

有報

YUHO REPORT

Annual

Fiscal Year Ended **December 31, 2014**

Traded **JASDAQ**

Stock Code **7963**



KOKEN LTD.

YUHOREPORT

Koken Ltd.

Fiscal Year Ended	December 31, 2014
Traded	JASDAQ-TSE
Stock Code	7963

This report is based on the Company's Japanese-language annual filing with the Financial Services Agency and supplemented with materials that facilitate comparison with the Company's peers. The materials from the annual filing with the Financial Services Agency have been edited and reorganized in a format more familiar to the international investment community. All information contained in this report has been obtained from sources believed to be reliable, but the accuracy of the data and the translation and the completeness and timeliness of the information are not warranted by the Company, Pacific Associates, or PRONEXUS. None of the above parties shall be responsible for any error or omission or for results obtained from the use of this information.

Table of Contents

COMPANY PROFILE	3
Financial highlights.....	3
Peer comparisons.....	3
BUSINESS OVERVIEW	4
Description of business.....	4
Group companies.....	4
History.....	5
Risk factors.....	6
Research and development.....	8
Analysis of financial condition and results of operations.....	9
Corporate governance.....	10
Directors.....	19
Employees.....	20
Union.....	20
Stock option plans.....	20
CASH FLOWS	22
Consolidated statement of cash flows.....	22
Capital expenditures.....	23
Dividend policy.....	24
OPERATIONS	25
Consolidated statement of income.....	25
Consolidated statement of comprehensive income.....	26
Consolidated statement of changes in net assets.....	27
Results of operations.....	27
Segment information.....	31
Issues requiring action.....	33
Production and sales.....	35
CAPITAL STRUCTURE	36
Consolidated balance sheet: assets.....	36
Consolidated balance sheet: liabilities and net assets.....	38
Securities.....	39
Market value of securities.....	41
Fixed assets.....	41
Debt.....	42
Retirement benefits.....	43
Reserves.....	43
RELATED PARTIES	44
ACCOUNTING POLICIES	45
SHARE-RELATED INFORMATION	47
PERFORMANCE IN GRAPHS	49

YUHOREPORT is a trademark of Pacific Associates and PRONEXUS.
This translation is copyrighted by Pacific Associates.

Company Profile

Financial highlights

Years ended December 31; Thousands of yen	2010	2011	2012	2013	2014	2014
	Parent					Consolidated
Net sales	7,358,872	8,879,229	8,329,921	7,476,448	7,500,731	7,500,731
Ordinary profit	532,880	1,112,847	661,983	409,703	350,684	315,342
Net income	421,366	553,565	384,930	229,368	183,158	147,816
Comprehensive income	-	-	-	-	-	185,331
Common stock	674,265	674,265	674,265	674,265	674,265	-
Shares outstanding	5,104,003	5,104,003	5,104,003	5,104,003	5,104,003	-
Net assets	8,019,514	8,466,354	8,647,479	8,679,298	8,785,548	8,775,028
Total assets	15,563,206	16,262,836	15,966,154	15,465,283	15,559,682	15,552,696
Net assets per share (Yen)	1,576.93	1,663.78	1,703.16	1,713.23	1,722.48	1,720.40
Dividends per share (Yen)	25.00	35.00	25.00	25.00	25.00	-
Net income per share (Yen)	83.31	109.46	76.07	45.45	36.21	29.22
Net income per share, fully diluted (Yen)	-	108.79	75.77	45.00	36.00	29.06
Dividend payout ratio (%)	30.0	32.0	32.9	55.0	69.0	-
Net cash provided by operating activities	1,092,832	630,328	1,205,276	806,420	-	687,046
Net cash used in investing activities	(170,094)	(530,507)	(46,337)	(708,352)	-	(597,411)
Net cash provided by (used in) financing activities	(779,762)	(860,827)	109,316	(766,160)	-	(238,639)
Cash and cash equivalents at end of term	1,809,006	1,048,000	2,320,852	1,652,808	-	1,911,584
Employees	211	215	221	218	216	225

The Company began preparing consolidated financial statements in the fiscal year to December 2014.

