2016
Annual Report

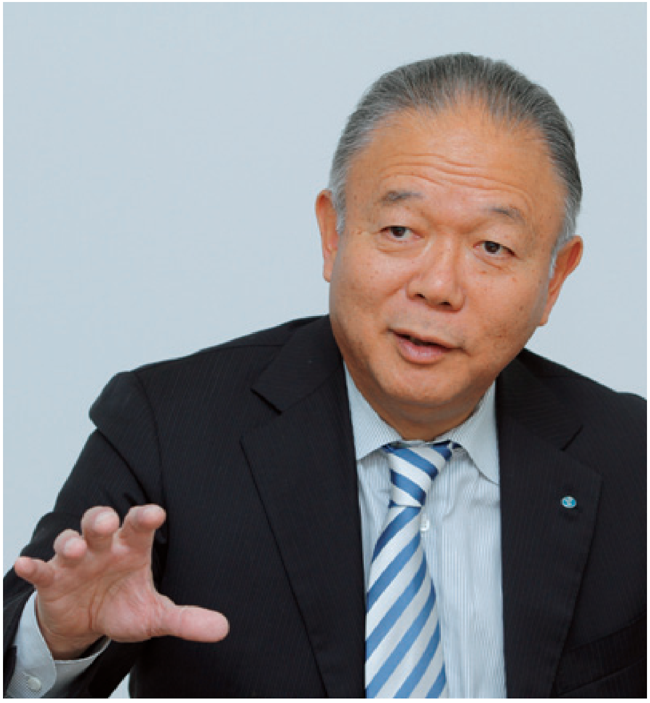
YKK GROUP
for the year ended March 31, 2016

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

Achieving Quantitative Expansion through Further Sales Expansion and Supply Capability Reinforcement

The Fastening Products Group was able to achieve solid results in 2015. As garment manufacturing shifted from China to other parts of Asia, we steadily built a production base in Asia by enhancing our supply capabilities through aggressive investment in the region, and succeeded in capturing the change in demand. At the same time, our sales expansion efforts, such as efforts to obtain the designation of global buyers and strengthening approaches toward importers handling apparel for volume retailer, were also effective. What is more, the second phase expansion of the YKK Vietnam Co., Ltd. Nhon Trach Plant, which is slated to be a major production base to cater to export processors that deal mainly with sports apparel, has been completed, and the expanded facilities have been in operation since December 2015.

We will carry out quantitative expansion in 2016 by promoting the expansion of target volume retailers in Japan, Europe and the U.S.; further reinforcement of proposal efforts by the Global Marketing Group; streamlining operations in China; and continued aggressive investment in growing Asian markets. We will steadily carry out the finishing touches toward the sale of 10 billion zippers.

YKK Vietnam Co., Ltd.'s Nhon Trach Plant

Strengthening Development Bases to Enable Swift Response to Customer Requests

YKK Furumido Plant was remodeled as a YKK R&D Center, which will serve as the base for the accumulation and exchange of technology and the nurturing of development personnel. Meanwhile, a new building was completed at the YKK Snap Fasteners Japan Co., Ltd.'s Ageo Plant in March 2016 as the base for the production and development of snaps and buttons. We aim for a structure that enables even speedier development and commercialization, from marketing to shipment, through the continuous development of products and production lines. YKK Fastening's development bases are currently situated in 20 locations around the world with 698 employed. We plan to increase this to 22 locations and approximately 780 employees by the end of 2016. We will respond swiftly to customer requests by creating a foundation for the further strengthening of our development bases, and carrying out product development that is closely associated with regions.

YKK R&D Center (within the Kurobe Furumido Plant)

London Showroom Opens as a Source for YKK Information

The YKK London Showroom opened in December 2015 in the city's Shoreditch district. The showroom displays the latest YKK fastening product collections and disseminates information to the fashion industry. At the same time, on sale at the showroom are EXCELLA® zippers as well as snaps and buttons, with a service and equipment available for the attachment of snaps and buttons.

The showroom is also involved in the vitalization of the fashion industry by serving as a resource for students, who are the industry's future. Also shown are works from the International Talent Support contest for students, which YKK has been supporting since 2005.

The development of products with excellent design, such as the EXCELLA® Blade, is being strengthened in the EMEA* region. The EXCELLA® Blade was a 2015 winner of the Red Dot Award in Product Design and, in 2016, the German Design Award. In addition to strengthening its function as a source of information, the London Showroom will respond proactively to customer needs in the high-fashion field.

YKK Europe Ltd.'s YKK London Showroom

*EMEA: Europe, the Middle East and Africa

Environmental Responsiveness and the Utilization of Renewable Energy

The Fastening Products Group perceives measures against global warming as a societal challenge to be dealt with, and is taking energy conservation measures as well as promoting increased use of renewable energy. For example, a solar generation system was installed at YKK (U.S.A.) Inc.'s Anaheim Plant to generate power for consumption at the plant. In operation since February 2016, the 521kW system will not only meet almost all of the Anaheim Plant's power needs, but is also expected to reduce an approximate 900 tons of CO_2 emissions per year. Meanwhile, a hybrid power-generation system was installed at YKK Bangladesh Pte Ltd.'s plant. It combines the use of solar energy and diesel to generate power, with solar power generation prioritized during fair weather. This system reduces fuel use by 90,000 liters and CO_2 emissions by 265 tons on an annual basis. Going forward, YKK will continue to give consideration to protecting the natural environment of the regions in which it operates and promote the use of renewable energy.

Solar panels on the roof of YKK (U.S.A.) Inc.'s Anaheim Plant

Our Business: Architectural Products

Further Promotion of Vinyl Windows in Order to Become a Leading Window Manufacturer

To respond to mandatory energy-conservation standards that were put in place in 2013, and the increased demand for highly insulating, energy-efficient windows through the spread of zero-energy houses, YKK AP released the “APW 430 two action windows,” (tilt and turn windows) which can be opened in two ways—tilted from the top or swung inward from the side. Also released was the APW 431 sliding patio door which utilizes an original mechanism developed by AP that allows it to be opened and closed with very little force. The launch of these products offers further variations in the vinyl window lineup. It is now possible to use high-performance vinyl windows in all areas of a house.

Meanwhile, the APW Forum, being held since 2012, was held at 21 venues across Japan. These seminars, given by a broad range of lecturers, are continuing to promote the understanding and spread of the use of vinyl windows.

APW 431 sliding patio door

Further Expansion of the Overseas Architectural Product Business by Leveraging Technology and Product Appeal

We established YKK AP (Thailand) Co., Ltd. in April 2015 as a part of our effort to bolster our proposal capability in the ASEAN region through our core product, NEXTA. The subsidiary will supply windows and doors for apartments and detached houses, contributing to the improvement of the housing environment in Thailand, which is seeing rapid growth.

YKK AP also showcased its technology to the world by having exhibits at the 13th China International Curtain Wall Expo (Shanghai) and Fensterbau Frontale 2016 (Nuremberg, Germany) as the only Japanese building-products manufacturer in both cases.

YKK AP Booth at the Fensterbau Frontale 2016

Cultivating a New Market amid the Ongoing Growth of the Remodeling Market

In reaction to the projected decrease in housing starts in the coming years, we are proceeding with the development of new, industry-leading products and construction methods for the remodeling market, which is expected to grow in turn. It includes “Kantan Door Remo (easy door remodeling),” a product that simplifies the replacement of doors, and SYSTEMA 31Br, a new window refurbishment method for non-residential buildings.

In 2015, we entered the renovation field and are cultivating a new market. Roughly 500 participants from renovation companies, general contractors, and architectural design offices attended our first Renovation Forum 2015, where we promoted the importance of windows and other openings in renovations.

Renovation Forum 2015 (Tokyo venue)

YKK AP’s Product Appeal Earns High Regard

YKK AP’s product appeal earned high recognition from various circles. The sliding louver “Open Louver” won two awards: the Special Prize for Building Materials and Facilities Grand Prize 2015 (awards given to superior building materials and facilities; hosted by Nikkei Architecture and Nikkei Home Builder magazines), and the Chairperson’s Award, Eco-Products Award Steering Committee for the 12th Eco Products Awards (recognizes products and services that give consideration toward the reduction of environmental impact).

Meanwhile, the exterior product series Lucias won the Good Design Award 2015.

Open Louver

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.

For each employee to think independently and continue evolving

Full-scale operation began in April 2016 at the Slide Fastener Machine Parts Plant which was completed in November 2015. The Machinery & Engineering Group, which plays a role as YKK Group's technological development function, will continue to stay up-to-date with advances in future manufacturing, with Kurobe as the center of activities where employees will think for themselves for continuous evolution. The new Slide Fastener Machine Parts Plant will be designed for flexibility. It will feature automated lines that look five to ten years ahead into the future and can be improved, updated and evolved. At the same time, advanced temperature, humidity and vibration control that ensures stable manufacturing of precision machinery parts will be realized. Active use of daylight for an environment where employees can work in comfort will be introduced, and the Group will tackle the challenge of building a precision machinery plant with windows.

