

President's Message

Akira Uozu, President Representative Director

The Path to Becoming a Global Leading Company is in Sight

Looking back at FY2023 and working toward becoming a 1 trillion yen company

On assuming the position of President in April 2023, and taking the YKK philosophy of the CYCLE OF GOODNESS® and the YKK AP Purpose of "We Build a Better Society Through Architectural Products" as a basis, I developed "Evolution 2030," which sets global leading company as a vision for "how we seek to be in 2030 and how we ought to be," and defines how to make that vision a reality. Based on the three policies of "Contribute to the Global Environment," "Create New Value for Our Customers," and "Prioritize Employee Well-Being and Engagement," I have been promoting management under the slogan of "Become a Global Leading Company Through the Evolution of Architectural Products." At the end of this first fiscal year, I feel that the path to this goal is gradually coming into sight.

My definition of a "global leading company" is to be number one in terms of sales in two businesses: windows and curtain walls (below, "CW"). To this end, it is important how to add value to the products and technologies we offer.

The development of wooden windows, which we have been working on for some time, has made progress, and the products launched on the market in July 2024. Wooden windows, with their superb aesthetic and thermal insulation properties, can be used together with vinyl windows to further insulate the home. Thus far, YKK AP has placed a focus on vinyl windows when promoting the conversion of windows and doors to products with higher thermal insulation performance, and we see the commercialization of wooden windows as the first step toward "Create New Value for Our Customers." In addition, we will launch the EXIMA 55 aluminum-vinyl composite window, a high thermal insulation product for commercial buildings, in FY2024. These wooden windows and the conversion of

commercial windows to high thermal insulation products will be very effective in achieving decarbonization and carbon neutrality in the future.

In Europe, where I conducted an inspection tour in FY2023, I realized that the construction market is shifting its needs from scrap-and-build to renovation of only the building envelope (outer walls, roof, windows, and other parts of the building exterior), which produces less CO₂, and that there are new business opportunities in this market. Accordingly, we are planning to expand into Europe with windows and other high thermal insulation, added-value products for home extensions and commercial building renovations.

"Evolution 2030" roadmap development project

In FY2023, a project team was established to develop a roadmap for the realization of "Evolution 2030". Consisting of about 20 upcoming leaders, mainly mid-career and young employees, the team discussed specific approaches such as how to expand the base of existing businesses to increase sales and how to create new businesses.

I believe that this kind of concerted effort, in which our employees come together as one, is vital in our quest to become a leading company.

Sales and profits increase in FY2023, but fall one step short of the plan

FY2023 ended with an increase in both sales and income, with net sales rising 5.8% from the previous fiscal year to 538.1 billion yen and operating income rising 43.5% to 25.6 billion yen.

Both net sales and operating income remained high through the third quarter due to two price revisions and the 3-ministry subsidy scheme, a government measure that provides subsidies for retrofitting with high thermal insulation windows, which



President Representative Director

Akira Uozu

Joined YKK AP in 1985. Since joining the company, he has been engaged in architectural products sales. After serving as Vice President and General Manager of the Sales Division's Window Business Planning Department, Head of the Residential Business, Head of the Sales Division, and Director and Executive Vice President for International Business, he has been in his current position since April 2023.

boosted demand for energy-conserving retrofitting. Sales grew substantially in the residential remodeling and commercial building renovation sectors, centered on inner windows, and the further promotion of conversion to high thermal insulation windows also led to a significant increase in sales. However, orders declined in the fourth quarter as the subsidy scheme wound down, and we did not achieve what we had planned for FY2023.