Peer comparisons

	2010	2011	2012	2013	2014	
Percent					Parent	Consolidated
Net income / net sales (%)	5.7	6.2	4.6	3.1	2.4	2.0
Peers	0.0	1.7	2.2	2.5		1.1
Ordinary profit / net sales (%)	7.2	12.5	7.9	5.5	4.7	4.2
Peers	1.7	3.2	4.1	4.4		3.7
Net income / equity (%)	5.3	6.6	4.5	2.7	2.1	1.7
Peers	(0.2)	3.0	9.1	(0.9)		7.0
Net income / assets (%)	2.7	3.5	2.4	1.5	1.2	1.0
Peers	0.1	1.5	3.7	2.9		3.1
Ordinary profit / assets (%)	3.4	7.0	4.1	2.6	2.3	2.0
Peers	1.6	3.7	5.1	4.8		5.6
Equity / assets (%)	51.2	51.7	54.1	55.9	56.1	56.1
Peers	47.9	49.2	51.4	54.3		54.5

Peers include 27 companies in the other products sector on the JASDAQ market of the Tokyo Stock Exchange.

Business Overview

Description of business

The corporate group consists of KOKEN LTD. (the Company), one subsidiary and one related party. The Company manufactures and sells particulate respirators, gas masks and other types of protective equipment for occupational health and safety use, as well as equipment and facilities for workplace environments.

The previously non-consolidated subsidiary SIAM KOKEN LTD. became a consolidated subsidiary in the fiscal year under review due to an increase in materiality.

The Company rents its corporate headquarters from Sakai Tatemono Ltd., a company with which it has a close relationship.

Changes in accounting disclosures

Koken has changed its financial reporting practice to the consolidated base from the parent company base beginning with the year to December 2014. The financial statements for the year under review are available only in this report.

Group companies

Name	Operations	Capital stock	Ownership
(Consolidated subsidiary)			(%)
SIAM KOKEN LTD.	Manufacture and sale of particulate respirators	THB150,000,000	100

History

Year	Month	Event
1943	May	Koshinkai Kenkyujo established.
1952	February	Koshinkai Kenkyujo converted to joint stock company.
1963	December	Company's production and sales divisions spun off as independent operations; KOKEN LTD. established and Hannou plant constructed in Hannou, Saitama Prefecture.
1967	April	Hannou Laboratories established in Hannou, Saitama Prefecture.
1968	December	Hoya plant established in Hoya, Tokyo.
1976	October	Ashio plant established in Ashio, Tochigi Prefecture.
1977	January	Logistics center constructed in Ninomiya, Kanagawa Prefecture.
1981	January	Koken Bosai System established to sell occupational safety and health-protection equipment and to design and construct fire-prevention equipment and workplace environment improvement equipment.
1984	December	Hoya plant relocated to Tokorozawa, Saitama Prefecture, and reestablished as Tokorozawa plant.
1985	June	Koshinkai Kenkyujo and Ninomiya Seisakusho acquired.
1986	December	Company's shares registered with Japan Securities Dealers Association as OTC-traded stock issue.
1987	July	Koken Bosai System acquired and Sayama Techno-Yard established in Sayama, Saitama Prefecture, with one portion of Hannou Techno-Yard relocated to Sayama Techno-Yard. (Names of plants and factories all changed to Techno-Yard.)
1988	July	Second phase of Sayama Techno-Yard construction completed, concluding relocation of Hannou Techno-Yard.
1989	August	New head office building constructed.
1992	March	New research wing completed for Tokorozawa Laboratories.
1997	December	Nakai Techno-Yard and Nakai Logistics Center established in Nakai-machi, Kanagawa Prefecture. (Ninomiya Techno-Yard and Ninomiya Logistics Center integrated into newly established facilities of Nakai Techno-Yard and Nakai Logistics Center.)
1999	January	ISO 9001 certification obtained for entire company (registered on inspection).
	June	Gunma Techno-Yard constructed in Kasagake-cho, Gunma Prefecture.
2002	January	ISO 14001 certification obtained by Gunma Techno-Yard (registered on inspection).
2003	June	ISO 14001 certification obtained by Nakai Techno-Yard and Nakai Logistics Center (registered on inspection).
2004	December	Registration for OTC trading with Japan Securities Dealers Association canceled; and shares listed on the JASDAQ Securities Exchange.
2005	May	ISO 14001 certification obtained by Tokorozawa Techno-Yard (registered on inspection).
2009	September	Saitama Logistics Center established in Ranzan-machi, Saitama Prefecture. (Nakai Logistics Center integrated into newly established facilities of Saitama Logistics Center.)
2010	April	Company's shares listed on JASDAQ-OSE integrated market after merger of JASDAQ Securities Exchange into Osaka Securities Exchange.
2011	March	KOACH showroom opened.
	November	KOKEN Super Clean Technical Center opened.
2012	November	Overseas subsidiary SIAM KOKEN LTD. (currently a consolidated subsidiary) established in Chonburi Province, Thailand.
2013	January	Ranzan Techno-Yard established in Ranzan, Saitama Prefecture.
	July	Company's shares listed on the JASDAQ Standard market following merger of the Osaka Securities Exchange with the Tokyo Stock Exchange.