The aim is to shorten production lead times by 50% and cut production costs by 20 to 30 percent (as compared with 2012 figures) through operation of the new plant.

Slide Fastener Machine Parts Plant

Working Cooperatively with Communities

The In-House Tampopo Child Center Opens

Tampopo Child Center, the first such facility at a YKK business location, opened in Passive Town (Kurobe, Toyama prefecture). The YKK Group recognizes that in addition to preparing an environment that enables employees to work for many years, reforming our awareness related to working styles is also a major challenge. The Group offers various related support systems. They include those that facilitate the early return to work by mothers after they have given childbirth and those that offer a wide variety of working styles that help prevent childrearing from becoming a disadvantage for workers. The new daycare center will serve as a reassuring facility that can also be used by the families of employees relocated to Kurobe with the transfer of a portion of the headquarters functions there. The Group will continue to prepare an environment that meets the needs of society and allows its employees to work with a peace of mind.

Tampopo Child Center exterior

<Origin of the Name and Symbol>
Tampopo, or dandelions, take root firmly and thrive anywhere, blooming beautiful yellow flowers. Once they go to seed, the seeds fly away widely and take root at a new location, where they again bloom. The child center was named Tampopo as a wish for the healthy growth of children and their futures with the world as their stage.

Supporting of the festival, Festa e Exposição do Kaki Fuyu in Piedade, Brazil

Piedade is a small municipality located about 150 km from Sao Paolo (50 km from Sorocaba), which is home to many Japanese-Brazilians. Settlement there began in 1935, and the growing of Fuyu persimmons (Kaki in Japanese) began in 1955. The wide difference in daytime and nighttime temperatures in the area is suitable for growing persimmons with high sugar content. Piedade is gradually starting to gain prominence as a persimmon-growing region.

Since the beginning, YKK Do Brasil LTDA. has been Supporting of festival, Festa e Exposição do Kaki Fuyu, which is held every May. This year marked the 15th time that the festival was held. It has become a major event visited by many Brazilian tourists from Sao Paolo and neighboring areas.

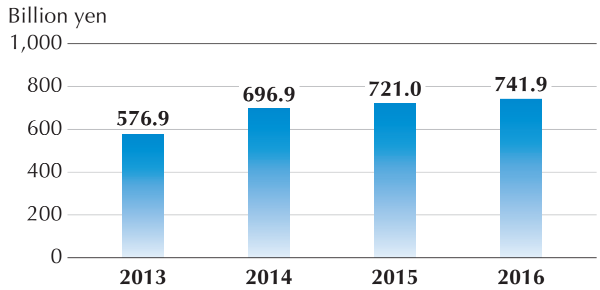
The YKK Group will continue its activities that link Japan and Brazil by cooperating with Brazil's socioeconomic development.

Award winners at the Festa e Exposição do Kaki Fuyu

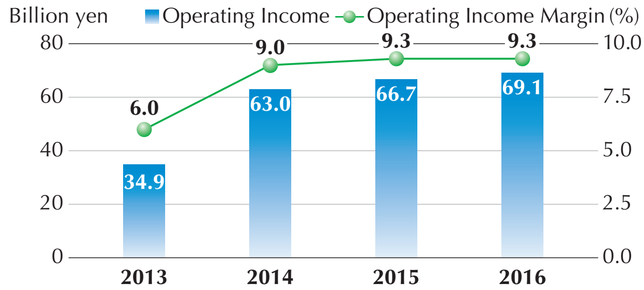
Financial Highlights

For years ended March 31

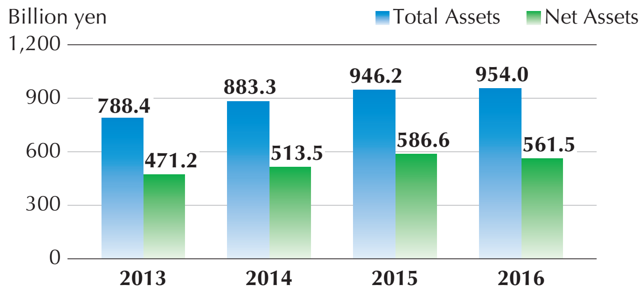
Net Sales



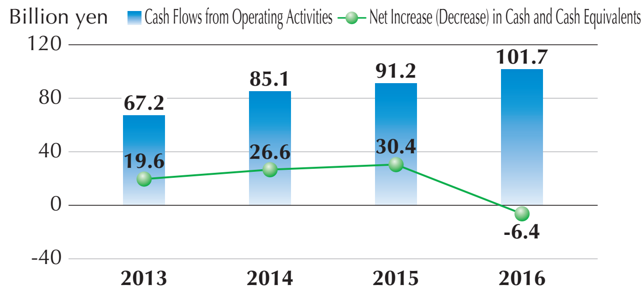
Operating Income



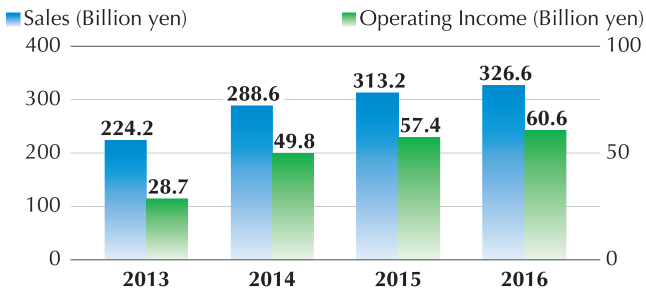
Total Assets/Net Assets



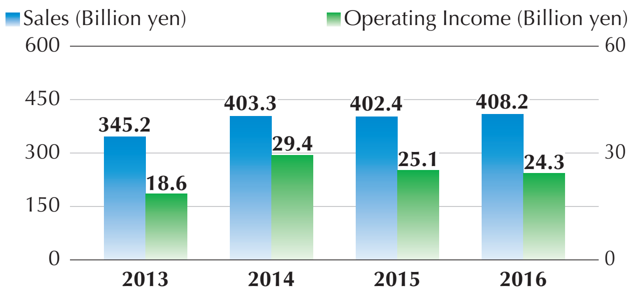
Cash Flows from Operating Activities



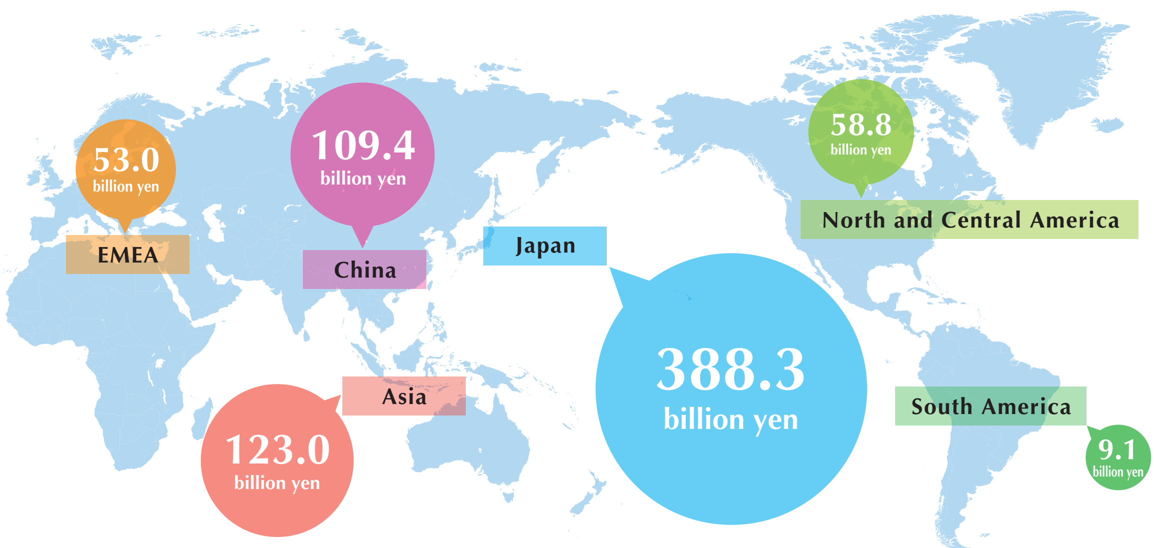
Sales/Operating Income of Fastening Products



Sales/Operating Income of Architectural Products



Net Sales Breakdown by Region (Year ended March 31, 2016)



Notes:
1. EMEA: Europe, Middle East and Africa
2. Sales are classified by country or region based on the location of customers.

