instruments. Forward foreign exchange contracts, which are subject to appropriation treatment, are excluded from the assessment of hedge effectiveness.

(8) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents consist of cash on hand, cash at banks that can be withdrawn at any time, and short-term investments with a maturity of 3 months or less when purchased that can easily be converted to cash and are subject to little risk of change in value.

(9) Other significant accounting policies of the Consolidated Financial Statements

a) Accounting for consumption tax
Transactions subject to consumption tax are recorded at amounts exclusive of consumption tax.

b) Application of the consolidated tax return system
The Company applies the Consolidated Tax Return System.

(10) Changes in accounting policy

a) Changes in depreciation method and useful lives of property, plant and equipment
Depreciation at the Company and its domestic consolidated subsidiaries was calculated primarily using the declining-balance method, and depreciation at foreign consolidated subsidiaries was calculated primarily using the straight-line method. However, the methods have been unified and the straight-line method is being used from the current fiscal year.
This change is due to a review of their actual usage in connection with setting the “Fourth mid-term Management Plan” which went into effect from the current fiscal year.
The domestic Fastening Products Group will focus on the production of high-value added products, and serve as a supply center for basic materials that will allow the Company to offer high-quality products worldwide. In the domestic AP Group, made-to-order production lines that are capable of producing a variety of products and quantities have been improved under the business policy of “Product appeal capability, Proposal capability for suitable growth”.
Since domestic production systems are expected to operate stably for these reasons, the straight-line method has been adopted, which allocates costs equally over the useful life.

Certain consolidated subsidiaries have changed the useful lives of their property, plant and equipment. These changes are the result of comprehensive consideration of economic useful lives, while taking into account the global expansion of the YKK Group, and after reviewing the introduction cycle of production equipment based on product life cycles and risk of obsolescence of production technologies etc. for property, plant and equipment that are of the same categories and used under the same conditions.

As a result, for the current fiscal year, depreciation decreased by 3,164 million yen, operating income increased by 2,819 million yen, and ordinary income and income before income taxes and minority interests each increased by 2,787 million yen, respectively, compared to the amounts calculated using the previous methods.
The impact on the segment information is set forth in the relevant segment information section.

b) Adoption of accounting standard for retirement benefits
“Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012) have been adopted from current fiscal year end (except for cases stipulated in the main text of Article 35 of Accounting Standard for Retirement Benefits and in the main text of Article 67 of Guidance on Accounting Standard for Retirement Benefits.).
The Company has changed the policy to a method in which the retirement benefits obligations less the pension plan assets are accounted for as net defined benefit liabilities, and actuarial gains and losses and past service costs are accounted for as net defined benefit liabilities.
Accounting Standard for Retirement Benefits has been adopted following the transitional treatment in Article 37 of Accounting Standard for Retirement Benefits. The impact of this change is adjusted in remeasurements of defined benefit plans in accumulated other comprehensive income as of the end of the current fiscal year.
As a result, net defined benefit liabilities has been 120,073 million yen, accumulated other comprehensive income has decreased by 25,528 million yen, and minority interests has decreased by 98 million yen, as of the end of the current fiscal year.
Net assets per share decreased by 21,291 yen.

(11) Accounting standards issued but not yet adopted

“Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012)” and “Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)”

a) Summary
The accounting standard has been revised for the accounting of actuarial gains and losses and past service costs, and calculating and expanding disclosure of retirement benefits obligations and service costs.

b) Expected effective date
The Company will apply the new method of calculating retirement benefits obligations and service costs from the beginning of the fiscal year ending on March 2015. According to the transitional measure defined in the accounting standard, the change will not be applied retrospectively.

c) Impact of applying the accounting standard
The Company is currently evaluating the amount of impact to the Group's consolidated financial statements due to the revision of method of calculating retirement benefits obligations and service costs.

# Segment Information

## 1. Overview of reportable segments

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance. The Group operates based on comprehensive strategies for products in Japan and overseas, which are planned for each business.

Accordingly, the Company consists of two reportable segments, identified by products and based on division, which are the "Fastening Products" business and the "Architectural Products" business. The "Fastening Products" business manufactures and sells fasteners, fastener parts, fastener materials, snap fasteners, buttons, etc. The "Architectural Products" business manufactures and sells residential products and sashes, commercial products and sashes, interior doors and partitions, exterior materials, industrial products and architectural products.

## 2. Calculation method for net sales, income or loss, assets, liabilities and other items by reportable segments

Reportable segment income is calculated from operating income. Intersegment sales and transfers are recorded generally at market prices and the cost of goods manufactured.

## 3. Information on net sales, income or loss, assets, liabilities and other items by reportable segments

For the fiscal year ended March 31, 2013 (From April 1, 2012 To March 31, 2013)

(Millions of yen)

| | Reportable segments | | | Other *1 | Adjustments *2 | Consolidated *3 |
|---|---|---|---|---|---|---|
| | Fastening Products | Architectural Products | Total | | | |
| Net sales | | | | | | |
| Sales to third parties | 223,860 | 345,074 | 568,935 | 8,030 | – | 576,965 |
| Intersegment sales and transfers | 376 | 189 | 565 | 46,979 | (47,544) | – |
| Total | 224,237 | 345,263 | 569,501 | 55,009 | (47,544) | 576,965 |
| Segment income | 28,782 | 18,605 | 47,387 | 1,003 | (13,484) | 34,906 |
| Segment assets | 341,469 | 310,847 | 652,317 | 242,178 | (106,054) | 788,440 |
| Other items | | | | | | |
| Depreciation | 19,117 | 13,677 | 32,795 | 2,565 | 316 | 35,678 |
| Increase in tangible and intangible assets | 21,375 | 17,184 | 38,560 | 4,734 | 1,305 | 44,600 |