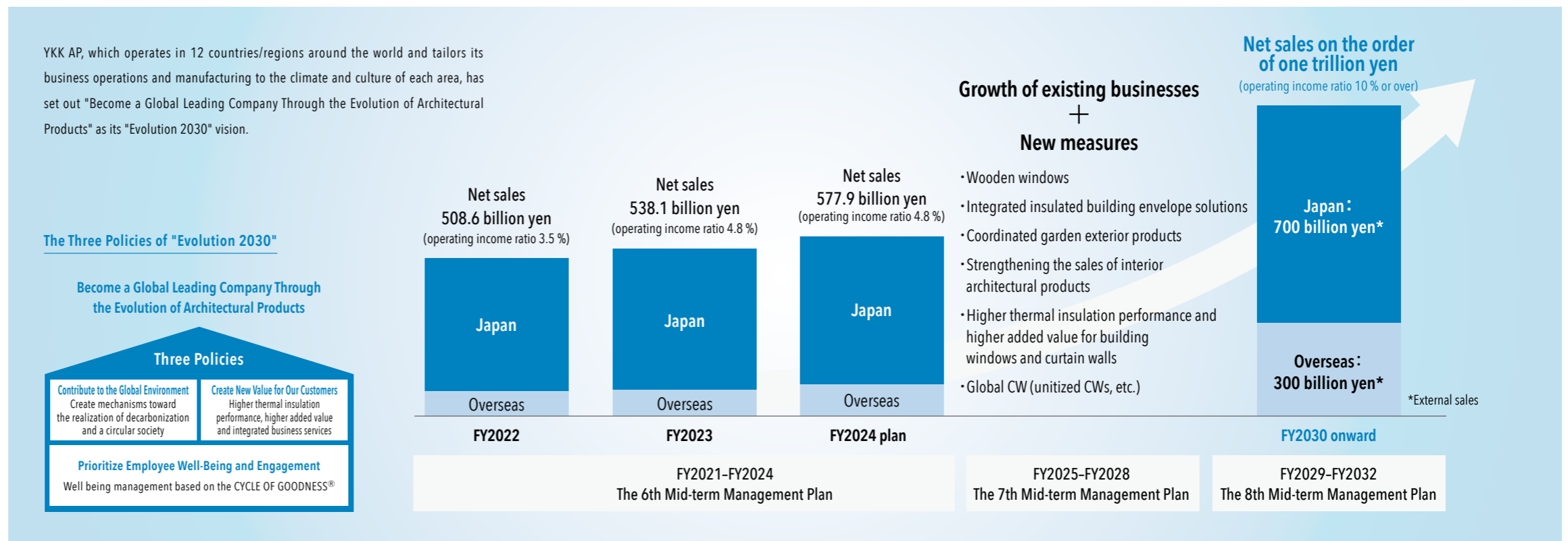
The number of new housing starts in FY2023 was lower than in FY2022, falling to 93% of the previous year's level. To date, YKK AP has focused on new construction, but with the number of new construction starts in Japan declining for both residential and commercial buildings, there is a need to focus on residential remodeling and commercial building renovations, where growth can be expected.

The exteriors market has also declined. The overall market for wall exteriors has fallen below 90% of the previous year's level. However, with regard to garden exteriors, people are becoming more inclined to enjoy their gardens at home in the wake of the COVID-19 pandemic. Although market conditions are lukewarm, we believe that this market is still very promising.

Overseas, in North America, the architectural products market for both commercial and residential buildings declined due to ongoing high interest rates. The market is also shrinking in China, with stagnant investment and an ongoing slump in terms of enthusiasm for buying houses.

A robust response to changes in the external environment, including personnel shortages and logistics issues

As the weak yen and other factors continue to drive up the cost of materials, the external environment surrounding YKK AP is changing at a dizzying pace. We must continue to monitor the situation closely, but if we turn our attention inwards, we are facing a business environment in which it is difficult to generate profits even if we pass on the higher cost of materials to our customers. As such, a strategy to ensure steady profits is required. In FY2023, a rapid increase in the volume of orders received due to a government subsidy scheme resulted in delays in the delivery of inner windows, which caused great inconvenience to our customers and business partners. In order to respond to the increased activity in the remodeling and renovation markets, we expanded our production sites for