Risk factors

The KOKEN Group recognizes the following risks or potential risk factors as existing as of December 31, 2014.

All forecasts, projections and other statements regarding the future are based on business plans as of the date of publication of relevant statutory securities filings.

Research and Development

- As an R&D-driven, comprehensive environmental product manufacturing company, the Group invests management resources to bring highly innovative products to the market. Not all R&D will necessarily lead to the development of new products, however, or to growth in earnings. In addition, the Group's performance could be affected by circumstances which leave the Group no choice but to discontinue its R&D activities.
- The Group's product development is based on highly innovative technology, and it has consequently implemented the necessary procedures to protect its intellectual properties and large number of patents. There is, however, only so much laws can do to protect proprietary technology, and the possibility exists that the Group will not be able to prevent a third party from using its intellectual properties to manufacture and sell products similar to the Group's. This could have an impact on the Group's results.

Legal and Regulatory

- The Group's businesses are governed by a number of legal restrictions, as set forth in statutes such as the Industrial Safety and Health Law, the Pharmaceutical Affairs Law, and the Product Liability Act; and it continues to strengthen its compliance capabilities and internal control to ensure its ability to meet the requirements of these laws.
- Despite its best efforts, however, the Group may fail to meet one or more of these regulations, with a resulting recall of its products or other limitations on its businesses. In addition, the enactment of new laws or revision of existing ones could impact the Group's financial performance by requiring it to incur expenses for capital investment or other needs.

Quality Assurance and Quality Management

- Besides being designed for use in harsh environments, Koken's products must be extremely durable and trustworthy to ensure that they protect the health and safety of their users. To assure the highest levels of quality control, the Group has

established quality management systems based on ISO9001 standards and has adopted the following measures:

- a) It maintains an independent quality assurance office, which reports directly to the president; and
 - b) It assigns personnel from this office to each of the Group's manufacturing and technical facilities to monitor production and inspection procedures.
- The Ministry of Health, Labour and Welfare conducts tests on protective breathing equipment. In the unlikely event that such tests should reveal defects in the Group's products despite its stringent quality control, the costs incurred in recalling and repairing non-compliant equipment could have a negative impact on the Group's financial performance.

Natural Disasters and Epidemics

- Since the Group's production facilities had previously undergone a seismic risk assessment and formulated appropriate business continuity plans in advance, the Group's production did not suffer any significant disruption due to the Great East Japan Earthquake. Nevertheless potential risks remain that could affect the Group's financial performance: A natural disaster (such as a large, shallow earthquake with a nearby epicenter), accident or other unforeseen event, or an influenza epidemic or other infectious outbreak could stop production or interrupt operations. In preparation for epidemics, the Group has distributed masks to all employees and stocked emergency supplies of masks at all its operating sites.

Environmental Issues

- Soil and groundwater decontamination procedures are continuing at two of the Group's research and manufacturing sites where trichloroethylene pollution was discovered. Although clean-up operations are proceeding according to plan, there could be a material impact on the Group's performance if the decontamination procedures prove lengthier or costlier than anticipated.

Information Security

- The Group's business involves a wealth of confidential information related to technology, sales and other operations. While the Group takes every precaution to manage such information securely, any unauthorized disclosure of such data due to unforeseen circumstances could have a negative impact on the Group's financial performance.

Internal Controls

- The Group has created an effective system of internal controls to promote effective and efficient business administration, reliable financial reporting, full legal and regulatory compliance, and asset security. Given the limitations inherent in internal controls, however, any related failure resulting from unforeseen circumstances could have a negative impact on the Group's financial performance.

Overseas Subsidiary

- Production is due to begin at SIAM KOKEN LTD., the Group's production subsidiary in Thailand, in mid-2015. Currency exchange movements or unexpected political, social or regulatory developments in Thailand could have a negative impact on the Group's financial performance.

Research and development

The Group is committed to research and development in its business domain, "cleanliness, health and safety." It pursues development of original, creative technologies as well as versatile applications that employ them. A matrix-based R&D structure has been established that includes project teams for basic research on near-future technologies as well as applications.