Notes:

1. "Other" includes businesses such as: manufacturing and sales of fastening products manufacturing machinery, manufacturing and sales of architectural products manufacturing machinery, manufacturing and sales of mold and machinery parts, real estate and aluminum smelting, etc.
2. (1) Adjustments for segment income of (13,484) million yen include a 3,159 million yen elimination of inter-segment transactions and (16,856) million yen of operating expenses, which are not allocable to the reportable segments. Operating expenses which are not allocable to the reportable segments are expenses such as those related to the administration divisions.
   (2) Adjustments for segment assets of (106,054) million yen include a (45,532) million yen elimination of receivables due to the corporate administration division, 419,003 million yen of corporate assets which are not allocable to the reportable segments, and a (1,000) million yen adjustment for inventory.
3. Segment income has been reconciled to operating income represented in the consolidated statements of income.

For the fiscal year ended March 31, 2014 (From April 1, 2013 To March 31, 2014)

(Millions of yen)

| | Reportable segments | | | Other *1 | Adjustments *2 | Consolidated *3 |
|---|---|---|---|---|---|---|
| | Fastening Products | Architectural Products | Total | | | |
| Net sales | | | | | | |
| Sales to third parties | 288,222 | 402,935 | 691,157 | 5,772 | – | 696,929 |
| Intersegment sales and transfers | 410 | 367 | 777 | 51,650 | (52,428) | – |
| Total | 288,632 | 403,302 | 691,935 | 57,422 | (52,428) | 696,929 |
| Segment income | 49,883 | 29,477 | 79,361 | (371) | (15,961) | 63,028 |
| Segment assets | 412,459 | 349,451 | 761,910 | 246,631 | (125,205) | 883,336 |
| Other items | | | | | | |
| Depreciation | 21,961 | 11,810 | 33,771 | 3,013 | 1,384 | 38,169 |
| Increase in tangible and intangible assets | 30,897 | 21,709 | 52,607 | 4,898 | 290 | 57,796 |

Notes:

1. "Other" includes businesses, such as manufacturing and sales of fastening products manufacturing machinery, manufacturing and sales of architectural products manufacturing machinery, manufacturing and sales of mold and machinery parts, real estate and aluminum smelting, etc.
2. (1) Adjustments for segment income of (15,961) million yen include a 2,083 million yen elimination of inter-segment transactions and (18,225) million yen of operating expenses, which are not allocable to the reportable segments. Operating expenses which are not allocable to the reportable segments are expenses such as those related to the administration divisions.
   (2) Adjustments for segment assets of (125,205) million yen include a (55,562) million yen elimination of receivables due to the corporate administration division, 433,560 million yen of corporate assets which are not allocable to the reportable segments, and a (856) million yen adjustment for inventory.
3. Segment income has been reconciled to operating income represented in the consolidated statements of income.
4. As described in the Changes in accounting policy, depreciation at the Company and its domestic consolidated subsidiaries was calculated primarily using the declining-balance method, and depreciation at foreign consolidated subsidiaries was calculated primarily using the straight-line method. However, the methods have been unified and the straight-line method is being used from the current fiscal year. Certain consolidated subsidiaries have changed the useful lives of their property, plant and equipment.
   As a result, segment income of "Fastening Products" increased by 608 million yen, "Architectural Products" increased by 2,696 million yen, and "Other" decreased by 235 million yen compared to amounts calculated using the previous methods.

# Corporate Profile

**YKK Corporation**

| | |
|---|---|
| **Foundation:** | January 1, 1934 |
| **Capital:** | 11,992,400,500 yen *as of March 31, 2014 |
| **Headquarter Address:** | 1, Kanda Izumi-cho, Chiyoda-ku, Tokyo 101-8642, Japan |
| **URL:** | http://www.ykk.com |
| **Directors and Auditors:** | |
| **Chairman & CEO** | Tadahiro Yoshida |
| **Representative Director and Vice Chairman** | Hideo Yoshizaki |
| **Representative Director and President** | Masayuki Sarumaru |
| **Directors** | Wataru Otani |
| | Akira Yoshida |
| | Tetsuo Yazawa |
| | Hiroaki Otani |
| | Yukio Yanagida |
| | Keinosuke Ono |
| **Corporate Auditors** | Yoshio Osawa |
| | Kiyotaka Nagata |
| | Satoshi Kawai |
| | Hiroshi Akiyama |

**YKK AP Inc.**

| | |
|---|---|
| **Foundation:** | July 22, 1957 |
| **Capital:** | 10,000,000,000 yen *as of March 31, 2014 |
| **Headquarter Address:** | 1, Kanda Izumi-cho, Chiyoda-ku, Tokyo 101-8642, Japan |
| **URL:** | http://www.ykkap.co.jp |
| **Directors and Auditors:** | |
| **Chairman & CEO** | Tadahiro Yoshida |
| **Representative Director and Vice Chairman** | Hideo Yoshizaki |
| **Representative Director and President** | Hidemitsu Hori |
| **Directors** | Masashi Honda |
| | Masami Shizu |
| | Akira Yoshida |
| | Yukio Kanayama |
| | Junichi Takahashi |
| | Fumio Niizeki |
| **Corporate Auditors** | Susumu Miyoshi |
| | Junichi Keino |
| | Kiyotaka Nagata |
| | Takashi Miyatani |

YKK CORPORATION