Key Financial Data and Trends

(1) Consolidated financial data

Fiscal year		2012	2013	2014	2015	2016
Year ended		March 31, 2012	March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016
Net sales	Millions of yen	544,434	576,965	696,929	721,037	741,935
Ordinary income	Millions of yen	26,681	33,681	66,022	69,720	70,988
Net income attributable to owners of parent	Millions of yen	16,334	32,692	44,908	46,978	44,646
Comprehensive income	Millions of yen	14,336	70,777	70,447	81,416	(20,695)
Net assets	Millions of yen	403,169	471,271	513,543	586,664	561,547
Total assets	Millions of yen	715,364	788,440	883,336	946,283	954,060
Net assets per share	Yen	328,395	384,171	417,986	477,438	456,991
Basic net income per share	Yen	13,622	27,265	37,453	39,181	37,237
Diluted net income per share	Yen	–	–	–	–	–
Equity ratio	%	55.0	58.4	56.7	60.5	57.4
Return on equity	%	4.2	7.7	9.3	8.8	8.0
Price earnings ratio	Times	–	–	–	–	–
Cash flows from operating activities	Millions of yen	32,076	67,214	85,186	91,254	101,727
Cash flows from investing activities	Millions of yen	(39,667)	(44,013)	(60,708)	(65,976)	(95,252)
Cash flows from financing activities	Millions of yen	6,636	(11,719)	(3,784)	(4,379)	(4,359)
Cash and cash equivalents at the end of period	Millions of yen	96,891	116,510	143,131	173,558	167,229
Employees The numbers in square brackets represent the average number of part-time employees not included in the numbers of regular employees.	Number	37,719 [7,127]	38,235 [7,123]	40,306 [6,828]	42,154 [5,738]	44,250 [5,390]

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. The scope of employees has changed from the year ended March 31, 2014, as the number of employees includes contractors, senior employees and other applicable employees, which were previously included under the average number of part-time employees.
5. Effective from the current fiscal year, the former "Net income" has been presented as "Net income attributable to owners of parent" by applying accounting standards such as ASBJ Statement No. 21, "Revised Accounting Standard for Business Combinations" (released on September 13, 2013).

*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)

The Japanese economy recovered moderately in the current fiscal year as corporate earnings and the job market improved on the back of the government's fiscal policy and monetary easing by the Bank of Japan.

Despite being dragged by weakness in emerging Asian economies including China and lower oil prices, the global economy grew moderately overall as the US and Eurozone economies were strong.

(Consolidated performance in the current fiscal year)

Amidst these economic conditions, the YKK Group ("the Group") has maintained a concerted effort towards implementation of its Fourth Mid-Term Management Plan, which began in FY2014. YKK Corporation ("the Company"), which includes the Fastening Products Group and the Machinery and Engineering Group, has adopted the approach of "Evolution and technological innovation — evolution of existing business & innovation for increased sales volume" while YKK AP Inc., which mainly focuses on the AP business, has adopted the approach of "Product appeal and proposal capabilities for sustainable growth of the AP Group" as their respective Fourth Mid-Term Business Policy. FY2016 was seen as the year to confirm the effect and to generate outcomes from the preparatory measures carried out during the first half of the Fourth Mid-Term Management Plan, and to make strenuous efforts to address the resolution of any areas which did not align with the plan.

As a result, in the current fiscal year, net sales increased 2.9% year-on-year to 741,935 million yen, operating income increased by 3.6% year-on-year to 69,164 million yen, ordinary income increased 1.8% year-on-year to 70,988 million yen and net income attributable to owners of parent decreased 5.0% year-on-year to 44,646 million yen on a consolidated basis.

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

1) Fastening Products Group

Regarding the business environment surrounding the Fastening Products Group, the apparel industry expanded moderately along with moderate economic growth led by the US and Europe, but at the same time, the pressure from the market to reduce product prices reflecting lower prices in raw materials including copper and zinc increased. In China, although the sewn products market for export business has contracted due to acceleration in the migration of apparel manufacturing to other Asian countries, the Chinese market is expanding as domestic demand has grown on steady individual consumption despite slowing economic growth. Given this environment, both the revenue and profits of the Fastening Products Group increased as a result of successful measures to win new customers among volume retailers mainly in Japan, the US and Europe, expand sales in the domestic Chinese market and strengthen its supply platform including the launch of copper alloy wire and slider plants in Indonesia.

On a regional basis, sales in South America declined due to the effects of softness in the Brazilian economy, as well as in the EMEA (Europe, the Middle East and Africa), where stagnation in the Russian economy reverberated within the region and sales of luxury goods slowed as China increased taxes on them. In Japan, sales grew on brisk sales to American luxury bag customers, but profits declined despite the increase in revenue as the supply of materials to group companies decreased. In North and Central America, strengthened R&D led sales to expand mainly on gains in new demand in the automotive sector. In China, competition was intense due to the migration of apparel manufacturing to other regions, but revenue increased through the development of new domestic customers. In the Asia region (excluding China and Japan), strong sales growth was maintained by steadily capturing demand arising from increased production by customer and strengthening supply systems in the region to capture the migration of apparel manufacturing as a result of strengthening supply systems.

As a result, the Fastening Products Group's net sales (including intersegment sales) increased 4.3% year-on-year to 326,605 million yen. Although rising personnel expenses in China and Asia, increased fixed manufacturing costs accompanying efforts to enhance supply capacities in the Asia region and the costs of strengthening the manufacturing and development base ahead of the next mid-term management plan were factors in reduced operating income, operating income increased 5.7% year-on-year to 60,699 million yen as a result of increased sales volumes and continuous cost-cutting measures in addition to declining raw materials costs.

2) AP Group

Regarding the business environment surrounding the AP business, in Japan, the impact of the consumption tax hike in April 2014 abated, leading to recovery after the recoil in demand in the prior fiscal year, with approximately 920,000 housing starts between April 2015 and March 2016 (a 4.6% year-on-year increase). Overseas, the US experienced moderate economic growth while the downturn

in the real estate markets in China and Asia continued. Given this business environment, the AP Group drove its business forward with an eye toward the "Product appeal and proposal capabilities for sustainable growth of the AP Group" set out in the Fourth Mid-Term Business Policy, which began in FY2014.
In terms of "Expansion of the window business," the group released the "APW430 two action windows (Tilt and turn windows)" in October 2015 as a means of developing its vinyl windows business, and continuously made further improvements to its vinyl window proposals. The group also started offering glazed vinyl windows in urban regions. The group conducted "APW Forum 2015" over 21 cities in Japan in order to brief housing industry representatives on the importance of thermal insulation performance of windows in homes and promote sales. With regard to "Enhancement of the remodeling market," the group introduced "Kantan Door Remo (easy door remodeling)" in April 2015, aiming to stimulate demand for door replacements. Towards "Enhancement of the range of exterior items," the group was able to increase sales by expanding coordination proposals for home exterior products placed around doors, windows, etc., through its "LUCIAS" series. With regard to "Enhancement of the commercial products business," the group aimed to strengthen its proposal-based sales by introducing the "EXIMA 31 Balance Way," the "EXIMA 31 Wind Catch," and the "Front Door with ventilation function" as energy conservation (thermal insulation and ventilation) proposal products. In the remodeling segment, the group introduced the "SYSTEMA 31 Br," which uses a new construction method, to strengthen its non-residential remodeling and aimed to stimulate remodeling demand in both housing complexes and non-residential buildings through proposals differentiated on "products" and "construction methods," respectively.
As a result, AP Group's net sales (including intersegment sales) increased 1.4% year-on-year to 408,215 million yen on increased sales volume in Japan. Operating income improved by measures including cost reductions in manufacturing and price revisions, but eventually decreased 3.2% year-on-year to 24,329 million yen overall due to increased materials prices caused by a weak yen and the recognition of a large loss on overseas properties.

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 9.7% year-on-year to 70,070 million yen, while operating income decreased by 56.6% year-on-year to 705 million yen.

(2) Cash flows

Cash and cash equivalents at the end of the current fiscal year decreased 6,328 million yen from the balance at the end of the prior fiscal year to 167,229 million yen. Cash flows from each activity are summarized as follows:

(Cash flows from operating activities)
Net cash from operating activities increased 10,473 million yen year-on-year to 101,727 million yen. This was mainly because notes and accounts payable-trade increased 1,377 million yen compared to a 2,983 million yen decrease in the prior fiscal year.

(Cash flows from investing activities)
Net cash used in investing activities increased 29,276 million yen from the prior fiscal year to 95,252 million yen in the current fiscal year. This was mainly caused by a 29,476 million yen increase from the prior fiscal year in acquisitions of property, plant and equipment. Purchases of property, plant and equipment totaled 85,126 million yen in the current fiscal year.

(Cash flows from financing activities)
Net cash used in financing activities was 4,359 million yen in the current fiscal year, a decrease of 20 million yen compared to the prior fiscal year. This was mainly due to a decrease in net increase (decrease) in short-term loans payable of 444 million yen.

Issues and Outlook for the Fiscal Year Ahead

FY2017 is the final year of the Fourth Mid-Term Management Plan set out in FY2014. The Fastening Products Group and AP Group developed their FY2017 business plans respectively focusing on expansion of the Asian sewn products market and trends in China's sewn products market for the Fastening Products Group, and the recovering market for new housing in Japan and overseas markets which are expected to continue to grow for the AP Group.