A total of 68 staff are responsible for research and development, and related expenditures during the year under review totaled 523 million yen.

The Group pursued the following activities during the year under review:

Mask segment

Koken has developed various "breath-response" powered air-purifying respirator (PAPR) series to conform to the national standards for powered protective masks determined by the Ministry of Health, Labor and Welfare. These include:

- (1) BL-300 series: super-lightweight battery-operated cordless PAPR with a speaking diaphragm for clear communication
- (2) BL-1005 series: PAPR with an electrostatic filter for use in welding operations
- (3) BL-700 series: advanced PAPR offering high-level full-face protection
- (4) BL-200 series: PAPR with a speaking diaphragm and an internal pressure monitoring function
- (5) BL-100 series: standard range of breath-response PAPR models

In the full-facepiece chemical cartridge respirator category, Koken has developed the 1551G series of masks for painting operations that feature a damage-resistant face shield (which also repels paint mist with a super paint barrier coating) and tough silicone rubber construction for high performance in environments that is difficult to dissolve in solvents.

Environmental and other businesses segment

In the KOACH series of clean zone equipment, Koken has developed the “Floor KOACH Tz” model that employs simple construction featuring push hoods and guide screens to achieve clean zones with air cleanliness rated at ISO Class 1. This model can be stacked in two layers to provide a clean zone with headroom of 2,100 mm, which is sufficient to enable most people to stand upright with ease within the space, offering while also the requisite versatility for installation without modification in laboratories or testing rooms with standard ceilings.

Koken improved the “KAGAMI-NAISHI” range of fully automated endoscope cleaning/sterilization systems with the introduction of the KOM-ED-O2 model, which is equipped with an automatic brushing function and an internal generator for electrolyzed water. This new model is now applicable to endoscopes with auxiliary water channel and can be used to clean a wider range of endoscopes while also generating electrolyzed water at a rate roughly 50% faster than the model it replaces, making it more advantageous for medical facilities that conduct large numbers of endoscopic procedures.

Analysis of financial condition and results of operations

(1) Significant accounting policies and estimates

The financial statements of the Group are prepared in conformity with the Japanese GAAP. Reasonable estimates required in the presentation of these statements are based on the relevant accounting standards.

(2) Financial analysis

Assets

Total assets amounted to 15,552 million yen as of December 31, 2014. Major components within this figure included notes and accounts receivable-trade (3,486 million yen) and tangible fixed assets (7,541 million yen).

Liabilities

Total liabilities amounted to 6,777 million yen as of December 31, 2014. Major components of this figure included short-term borrowings (1,500 million yen), the current portion of long-term debt (1,238 million yen), and long-term debt (2,510 million yen).

Net assets

Total net assets amounted to 8,775 million yen as of December 31, 2014. Major components of this figure included retained earnings (7,525 million yen).

No comparisons have been provided with the previous year because this was the first year in which the Group has provided consolidated accounts.

Corporate governance

(1) Basic philosophy concerning corporate governance

The Group aims to increase its enterprise value and shareholder and investor value. Toward these ends, it is endeavoring to strengthen its corporate governance to ensure the transparency and health of its management. It is also taking steps to build a management organization that achieves increased efficiency through clarified lines of responsibility and that responds rapidly to changes in the operating environment.

The Group also believes that disclosure is an important issue for management. Accordingly, it intends to continue to disclose information in a timely, prompt, fair and transparent manner hereafter. Toward this end, it is endeavoring to increase opportunities for disclosure, to improve its methods of conveying information, and to add greater value to the information disclosed.

The following information related to corporate governance is as of March 13, 2015 (the publication date of the original Japanese report).

1) Overview of corporate governance structures and the development status of internal control systems

a. Basic explanation of corporate governance structures

- Board of Directors: The primary decision-making body of the Group, the Board of Directors meets once a month, as a rule, as provided for under the bylaws of the Board of Directors. In addition to deciding important matters concerning the execution of operations, the Board also oversees those operations. The Board is also prepared to meet on an as-needed basis to deal with issues that require prompt action.