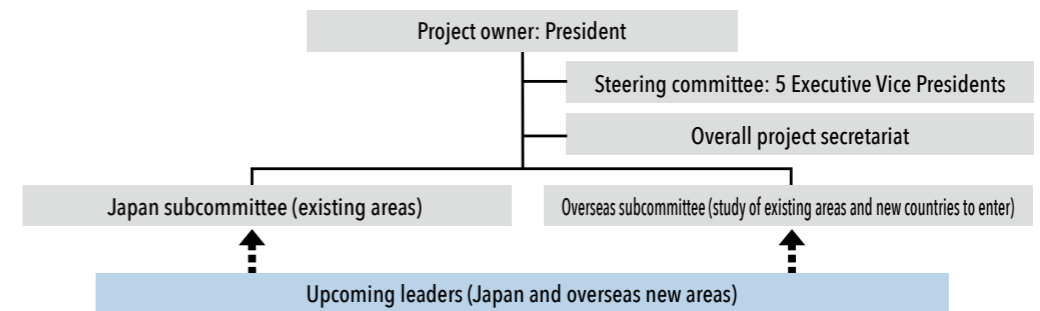


remodeling products and made capital investments to handle increased production for FY2024, with new production lines built at the Tochigi Factory, Hyogo Factory, and Kyushu Plant to increase daily production capacity and strengthen production and competitiveness. Another issue we have identified is the shortage of installation staff for remodeling products. We held installation training sessions for home electronics retailers and hardware stores to enable a wide variety of parties to install our products. We are also expanding our sales channels.

A response is also required to deal with the "2024 Problem" in logistics. Thus far, we have tried to reduce the amount of time drivers spend on duty by setting up warehouses in the vicinity of demand areas and shifting modes for long-distance transportation. Currently, in order to reduce the time spent by truck drivers in factories and warehouses, we are undertaking measures such as systems to optimize the loading of products onto pallets and then onto trucks, and the deployment of support staff to reduce the time spent waiting for or loading and unloading cargo. We will ask our business partners for their understanding with respect to reflecting the increased logistics costs in our prices.

Organizational diagram of the project to develop a roadmap for the realization of "Evolution 2030" (outline)

The president serves as project owner and has established a system to formulate a roadmap for the realization of "Evolution 2030." Upcoming leaders are also participating in subcommittees and joining in the discussions.



Achieved commercialization of wooden windows. APW 651 sliding patio door, wooden windows with triple insulating glass, launched in 2024



EXIMA 55 aluminum-vinyl composite windows for commercial buildings, scheduled for launch in September 2024. Promoting even higher thermal insulation performance in commercial buildings



Factory (left) and factory interior (assembly process, right) belonging to Thai CW manufacturers YHS International and Siam Metal, which became subsidiaries in December 2023. They are expected to play a key role in the expansion of the CW business in Asia



The new building at the Saitama Factory, the core factory for the Commercial Business, began operations in July 2023. It is able to reduce manufacturing costs by 25% compared to existing factories and shorten the lead time from order placement to delivery by up to 11 days. It is also environmentally friendly, achieving effective zero CO₂ emissions



In October 2023, the Tokyo Metropolitan Area DC was opened in Kazo City, Saitama Prefecture (photo shows interior) to strengthen the supply system for residential products in the Tokyo metropolitan area. Furthermore, inventory management allows the number of nighttime and long-distance trips by truck drivers to be reduced, and this is expected to alleviate the burden on drivers

Measures to expand global sales and improve profitability

In April 2023, we launched the Global Curtain Wall Business Division to strengthen our domestic and international CW business. To expand overseas sales channels for CW, with the aim of developing products with high thermal insulation performance and establishing a mass production system, in December 2023 we welcomed Thai CW manufacturer YHS International Ltd. and its manufacturing company, Siam Metal Co., Ltd., into the YKK AP Group. Together with our plants in China, Canada, and Namerikawa, Japan, this will allow us to supply 600,000 m² of curtain walls each year. As for the Global Curtain Wall Business Division, it will work to move into Europe and expand the business in Asia, including Thailand, Vietnam,

and Malaysia. Regarding vinyl windows in the overseas AP business, a new plant in the U.S.A. began operations in December 2023, and we are working to bolster orders.

In China, we will launch products in the growing mid-price range market, and in Taiwan, we will expand our business area. In both cases, we will seek to move into new areas, such as renovation of commercial buildings. In Indonesia, we are aiming to further expand sales by developing new channels.

The YKK Group operates in 70 countries and regions. We will also use this knowledge to expand into new areas.

Steadily evolving initiatives to implement materiality

Providing an employee-friendly workplace and fulfilling work

In FY2021, taking as a basis our Purpose of "We Build a Better Society Through Architectural Products," we identified materiality for the company and set indicators under three major themes: Human Resources, Monozukuri, and Trust / Reliance.

In the area of Human Resources, we are promoting factory automation and building an environment in which people of all ages and genders can play an active role. Having employees take on the responsibility of machine maintenance means that there will be more opportunities for women and seniors than ever before. Employees have asked for multipurpose restrooms and changing rooms at each manufacturing site. We are delighted that our employees have submitted these requests

on their own initiative, and we are working to accommodate them as soon as possible.