The Company set that the three indispensable elements to succeed amidst a competitive business environment and achieve the Fourth Mid-Term Management Plan as "Product appeal and proposal capabilities" and the "Technology capability" which supports them. The Company set mid-term targets of reaching "8% operating income margin" and "5% ROA" based on the respective Mid-Term Business Policy set out by the Company and YKK AP, and strove to fully realize the preparatory measures carried out in the first half of the Fourth Mid-Term Management Plan.

1) Fastening Products Group

In the Fastening Products Group, the Company set its Fourth Mid-Term Business Policy with the goal of "Development of a brand new strategy for growth (towards sales of 10 billion units of zippers)" and will enhance efforts to increase sales in expanding in Asian and Chinese markets. Under this Policy, the group has taken steps toward establishing sales and manufacturing bases by shortening standard delivery times in the fast fashion segment, enhancing supply capacities through active investment in Asia and promoting the introduction of streamlined facilities in China. In FY2017, the last year of the Fourth Mid-Term Management Plan, the group will strive for further growth by leveraging these bases as it adopts the approaches of "Further increase in sales volume" and "Improve product appeal."

Specifically, "Further increase in sales volume" will involve continuing to increase and enhance global marketing personnel, strengthening ties with operating companies and further expanding sales to volume retailers and major apparel manufacturers in Japan, the US and Europe. "Enhancing product range" will consist of developing and enhancing the "YKK R&D Center" in Japan — a nexus of technology — as a hub for the accumulation and exchange of technology and the cultivation of R&D personnel in an effort to enhance and strengthen R&D centers. The Company will improve its customer proposal capabilities through unprecedented enhancement of R&D centers across the world with the Japan center at the core and improvement of an R&D platform able to promptly serve customer needs.

The Fastening Products Group is planning its largest-ever investments for FY2017 with approximately 50% of overall investments planned in the Asia region. In Asia, with the completion of "construction of an extension to the YKK VIETNAM CO., LTD. Nhon Trach plant" the group will further reduce costs and enhance its supply capacities in the jacket segment. Additionally, the group will invest actively ahead of the Fifth Mid-Term Management Plan, including investments in growth markets such as the "YKK INDIA PVT. LTD. Haryana plant expansion" and the "YKK BANGLADESH PTE. LTD. Dhaka plant expansion," as well as the "YKK TAIWAN CO., LTD. Chungli plant restructuring," which is aimed at streamlining.

2) AP Group

In FY2017, the final year of the Fourth Mid-Term Management Plan, AP Group will accomplish the following six priority steps, which are based on the Fourth Mid-Term Business Policy started from FY2014 ("Product appeal and proposal capabilities for sustainable growth of the AP Group") under any business conditions, while flexibly responding to changes in the business environment: (1) "Expanding the window business," (2) "Enhancing remodeling market," (3) "Enhancing the range of exterior items," (4) "Strengthening the Commercial Products Business," (5) "Expanding the overseas AP business," and (6) "Establishing the YKK AP FACADE brand," and thus establish a strong business foundation. In terms of "Expanding the window business," the group will seek to differentiate itself by enhancing product appeal and developing its supply systems, mainly in high thermal insulation performance vinyl windows. In addition, the group will strive to raise awareness about window insulation performance, further improve visibility of vinyl windows and expand its operations by holding the "APW Forum 2016" in 50 cities across Japan. Towards "Enhancing the remodeling market," the group will release "Kantan Mado Remo (easy window remodeling)," which uses non-sealing cover construction, a first in the industry. This will dovetail with "Kantan Door Remo (easy door remodeling)" released in April 2015 to create new value by enabling a comfortable lifestyle through easy remodeling. Regarding "Enhancing the range of exterior items," the group will continue to enhance its product range through coordination proposals covering the range from windows and doors to exterior products, and improve the variety of products in its "LUCIAS" and "XTIARA" series, introduced in 2014 and 2015, respectively. Towards "Strengthening the Commercial Products Business," the group will improve proposal-based sales as it aims to further increase orders received. With regard to "Expanding the overseas AP business," in the US, the group will further develop existing businesses and expand operations to the West Coast. In China, it will increase sales in major cities that are recovering economically, targeting the super luxury market. In Taiwan, it will offer differentiation on watertightness with its core product, "YRB-A." In the ASEAN region, it will enhance product items and strengthen proposal-based sales with its core product, "NEXSTA." The Group will also reinforce its business foundation towards further expansion of business overseas by reorganizing its business structure.

3) Technology capability supporting both Groups: the Machinery & Engineering Group

The Machinery and Engineering Group serves as the core for technology development functions which support integrated production at the YKK Group and is committed to, and drives measures related to, the "Development of machinery and equipment that adapt to the production site" and "Technology development from a mid to long-term perspective" as its key policies. Considering the streamlining effect of the Group's "Plant for manufacturing machinery components for zippers" which became fully operational on April 1, 2016, the last year of the Fourth Mid-Term Management Plan, is viewed as the stage to complete the "Establishment of technological development base" and develop a base ahead of the next mid-term management plan. As such, in order to build a base for "Facility service functions," the group will put structures in place which reflect "Cost reductions in manufacturing sites," "Adoption in development of specialized machinery and production lines" and "Preventative maintenance" using manufacturing data from analysis of the overall efficiency of equipment and revise the basic idea of "Strategic development of technology personnel" based on the "elemental technologies to be strengthened."

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) Latent risks in international activities and overseas expansion

The Group has businesses in 71 countries, covering the regions of North and Central 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 arise 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) Change in foreign currency exchange rates

As items such as sales, expenses and assets in local currencies are translated to Japanese yen to prepare the Group's consolidated financial statements, any changes in foreign exchange rates would affect the Group's financial position and profit or loss after the translation.

4) Decline in price of shareholdings

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 valuation losses on shareholdings.

5) Employee retirement benefit expenses and obligations

The amounts of the Group's retirement benefit expenses and obligations and related expenses are calculated using actuarial assumptions. Differences between the actual results and assumptions or changes in the assumptions will affect the amount of obligations and expenses 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 withdrawal from unprofitable operations, promoting horizontal international specialization systems and implementing cost reduction measures. Extraordinary losses may be incurred due to the restructuring.

7) Defective products

Although the Group manufactures products that meet the Company's strict quality control standards in its plants around the world, if any defective products are found and a significant product liability is incurred, it may adversely affect the Group's business performance and financial position.

8) Government restrictions

The Group has obtained permission to conduct business and investment activities in countries and regions where it operates and in certain cases is restricted by government regulations. The Group is also subject to trade laws, antitrust laws, intellectual property agreements, and consumer, taxation and environmental regulations, which may 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 and infectious diseases

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 may be necessary for repair or replacement of the damaged manufacturing bases.

10) IT risks

The Group designs and operates numerous information systems.

Although the Company analyzes IT risks, ensures appropriate allocation of authority, has established 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 may occur.

Any leak, loss or falsification of important information may adversely affect the Group's business performance.

Research and Development Activities

YKK Group (YKK Corporation and its consolidated subsidiaries) research and development (R&D) activities are aligned into six regional bases; Japan (core operations), North and Central America, South America, Europe, the Middle East and Africa (EMEA), and Asia. This alignment is also used for its business development. R&D costs of the overall Group in the current fiscal year amounted to 20,812 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 is committed to the Fourth Mid-Term Business Policy of "Developing a brand new growth strategy (selling 10 billion units of zippers)." It aims to continue to improve product development and proposal activities in the US and European markets, enhance product development capacities in the extensive Chinese market, as well as the Asian market, which is expected to become a sizable market in the future. Through these efforts, the group aims to further enhance product values for customers by establishing a system to produce services or products that correspond to customers' needs.
In addition to continuing to enhance product development for luxury bags and apparel in Europe, the Middle East and Africa (EMEA), the group made efforts to promote development in the outdoor and marine segment through its UK product development office, and develop products and strengthen proposals for zippers as well as snaps and buttons through its Turkey office. In North and Central America, the group has strengthened development of highly functional products, and shifted R&D focus to automotive seat fastening products and leased processing equipment. In China and Asia, the group targeted increasing product variation and reducing development lead time, goals always sought after in the fast fashion market. In addition, a project team was assembled at SHANGHAI YKK ZIPPER CO., LTD. to further improve R&D's capability to quickly develop products and high quality proposals. The group focused on the challenge of establishing competitiveness in large price-conscious markets in order to fulfill the Mid-Term Business Plan. Under this policy, the group developed new products and facilities which address cost savings such as metal zippers and coil zippers, cut production technology-based cost, made progress on turnaround time reduction projects and strengthened its competitiveness.
There have been significant accomplishments made in the period. For zippers, new products including metal, luxury cotton zippers that can be used on shoes with dual sliders, thin and soft VISLON® products for lightweight apparel, ease-of-use "assistance" fastening components, metal plating plastic sliders for jackets, waterproof VISLON® zippers, and metal-like VISLON® zippers have been developed. For plastic injected products, new products such as buckles for backpacks and snap hooks were released. In snaps and buttons, the group made efforts to reduce costs through innovation in materials and technology. In addition, they developed molds with new features, designed assembly and attaching machines, and enhanced product lineups and leased machines.
TFM (Transportation Fastening Material) group has steadily increased sales by improving its CONCEAL® zippers and POWER HOOK products, developing new products and achieving cost reductions in the automotive market such as hook components for seats.
The Fastening Products Group will continuously strengthen its R&D centers across the world going forward, fully capture customer needs in each region and segment, and rigorously carry out one-to-one development. It will achieve increases in the overall speed of development by prioritizing improvements in elemental technologies needed to carry out the developments mentioned above. Research and development costs related to this business stood at 8,320 million yen.

(2) AP Group

The AP Group pushed ahead on its priorities of "Expansion of the window business," "Enhancement of the remodeling market," "Enhancement of the range of exterior items," "Enhancement of the commercial products business," and "Expansion of the overseas AP business."
There were significant accomplishments made in the period in this field as well. Towards "Expansion of the window business," the group released the "APW430 two action windows," vinyl windows which integrate the two functions of swinging and tilting inwards into one handle. It also released the "APW 431 large opening sliding windows," vinyl windows which require 90% less force to open and close and is five times more airtight than previous models while maintaining a large aperture area.
With regard to "Enhancement of the remodeling market," the group continues to enjoy a strong reception for the release of "Kantan Door Remo," which makes door replacement quick and easy. It will continue to energize the remodeling market with the introduction of "Kantan Mado Remo," which uses non-sealing cover construction for the first time ever in the industry.
In terms of "Enhancement of the range of exterior items," the group targeted not only the mid-range segment but the high-end segment as well with the release of its "XTIARA" series, which offers luxurious design for home entrances, and its new "SHALONE" series, which draws out the aluminum casting texture.
Towards "Enhancement of the commercial products business," the group released its "EXIMA 31 Balance Way," which allows for ventilation of an entire building using natural wind. In the remodeling segment, the group will tap into the market in non-residential buildings with the release of its "SYSTEMA 31Br," which employs a new frame cover construction method to improve window energy conservation and

functionality while preserving design and view prior to the upgrade.

With regard to “Expansion of the overseas AP business,” the group has developed products suited to the climate and natural features of all countries and regions, using its capabilities in product technology as a base. In particular, in the US it will enhance its hurricane and explosion-proof products as well as energy conservation products.

The Group was honored with the “METI Minister’s Award” for its “actions to develop and promote vinyl windows” at the 25th Global Environment Award, which is sponsored by METI, MOE, MEXT, MLIT, and MAFF as it continued these development activities while pursuing the “Co-existence of industrial growth and the global environment.”

In addition, at the FY2016 Chubu Regional Invention Awards, it won the Commissioner of the Patent Office’s Award for its “Remodeling windows and installation methods usable indoors (Patent No. 5303499).” This is a first for YKK AP as well as the highest special award won by the YKK Group thus far.

Furthermore, YKK AP was able to demonstrate its product range and technology capability to the public as surveys by the magazines “Nikkei Architecture” and “Nikkei Home Builder” showed that among 49 categories in the “Most desired building materials and equipment maker ranking 2015” answered by construction specialists, YKK AP won first place in “Sashes for single-family houses” and “Sashes and curtain walls for commercial buildings.”

Technology capability is crucial to further expansion of the AP business. In April 2016, the group opened the “YKK AP R&D Center” within the Kurobe Ogyu Manufacturing Center in Kurobe, Toyama Prefecture. In this way, by gathering technical experts from different areas of specialization, it will improve the productivity of development exhaustively through putting into practice concurrent development and further explore its technology capability and build up relationships of mutual trust by strengthening points of connection with pro users. Research and development costs related to this business stood at 8,833 million yen.

(3) Other businesses

The Machinery and Engineering Group is working to further strengthen the technological development functions shared with the YKK Group in order to evolve as a provider of specialized machinery and equipment for slide fasteners and window products.

The Group also strives to continue to strengthen and maintain the philosophy of integrated production system, the foundation of YKK Group’s operations, by achieving two important policies; “Development of machinery and equipment that adapt to the production site” and “Technology development from a mid to long-term perspective.”

There were significant accomplishments made in the period in this field as well. In “Development of machinery and equipment that adapt to the production site,” with respect to technological development related to the Fastening Products Group, the group made efforts to increase stable operation and production capacity at all company’s manufacturing sites by developing and expanding base machines and resolving production line issues in slider assembly, thoroughly disseminate and implement the idea of “overall efficiency of equipment” and develop structures with the goal of streamlining and improving manufacturing sites with all companies sharing a common awareness about meaningful identification of issues to be addressed. In FY2017, the group will focus on the validation and expansion of finishing line renewal equipment and change its design philosophy with the goal of developing equipment that requires less adjustment and can be assembled more easily.

Meanwhile, regarding technological development related to the AP Group, the group strengthened AP production technology capability, mainly in windows, by launching a highly cost-competitive production line to meet increased sales of its APW330 Fire-resistant window at the Saitama MADO (window) plant and by introducing extrusion lines and equipment aimed at further expansion of labor-saving equipment in glass lines, cutting vinyl and aluminum processing costs, implementing energy conservation initiatives and reducing machinery and line prices.

In FY2017, the group will continue to push ahead on cutting manufacturing costs, implementing energy conservation initiatives as well as reducing the price of machinery and lines advanced thus far, improve line efficiency including the launch of combined lines planned for sale in FY2018 and system-integrated lines and make efforts to develop elemental technology ahead of the next mid-term.

In terms of “Technology development from a mid to long-term perspective,” as technological development of materials and processes, given the strong outlook on development of new materials in metal zippers, the group will enter these markets in FY2017 and make efforts to develop elemental technology towards the resolution of issues including those in new materials, coating, paint work, etc., with the goal of production differentiation. In addition, in analytic technology, the group made progress on its response to various issues in slider production and addressed the operational stability of equipment using technology to analyze and assess machine vibration, and it plans to expand these into overseas plants in FY2017, and it will leverage this to develop its technological base ahead of the Fifth Mid-Term Management Plan starting in FY2018.

Furthermore, construction of the “Slide fastener machine parts plant” was completed in November of last year and is fully operational as of April 2016. The Group will further push reductions in costs and lead times and capture the effects of its investment.

The Company aims to introduce outside technologies through collaboration with other companies and universities, while continuing to work on in-house development of element technologies necessary for further improving its business competitiveness in these areas. Research and development costs amounted to 3,658 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 unless he or she renders 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 Audit & Supervisory Board 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 Audit & Supervisory Board system and implemented structural reform of its management. As a result, the Board of Directors 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 from YKK AP Inc. and the Fastening Products Group 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 of Directors.

- 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 and 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:

I. Internal control systems related to YKK Group's execution of operations

(a) System to ensure that the performance of the Company's directors and personnel and subsidiary directors and personnel complies with laws, regulations, ordinances and the articles of incorporation.

- The Company's 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. The Corporate Legal and Compliance Group were established under the officer in charge of compliance, and develop a compliance system in cooperation with external compliance advisors. This director reports the development and conformity status of the compliance structure to the other directors and Audit & Supervisory Board Members.

- In addition to the compliance structure above, in order to implement appropriate compliance promotion activities from the perspective of business operations, the Company established a compliance committee in April 2015 with the director in charge of compliance appointed as chairman, the officer in charge of compliance appointed as vice-chairman and compliance committee members consisting of the head of the Fastening Products Group, head of the Machinery and Engineering Group, the CFO (Chief Financial Officer) and head of the Internal Auditing, which discusses the status of implementation of the compliance program and responses to compliance issues, and recent legal trends.

- The Company's 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.)

- 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.
YKK Group companies are 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.

- YKK Group companies in Japan organized their structures to prevent association with criminal and antisocial bodies or persons by preparing rules, designating 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 on YKK Group companies from the perspective of laws, regulations and reasonableness, and periodically reports the results to the President, Board of Directors and others.

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

- The Company's 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.

- The Company's 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 losses by YKK Group

- 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 Company's 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. 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 in the YKK Group 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 the Company's directors and subsidiary directors are effectively executed

- In June 1999 the Company introduced the Officer System 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 Company established the Management Meeting 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 Company established the Environmental Policy Promotion Committee at the Management Meeting. Its purpose is to determine the environmental policies of the Company and monitor whether those policies are actually realized in the Company's business operations.

(e) System to report matters regarding the execution of duties by the subsidiary directors to the Company and other system to ensure appropriate business operations in the Company and the YKK Group

- With Group Officers appointed from significant subsidiaries (core companies) and regional headquarters in the six major geographical regions, each regional headquarters functions as a branch office of the Company 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 Board of Directors 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 of Directors meeting.

II. Matters regarding the Audit & Supervisory Board Members' execution of duties

(a) If there is a request by the Company's Audit & Supervisory Board Members to assign staff members to assist Audit & Supervisory Board Members in fulfilling their duties, matters regarding the staff members, their independence from the Company's directors and ensuring the effectiveness of instructions to the staff members given by the Company's Audit & Supervisory Board Members

- The Company organized the Auditors' Secretariat effective as of April 1, 2007, and staff members are assigned to exclusively assist the Audit & Supervisory Board Members in fulfilling their duties.