We provide career training for employees of all ages to help them develop the career that they want, regardless of the division they were assigned to when they joined the company. It is our hope that they will continue to enjoy themselves, be highly motivated, and continue to challenge themselves to achieve their own goals.

Enhancing logistics technology to strengthen the product supply system

With respect to "Monozukuri," we are working to improve the logistics technology that underpins supply. To address the "2024 Problem" in logistics mentioned earlier, in October 2023 we opened the Tokyo Metropolitan Area DC (Distribution Center), a logistics site that will enable us to shorten the time drivers are on duty by changing inventory management and transportation methods, and to efficiently sort goods through the introduction of shelf-transporting robots. In addition to strengthening the system for supplying residential products to the Tokyo metropolitan area, we will pursue logistics DX and robotics to achieve a stable supply system.

Considering the use of "green aluminum" to reduce CO₂ emissions

Part of the theme of "Trust / Reliance" is "co-existence with the environment." Aluminum is an important material used in many of our products, and as part of our efforts to promote a decarbonized and circular society, we are looking into the

establishment of a stable procurement scheme for market-obtained recycled materials, as well as the use of "green aluminum." In terms of vinyl recycling, we are working to increase the recycling rate of vinyl scraps generated in the vinyl window manufacturing process, and have set a target of 100% recycling of in-house products by FY2024. We are also researching recycling technologies for external products and technologies for recovering products from the market in collaboration with industry, government, and academia.

As a result of these efforts, FY2023 marks the third consecutive year of record net sales. In FY2024 and beyond, we will continue to be aggressive in developing the market and take on the challenge of realizing materiality.



In December 2023, the "Global Curtain Wall SUMMIT 2023" was held in Japan for the first time. The meeting brought together people from various countries and regions to share views and strengthen ties between YKK AP companies involved in the CW business and the Global Curtain Wall Business Division



Message from the Financial Officer

Focus on ROA and Operating Income Ratio to Improve Capital Efficiency

Director and Executive Vice President
Kosuke Iwabuchi



Investing in the people that form the foundation of our business

In its "Evolution 2030" vision, YKK AP has set a goal of becoming a leading company with net sales on the order of one trillion yen. We envision our domestic business generating net sales of 700 billion yen and our overseas business generating net sales of about 300 billion yen, resulting in a highly profitable company with an operating income ratio of 10% or more.

In order to increase efficiency and profitability, we are currently working to standardize operations and develop an information infrastructure that uses IT to connect information from each business division. We are also conducting research on smart factories that could lead to labor savings and increased operational efficiency. Through these initiatives, we will consolidate operations, make operations more visible, and strengthen internal controls.

What we are now emphasizing is investment in people, who form the foundation of our business. As Japan's population continues to decline, a shortage of engineers to perform design and installation management has started to emerge in the construction field as well. Although we will put our efforts into education and other areas, it is also important to achieve labor savings in these areas using digital and robot technologies. In this context, we will invest in training and hiring human resources with both operational and digital expertise who can take the lead in business process re-engineering.

Through the appropriate allocation of personnel based on evaluation of each employee's role and achievements, we will work to invigorate the workforce and promote a fulfilling workplace environment.

Promoting growth in the overseas business through locally grounded management

Growing into a company with net sales on the order of one trillion yen will require expanding new businesses. We hope to use the funds generated by increasing the profitability of existing businesses for research and development of technologies that will form the basis of new businesses.

In Japan, we plan to expand our business by leveraging YKK AP's strengths, such as its nationwide distribution channels, the materials and fabrication technologies it has cultivated through its manufacturing operations, and the installation technologies it has developed to attach its products to buildings. Overseas, it is important to develop products tailored to local climates and cultures, and we must also put effort into developing local human resources who share the YKK Group's corporate philosophy. In addition, for business development in the U.S.A., China, India, and other countries with extensive land areas, how to supply products is also an important issue, and we are carefully considering strategies for production and logistics sites as well as sales strategies.

While overseas businesses will receive investment from Japan until they become independent, such as in the process of starting up and building business foundations, once they become self-sustaining and establish a profit structure, we hope to see them invest their own funds for growth in their respective regions and aim for management grounded in local communities.