- Transfer and appraisal of the personnel in the staff of the Auditors' Secretariat require the approval of the Company's Audit & Supervisory Board Members.

(b) System to report to the Company's Audit & Supervisory Board Members by the Company's directors and personnel, and subsidiary directors, Audit & Supervisory Board Members and personnel, or individuals who receive reports from such persons and other systems regarding reporting to the Company's Audit & Supervisory Board Members

- The Company's and its subsidiaries' main business operations and the status of the development and improvement of the internal control system shall be reported to the Company's Audit & Supervisory Board Members on a timely and regular basis. If any significant matter that materially affects the Company arises, that matter shall be promptly reported to the Company's Audit & Supervisory Board Members.

- The Company's Audit & Supervisory Board Members is also engaged in the audit of (core) subsidiaries in Japan as Audit & Supervisory Board Members of those subsidiaries. Audit & Supervisory Board Members and the internal audit departments of subsidiaries in and outside of Japan are required to report necessary matters to the Company's Audit & Supervisory Board Members periodically upon the latter's request.

- When material violations of laws and regulations are detected through the internal reporting system, the "Secretariat of the YKK Group Internal Reporting System" will report the details of the report and the result of the investigation to the Company's Audit & Supervisory Board Members.

(c) System to ensure that persons reporting in the previous paragraph will not be subject to disadvantageous treatment as a result of said reporting

- The Company prohibits disadvantageous treatment towards persons reporting to the Company's Audit & Supervisory Board Members as a result of said reporting.

(d) Procedures for prepayment or reimbursement of expenses arising from the execution of duties by the Company's Audit & Supervisory Board Members and other matters regarding policies relating to the processing of expenses or obligations arising from the execution of applicable duties

- With regard to execution of duties by the Company's Audit & Supervisory Board Members, when requests are made to the Company by the Audit & Supervisory Board Members for prepayment of expenses, etc. in accordance with Article 388 of the Companies Act, the applicable expenses or obligations are quickly processed after deliberation by the department in charge, with the exception of expenses or obligations recognized as unnecessary in the execution of duties by the Audit & Supervisory Board Members.

(e) Other system to ensure that Audit & Supervisory Board Members effectively implement the audits

- In addition to attending the meetings of the Board of Directors, the Company's Audit & Supervisory Board Members are permitted to attend all important meetings, such as the meetings of the Officers.

- The Company's Chairman & CEO and President periodically exchange views and opinions with the Company's Audit & Supervisory Board Members.

- The internal audit department has been enhancing the practicability of audits carried out by the Company's Audit & Supervisory Board Members by periodically reporting the activities of the internal audit department to the Audit & Supervisory Board Members.

3) Details of compensation paid to directors and Audit & Supervisory Board Members

Compensation paid to directors and Audit & Supervisory Board Members at the Company consists of monthly compensation and bonuses (taking into consideration consistency with the basic dividend policy, which is continuing to provide stable dividends) as short-term compensation, and retirement allowances as long-term compensation.
The following chart shows the amount of compensation paid to directors and Audit & Supervisory Board Members for the current fiscal year.

Classification	No. of persons	Amount of compensation paid (Millions of yen)
Directors	9	372
(External Directors)	(2)	(24)
Audit & Supervisory Board Members	4	57
(External Audit & Supervisory Board Members)	(3)	(34)
Total	13	429
(External Directors and Audit & Supervisory Board Members)	(5)	(59)

Notes: 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). Audit & Supervisory Board Members' monthly compensation is 4 million yen (resolved at the 61st annual general shareholders' meeting held on June 27, 1996).
2. The above amounts include a 64 million yen provision reserved for directors' and Audit & Supervisory Board Members' retirement benefits, recognized as an expense for the current fiscal year (including 2 million yen for external directors and 3 million yen for External Audit& Supervisory Board Members).
3. The above amounts include the following estimated amounts of bonuses to directors and Audit & Supervisory Board Members, which will be put forward for resolution at the 81st annual general shareholders' meeting on June 29, 2016.
- 83 million yen for 9 directors (including 8 million yen for 2 external directors)
- 17 million yen for 4 Audit & Supervisory Board Members (including 12 million yen for 3 External Audit & Supervisory Board Members)

4) Status of internal audit and audit by Audit & Supervisory Board Members

(a) Audit by Audit & Supervisory Board Members

- The number of Audit & Supervisory Board Members is four, while the number of External Audit & Supervisory Board Members is three.

- Each Audit & Supervisory Board Member complies with audit standards for Audit & Supervisory Board Members set forth by Audit & Supervisory Board; 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 and 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 Audit & Supervisory Board Members 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 Audit & Supervisory Board Members 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, 12 members work for this office.

- In addition to the statutory audit performed by four Audit & Supervisory Board Members, 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 Audit & Supervisory Board Members

There are no business relationships between the external directors, Mr. Keinosuke Ono and Mr. Yoshio Osawa, and the Company.
One External Audit & Supervisory Board Member, 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 Audit & Supervisory Board Member has a direct personal interest in the Company. Two other External Audit & Supervisory Board Members, Mr. Hiroshi Akiyama and Mr. Naoki Yanagida, are partner lawyers 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 Audit & Supervisory Board Member has a direct personal interest in 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, 16 CPAs, 11 accountant assistants and 33 other staff members are engaged in the accounting auditing services for the Company.

7) Exemption from liability of directors and Audit & Supervisory Board Members

Pursuant to Article 426, Paragraph 1 of the Companies Act, the Articles of Incorporation of YKK Corporation provide that any directors and Audit & Supervisory Board Members who fail to fulfill their duties may be exempted from liability based on a resolution by the Board of Directors, to the extent of the limits prescribed by the said Act. The objective of this provision is to enable directors and Audit & Supervisory Board Members 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	76	0	80	0
Consolidated subsidiaries	19	–	19	–
Total	96	0	100	0

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 319 million yen for audit and attest engagements and 28 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., paid fees of 357 million yen for audit and attest engagements and 59 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 annual reports preparation and other similar services.

For the current fiscal year

Advisory services on the annual reports preparation.

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, 2015)	Current Fiscal Year (As of March 31, 2016)
Assets		
Current assets:		
Cash and deposits	170,669	181,078
Notes and accounts receivable - trade	182,315	177,733
Securities	16,746	5,865
Inventories	136,097	132,390
Deferred tax assets	9,726	7,687
Other	21,718	21,529
Allowance for doubtful accounts	(2,180)	(2,136)
Total current assets	535,093	524,148
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	384,578	402,815
Accumulated depreciation	(265,608)	(261,790)
Buildings and structures, net	118,970	141,025
Machinery, equipment and vehicles	543,415	536,142
Accumulated depreciation	(425,276)	(413,609)
Machinery, equipment and vehicles, net	118,138	122,533
Land	64,984	65,939
Construction in progress	20,316	13,459
Other	84,418	84,344
Accumulated depreciation	(69,725)	(68,234)
Other, net	14,692	16,109
Total property, plant and equipment	337,102	359,066
Intangible assets	21,763	20,810
Investments and other assets:		
Investment securities	26,196	21,125
Deferred tax assets	7,697	12,508
Other	20,384	18,257
Allowance for doubtful accounts	(1,954)	(1,857)
Total investments and other assets	52,324	50,034
Total noncurrent assets	411,190	429,911
Total assets	946,283	954,060

(Millions of yen)

	Prior Fiscal Year (As of March 31, 2015)	Current Fiscal Year (As of March 31, 2016)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	65,606	66,342
Short-term loans payable	4,913	4,860
Current portion of long-term loans payable	1,075	1,013
Current portion of bonds	–	9,999
Income taxes payable	6,546	6,459
Deferred tax liabilities	518	613
Provision for bonuses	17,024	13,403
Deposits received from employees	32,797	33,544
Other	58,205	62,030
Total current liabilities	186,686	198,268
Noncurrent liabilities:		
Bonds payable	19,998	10,000
Long-term loans payable	1,433	1,015
Deferred tax liabilities	1,987	1,431
Net defined benefit liabilities	139,061	172,100
Provision for directors' retirement benefits	697	761
Other	9,755	8,935
Total noncurrent liabilities	172,933	194,244
Total liabilities	359,619	392,513
Net assets		
Shareholders' equity:		
Capital stock	11,992	11,992
Capital surplus	34,938	35,215
Retained earnings	522,357	563,512
Treasury stock	(10)	(11)
Total shareholders' equity	569,277	610,708
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	6,371	5,033
Deferred gains or losses on hedges	596	(264)
Foreign currency translation adjustments	30,358	(4,150)
Remeasurements of defined benefit plans	(34,160)	(63,407)
Total accumulated other comprehensive income	3,165	(62,788)
Non-controlling interests	14,220	13,626
Total net assets	586,664	561,547
Total liabilities and net assets	946,283	954,060

Consolidated Statements of Income

(Millions of yen)

	Prior Fiscal Year (From April 1, 2014 To March 31, 2015)	Current Fiscal Year (From April 1, 2015 To March 31, 2016)
Net sales	721,037	741,935
Cost of sales	461,278	471,645
Gross profit	259,758	270,290
Selling, general and administrative expenses	193,015	201,125
Operating income	66,743	69,164
Non-operating income:		
Interest income	2,229	2,337
Dividends income	432	416
Foreign exchange gains	181	–
Miscellaneous income	3,406	3,240
Total non-operating income	6,251	5,993
Non-operating expenses:		
Interest expenses	1,049	824
Foreign exchange losses	–	798
Miscellaneous loss	2,225	2,546
Total non-operating expenses	3,274	4,169
Ordinary income	69,720	70,988
Extraordinary income:		
Gain on sales of noncurrent assets	846	150
Gain on sales of investment securities	176	104
Insurance proceeds	596	–
Reversal of reserve for various competition-law related expenses	2,489	–
Other	736	45
Total extraordinary income	4,845	299
Extraordinary loss:		
Loss on sales of noncurrent assets	59	491
Loss on retirement of noncurrent assets	2,039	2,676
Impairment loss	716	2,731
Other	521	484
Total extraordinary loss	3,336	6,383
Income before income taxes and non-controlling interests	71,229	64,905
Income taxes - current	20,506	20,176
Income taxes - deferred	2,330	(1,874)
Total income taxes	22,836	18,302
Net income	48,393	46,602
Net income attributable to non-controlling interests	1,415	1,956
Net income attributable to owners of parent	46,978	44,646

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Prior Fiscal Year (From April 1, 2014 To March 31, 2015)	Current Fiscal Year (From April 1, 2015 To March 31, 2016)
Net income	48,393	46,602
Other comprehensive income:		
Valuation difference on available-for-sale securities	2,565	(1,337)
Deferred gains or losses on hedges	(67)	(860)
Foreign currency translation adjustments	39,146	(35,649)
Remeasurements of defined benefit plans	(8,692)	(29,409)
Share of other comprehensive income of associates accounted for using equity method	71	(41)
Total other comprehensive income	33,022	(67,298)
Comprehensive income	81,416	(20,695)
Comprehensive income attributable to:		
Owners of the parent	78,429	(21,338)
Non-controlling interests	2,986	642

Consolidated Statements of Changes in Net Assets

Prior Fiscal Year (From April 1, 2014 to March 31, 2015)

(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	482,537	(9)	529,458
Cumulative effects of changes in accounting policies			(4,464)		(4,464)
Restated balance	11,992	34,938	478,073	(9)	524,994
Changes in items during the period					
Dividends from surplus			(2,637)		(2,637)
Net income attributable to owners of parent			46,978		46,978
Purchase of treasury stock				(1)	(1)
Changes in equity attributable to transactions with non-controlling interests					–
Changes in the scope of consolidation			(55)		(55)
Net changes in items other than shareholders' equity					
Total changes in items during the period	–	–	44,284	(1)	44,282
Balance at the end of current period	11,992	34,938	522,357	(10)	569,277

	Accumulated other comprehensive income:					Non-controlling 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	3,805	664	(7,226)	(25,528)	(28,285)	12,370	513,543
Cumulative effects of changes in accounting policies							(4,464)
Restated balance	3,805	664	(7,226)	(25,528)	(28,285)	12,370	509,079
Changes in items during the period							
Dividends from surplus							(2,637)
Net income attributable to owners of parent							46,978
Purchase of treasury stock							(1)
Changes in equity attributable to transactions with non-controlling interests							–
Changes in the scope of consolidation							(55)
Net changes in items other than shareholders' equity	2,566	(67)	37,584	(8,631)	31,451	1,850	33,301
Total changes in items during the period	2,566	(67)	37,584	(8,631)	31,451	1,850	77,584
Balance at the end of current period	6,371	596	30,358	(34,160)	3,165	14,220	586,664

Current Fiscal Year (From April 1, 2015 to March 31, 2016)

(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	522,357	(10)	569,277
Cumulative effects of changes in accounting policies					–
Restated balance	11,992	34,938	522,357	(10)	569,277
Changes in items during the period					
Dividends from surplus			(2,637)		(2,637)
Net income attributable to owners of parent			44,646		44,646
Purchase of treasury stock				(1)	(1)
Changes in equity attributable to transactions with non-controlling interests		277			277
Changes in the scope of consolidation			(853)		(853)
Net changes in items other than shareholders' equity					
Total changes in items during the period	–	277	41,154	(1)	41,431
Balance at the end of current period	11,992	35,215	563,512	(11)	610,708

	Accumulated other comprehensive income:					Non-controlling 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	6,371	596	30,358	(34,160)	3,165	14,220	586,664
Cumulative effects of changes in accounting policies							–
Restated balance	6,371	596	30,358	(34,160)	3,165	14,220	586,664
Changes in items during the period							
Dividends from surplus							(2,637)
Net income attributable to owners of parent							44,646
Purchase of treasury stock							(1)
Changes in equity attributable to transactions with non-controlling interests							277
Changes in the scope of consolidation							(853)
Net changes in items other than shareholders' equity	(1,338)	(860)	(34,508)	(29,247)	(65,954)	(593)	(66,548)
Total changes in items during the period	(1,338)	(860)	(34,508)	(29,247)	(65,954)	(593)	(25,116)
Balance at the end of current period	5,033	(264)	(4,150)	(63,407)	(62,788)	13,626	561,547

Consolidated Statements of Cash Flows

(Millions of yen)

	Prior Fiscal Year (From April 1, 2014 To March 31, 2015)	Current Fiscal Year (From April 1, 2015 To March 31, 2016)
Net cash provided by (used in) operating activities		
Income before income taxes and non-controlling interests	71,229	64,905
Depreciation and amortization	41,171	46,719
Impairment loss	716	2,731
Increase (decrease) in allowance for doubtful accounts	(628)	10
Increase (decrease) in net defined benefit liabilities	4,955	3,886
Interest and dividends income	(2,662)	(2,753)
Interest expenses	1,049	824
Equity in (earnings) losses of affiliates	30	3
Loss on retirement of property, plant and equipment	1,211	1,666
Loss (gain) on sales of property, plant and equipment	(786)	340
Decrease (increase) in notes and accounts receivable - trade	3,869	(1,045)
Decrease (increase) in inventories	(788)	(4,294)
Increase (decrease) in notes and accounts payable - trade	(2,983)	1,377
Other, net	(1,170)	7,583
Subtotal	115,212	121,955
Interest and dividends income received	2,456	2,731
Interest expenses paid	(1,122)	(829)
Income taxes paid	(25,291)	(22,129)
Net cash provided by (used in) operating activities	91,254	101,727
Net cash provided by (used in) investing activities		
Net decrease (increase) in short-term loans receivable	21	(161)
Payments into time deposits	(16,251)	(17,180)
Proceeds from withdrawal of time deposits	10,305	9,854
Purchases of property, plant and equipment	(55,649)	(85,126)
Proceeds from sales of property, plant and equipment	1,347	977
Purchases of intangible assets	(4,805)	(2,684)
Proceeds from sales of intangible assets	21	3
Purchases of investment securities	(76)	(813)
Proceeds from sales of investment securities	2,241	113
Purchases of stocks of subsidiaries and affiliates	(1,409)	(36)
Payments of long-term loans receivable	(1,383)	(22)
Other, net	(337)	(175)
Net cash provided by (used in) investing activities	(65,976)	(95,252)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(532)	(87)
Repayments of finance lease obligations	(322)	(203)
Proceeds from long-term loans payable	51	20
Repayments of long-term loans payable	(156)	(491)
Purchases of treasury stock	(1)	(1)
Cash dividends paid	(2,635)	(2,637)
Cash dividends paid to non-controlling interests	(782)	(940)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(18)
Net cash provided by (used in) financing activities	(4,379)	(4,359)
Effect of exchange rate change on cash and cash equivalents	9,502	(8,548)
Net increase (decrease) in cash and cash equivalents	30,401	(6,432)
Cash and cash equivalents at the beginning of period	143,131	173,558
Increase in cash and cash equivalents from newly consolidated subsidiaries	25	103
Cash and cash equivalents at the end of period	173,558	167,229

Notes to the Consolidated Financial Statements

Significant Accounting Policies

1. Scope of consolidation

(1) Number of consolidated subsidiaries 112
Number of newly consolidated subsidiaries due to new establishment 2
YKK AP (THAILAND)CO.,LTD.
YKK (SHENZHEN) TRADING CO., LTD.
Number of newly consolidated subsidiaries formerly unconsolidated due to increase in importance 1
Bhoruka Extrusions Private Limited

(2) Number of consolidated subsidiaries 4
Name of major unconsolidated subsidiaries:
Y2K HOLDINGS CORPORATION
Reason for exclusion from consolidation is as follows:
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 companies: 1
YKK PHILIPPINES, INC.

(2) Number of companies not accounted for using the equity method 6
Unconsolidated subsidiaries: 4
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 CO., LTD., 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. Matters regarding accounting policy

(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
a. Marketable securities
Marketable securities are carried mainly 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.
b. 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):
Amortization is calculated 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 fiscal year end based on the Company's bylaws.