Examining assets and profits to improve ROA

We will continue to emphasize return on assets (ROA) as a financial indicator to determine whether investments that lead to increased corporate value are being made.

With respect to assets, we will strengthen administration

Financial highlights  P56

	FY2021 (Results)	FY2022 (Results)	FY2023 (Results)
Net sales (consolidated)	446.3 billion yen	508.6 billion yen	538.1 billion yen
Operating income	17.3 billion yen	17.8 billion yen	25.6 billion yen
Operating income ratio	3.9%	3.5%	4.8%
Return on assets (ROA)	2.7%	3.5%	4.0%
Equity ratio	56.2%	57.9%	64.6%
Return on equity (ROE)	4.8%	6.1%	6.6%

Note: Transactions with parties inside the Group have been offset in net sales (consolidated).

by the Investment Committee, which deliberates on important investments from the perspective of investment economics, cost of capital, and other factors. Meanwhile, with respect to profits, we will ensure that those responsible for each business are aware of the need to improve profitability, using the operating income ratio as an indicator. While examining both assets and profits, we will strive to improve ROA and capital efficiency.

The ROA for FY2023 was 4.0%, but we are aiming for 6-7% over the medium to long term. To achieve this, it is also necessary to rethink the essence of our products. Investment in production equipment will grow as the variety of products increases. It is my hope that we can improve investment efficiency through an approach of building a common platform and then adding variations in design and other aspects.

In response to changes in society, such as the Subcontracting Act, and with a view to properly managing cash flow, YKK AP is currently in the process of reviewing the contract conditions for terms of payment as well.

The financial results for FY2023 showed net sales of 538.1 billion yen, a record high for the third year in a row. The main reason for this was a surge in demand for remodeling in Japan following the start of a government subsidy scheme supporting energy conservation measures for residential properties.

Although the growth in orders exceeded our expectations, and we initially caused inconvenience to our customers and business partners due to a delay in investment in manufacturing equipment, we were ultimately able to significantly increase sales of vinyl windows and remodeling products. The steady implementation of price revisions in response to soaring prices of raw materials and supplies resulted in a 43.5% increase in operating income over the previous fiscal year.

FY2024 Investment Plan (based on orders)

		Unit: 100 million yen	
Nature of investment		FY2023 (Results)	FY2024 (Plan)
Japan	Increase production capacity and support new products	96	52
	Streamlining support	54	60
	Digital-related	53	64
	Sustainability-related	38	23
	YKK AP30 Building / YKK AP Technology Museum	78	19
	Infrastructure development, etc.	40	59
Total		361	280
Overseas	U.S.A.: Increase production capacity, streamlining support, etc.	62	32
	Indonesia, India, etc.: Increase production capacity, streamlining support, etc.	8	48
	China and other Asian regions: Increase production capacity, streamlining support, etc.	10	14
	Total	81	94
Total		443	375

Improved profitability through cost reductions and appropriate pricing

In FY2024, the continued depreciation of the yen will have a significant impact on material prices, and rising interest rates will be reflected in mortgages, affecting the residential market as well. The cost of addressing the "2024 Problem" in logistics will also continue to rise. We will carefully assess the market, focusing on major items, while keeping a close eye on trends in the market and materials, and will take care to improve management efficiency and maintain the balance between supply and demand.

Our biggest challenge is to reduce costs, and we intend to use our technological capabilities to tackle this carefully and in fine detail. Since its founding, the YKK Group has held fast to the idea of "Three-Party Sharing," in which profits generated from inventions and innovations are divided three ways between users, business partners, and YKK Group, with YKK Group developing and investing from its own share to create products that benefit society. Based on this philosophy, we will enhance profitability while maintaining appropriate prices.

Capital investments for FY2024 are expected to total 37.5 billion yen, and we will continue to invest in such areas as the development of our information infrastructure and others. Meanwhile, we plan to invest a cumulative total of 50 billion yen in sustainability-related activities from FY2023 to FY2030. While there are also direct environmental investments such as solar power generation, we expect that updating aging equipment, such as by improving energy conservation, will also have positive environmental benefits.

I believe that in the future, non-financial factors may also have an impact on the financials. As the Financial Officer, I will also keep a close eye on the financial impact of environmental, human, and other ESG risks.