(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 (10-22 years) of service of eligible employees.
Amortization of actuarial gains or losses begins in the fiscal year after the fiscal 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 (10-22 years) of service of eligible employees.

(5) Reporting of significant revenues and expenses

Recognition of sales and costs of construction contracts
Revenue and costs from construction contracts have been accounted for based on the percentage of completion method for the portion of construction completed by the end of the current fiscal year, when 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 non-controlling 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
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) Goodwill amortization method and period

In principle, goodwill is amortized using the straight-line method over an estimated effective period. When the amount of goodwill is insignificant or when it is impracticable to estimate its effective period, goodwill is fully expensed in the period in which it arises.

(9) 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.

(10) 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.

(11) Changes in Accounting Policy

(Application of the Accounting Standard for Business Combinations, etc.)
The "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21, September 13, 2013. Hereafter referred to as the "Accounting Standard for Business Combinations."), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013. Hereafter referred to as the "Consolidation Accounting Standard."),"Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013. Hereafter referred to as the "Business Divestitures Accounting Standard.") and others have been applied effective from the current fiscal year. As a result, any change resulting from the Company's ownership interests in its subsidiary when the Company retains control over the subsidiary is accounted for as capital surplus, and acquisition related costs are expensed in the year in which the costs are incurred. For any business combinations on or after the beginning of the current fiscal year, subsequent measurement of the provisional amount recognized based on the purchase price allocation due to the completion of accounting for the business combination is reflected in the consolidated financial statements for the period in which the business combination occurs. In addition, the presentation method of net income was amended and "minority interests" was changed to "non-controlling interests." To reflect these changes in presentation, reclassifications have been made to the consolidated financial statements for the prior fiscal year presented herein.
The aforementioned accounting standards are applied prospectively from the beginning of the current fiscal year, according to the transitional treatment provided for in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Consolidation Accounting Standard and Paragraph 57-4 (4) of the Business Divestitures Accounting Standard.
These changes resulted in a 277 million yen decrease in income before income taxes and non-controlling interests for the current fiscal year. They additionally resulted in a 277 million yen increase in capital surplus at the end of the current fiscal year.
In the consolidated statement of cash flows for the current fiscal year, cash flows from the purchase or sale of shares in subsidiaries that do not result in change in scope of consolidation are presented under "Net cash provided by (used in) financing activities," whereas cash flows concerning the costs related to the purchase of shares in subsidiaries that result in a change in the scope of consolidation or the expenses incurred in relation to purchase or sales of shares in subsidiaries that do not result in change in scope of consolidation are presented under "Net cash provided by (used in) operating activities."
The balance of capital surplus on the consolidated statement of changes in net assets at the end of the current fiscal year has increased by 277 million yen.

(12) Accounting standards to be adopted

ASBJ Guidance No. 26, “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (released on March 28, 2016)

a) Outline of guidance
The practical guidance on accounting standards and auditing standards (where it is related to the accounting treatment) for deferred tax accounting, issued by the Japanese Institute of Certified Public Accountants (JICPA), is to be transferred to the competence of the Accounting Standards Board of Japan (ASBJ). For the sake of the said transfer, the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (hereinafter the “Implementation Guidance”) has been issued by the ASBJ to provide guidance on applying the “Accounting standard for deferred tax accounting” (Business Accounting Council) for the recoverability of deferred tax assets. The Implementation Guidance is based, in principle, on the framework for recoverability of deferred tax assets specified in the “Audit Treatment of Judgments with Regard to Recoverability of Deferred Tax Assets” (Report No. 66, the audit committee of the JICPA), where the amount of deferred tax assets to be recorded is estimated in accordance with the 5 categories of a corporate entity. The Implementation Guidance made certain necessary changes in the criteria for these categories and also in the treatment of the amount of deferred tax assets.

b) Scheduled date of adoption
The Company is planning to adopt the Implementation Guidance from the beginning of the consolidated fiscal year that starts on or after April 1, 2016.

c) Impact of adopting the guidance
The Company is currently evaluating the effect of adopting the Implementation Guidance on its consolidated financial statements.

(13) Changes in presentation

(Consolidated statement of income)
Gain on sales of scrap, which was presented as a separate account under “Non-operating income” in the prior fiscal year, has been included in “Miscellaneous income” in the current fiscal year because it became 10% or less of the total amount of non-operating income. To reflect these changes in presentation, reclassifications have been made to the consolidated financial statements for the prior fiscal year presented herein.
To reflect this change, 673 million yen included in “Gain on sales of scrap” and 2,733 million yen in “Miscellaneous income” in the consolidated statement of income for the prior fiscal year has been reclassified as 3,406 million yen of “Miscellaneous income.”

Gain on sales of investment securities, which was included in “Other” under “Extraordinary income” in the prior fiscal year, has been presented as a separate account in the current fiscal year because it exceeded 10% of extraordinary income. To reflect these changes in presentation, reclassifications have been made to the consolidated financial statements for the prior fiscal year presented herein.
To reflect this change, 912 million yen included in “Other” in the consolidated statement of income for the prior fiscal year has been reclassified as 176 million yen of “Gain on sales of investment securities” and 736 million yen of “Other.”

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 “AP” business. The “Fastening Products” business manufactures and sells fasteners, fastener parts, fastener materials, snap fasteners, buttons, etc. The “AP” 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

Prior Fiscal Year (From April 1, 2014 to March 31, 2015)

(Millions of yen)

	Reportable segments			Other *1	Adjustments *2	Consolidated *3
	Fastening Products	AP	Total			
Net sales						
Sales to third parties	312,952	401,946	714,898	6,138	–	721,037
Intersegment sales and transfers	312	520	832	57,714	(58,547)	–
Total	313,264	402,467	715,731	63,852	(58,547)	721,037
Segment income	57,448	25,129	82,578	1,625	(17,459)	66,743
Segment assets	471,932	364,006	835,938	276,118	(165,773)	946,283
Other items						
Depreciation	24,010	12,537	36,547	2,479	2,081	41,108
Increase in tangible and intangible assets	33,107	20,507	53,615	5,610	2,977	62,203

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 (17,459) million yen include a 677 million yen elimination of inter-segment transactions and (18,354) 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 (165,773) million yen include a (56,573) million yen elimination of receivables due to the corporate administration division, 445,588 million yen of corporate assets which are not allocable to the reportable segments, and a (1,110) million yen adjustment for inventories.
3. Segment income has been reconciled to operating income represented in the consolidated statements of income.

Current Fiscal Year (From April 1, 2015 to March 31, 2016)

(Millions of yen)

	Reportable segments			Other *1	Adjustments *2	Consolidated *3
	Fastening Products	AP	Total			
Net sales						
Sales to third parties	326,222	407,763	733,986	7,949	–	741,935
Intersegment sales and transfers	383	451	835	62,120	(62,955)	–
Total	326,605	408,215	734,821	70,070	(62,955)	741,935
Segment income	60,699	24,329	85,029	705	(16,570)	69,164
Segment assets	466,414	379,835	846,250	289,125	(181,315)	954,060
Other items						
Depreciation	27,663	13,445	41,108	3,223	2,387	46,719
Increase in tangible and intangible assets	45,868	17,944	63,813	17,469	7,292	88,574

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 (16,570) million yen include a 1,475 million yen elimination of inter-segment transactions and (18,342) 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 (181,315) million yen include a (73,476) million yen elimination of receivables due to the corporate administration division, 475,956 million yen of corporate assets which are not allocable to the reportable segments, and a (994) million yen adjustment for inventories.
3. Segment income has been reconciled to operating income represented in the consolidated statements of income.

Corporate Profile

YKK Corporation	
Foundation:	January 1, 1934
Capital:	11,992,400,500 yen *as of March 31, 2016
Headquarter Address:	1, Kanda Izumi-cho, Chiyoda-ku, Tokyo 101-8642, Japan
URL:	http://www.ykk.co.jp
Directors and Auditors:	
Chairman & CEO	Tadahiro Yoshida
Representative Director and Vice Chairman	Hideo Yoshizaki
Representative Director and President	Masayuki Sarumaru
Directors	Hiroaki Otani
	Wataru Otani
	Akira Yoshida
	Tetsuo Yazawa
	Jiichi Bamba
	Keinosuke Ono
	Yoshio Osawa
Audit & Supervisory Board Members	Satoshi Kawai
	Kiyotaka Nagata
	Hiroshi Akiyama
	Naoki Yanagida

YKK AP Inc.	
Foundation:	July 22, 1957
Capital:	10,000,000,000 yen *as of March 31, 2016
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
Director and Vice Chairman	Yukio Kanayama
Directors	Fumio Niizeki
	Akira Yoshida
	Junichi Takahashi
	Kosuke Iwabuchi
	Kazuo Matsutani
Audit & Supervisory Board Members	Susumu Miyoshi
	Junichi Keino
	Kiyotaka Nagata
	Takashi Miyatani

YKK CORPORATION