- Senior Management Meetings: Senior Management Meetings, whose members consist of the directors, division managers and heads of the respective departments, are convened once a month. Decisions of the Board of Directors are conveyed to the senior management at these meetings, which also provide occasions for divisional managers and heads of sales offices to present sales reports and for senior management to be updated on operations in the various departments. Problem areas and policy responses are also discussed.
 - Board of Corporate Auditors: The Group has adopted a system of corporate auditors. It elects four auditors (two of whom are outside auditors), who participate in Board of Directors meetings and, in so doing, monitor the performance of the directors and the Board of Directors.
- b. Overview of corporate governance structures and the development status of internal control systems
- The Group operates its business through five divisions: the Management Division, the Marketing Division, the Sales Division, the Technology Division and the Manufacturing Division. Each division is headed by a general manager, and responsibilities are allocated in a manner that enables each division to act as a check on the others.
 - To enhance efficiency and promote appropriate, rational management, the Group has established a number of internal regulations, which are reviewed regularly by the department heads to assure their compatibility with realities on the ground. The department heads perform the important role of ensuring that operations in their departments are carried out strictly in accordance with the applicable laws and ordinances.
 - The Group continually upgrades its systems to ensure full compliance with laws, regulations and internal rules through various checking procedures. The Group has instituted compliance-related educational and training courses for directors and employees. In addition, the Group has set up the Koken Compliance Help Line as an internal reporting system designed to control and correct any compliance violations at the earliest possible time.
 - As a responsible corporate citizen, the Group maintains no relations with antisocial forces or other organizations that threaten the social order, and it remains resolutely opposed to such forces.

c. Risk management system development status

- The Management Division, Marketing Division, Sales Division, Technology Division and Manufacturing Division all have their own systems to manage intra-divisional risks. At the same time, this arrangement is bolstered by a system of mutual checks and balances. Operational audits are conducted to assess the execution status of business processes according to internal auditing regulations. In particular, quality assurance audits are conducted to perform quality checks on product-related processes. The results of internal audits are reported to the president, and systems are in place to facilitate the institution of improvement measures where necessary.
- The executive officer in charge of internal controls assumes overall responsibility for managing risk at the corporate level. While promoting the adoption of any required regulations, he also continues to construct risk management systems with the aim of mitigating projected risks and developing contingency measures against any foreseeable emergency situations.

2) Status of internal audits and auditing by corporate auditors

- Internal audits are the responsibility of the executive officer in charge of internal controls, who directs an individual appointed by the president to audit the Group's operations. The results of this individual's audits are reported to the president, and any necessary measures to resolve problems are adopted and follow-up audits carried out.
- Quality management audits, another facet of the Group's internal audit structure (equivalent to internal audits based on ISO9001 and JIS Q9001), are the responsibility of the head of the Quality Management Office, who also reports the audit results to the president. If an audit uncovers any failure to conform with quality standards, the heads of the departments concerned are requested to correct the problems, and the results of their follow-up measures are checked.
- In line with the initiation of production and sales activities concerned with medical devices whose manufacturing and sale require approval under the Pharmaceutical Affairs Law (notably fully automated systems for washing and sterilizing endoscopes), the Group has constructed quality and safety management systems based on Japanese ministerial ordinances concerning the relevant standards applicable to medical equipment, such as QMS

(Quality Management System; manufacturing and quality control), GQP (Good Quality Practice; production-related quality control), and GVP (Good Vigilance Practice; post-marketing safety control). Under this structure, the Group has appointed one person who undertakes management oversight of all quality and safety issues related to the manufacture and sale of medical equipment. Two managers responsible for QC/QA issues and for safety management report to this person. The system involves close cooperation between these managers and the relevant departments. The Group continues to work to strengthen its quality and safety management systems to ensure the production and sale of medical equipment of the highest quality and safety.

- Based on Japanese occupational health and safety legislation, the Group has formulated internal OH&S regulations to ensure the health and safety of employees and to foster the creation of a safe and comfortable working environment. These regulations apply to management of the work, operating environment and health of all employees. Guided by these rules and assisted by a dedicated team of staff, the head of the Safety & Environment Management Office conducts regular and ad hoc OH&S audits of all Company facilities. The results of these audits are reported to the president. If the audits identify any areas of non-compliance, the head of the Safety & Environment Management Office can require the general managers of the relevant audited facilities to implement any requisite corrective measures. Further checks are then carried out to confirm the effectiveness of such measures.
- As stated above, the Group has four corporate auditors, including two outside auditors. Besides attending meetings of the Board of Directors to audit the execution of directorial duties and Board operations, the corporate auditors also undertake internal audits based on auditing plans formulated by the Board of Corporate Auditors. When necessary, moreover, the corporate auditors seek to improve audit effectiveness based on information exchanged with the independent auditors.
- Standing Corporate Auditor Etsuo Koyama, who was formerly the general manager of the accounting division, is highly knowledgeable about financial and accounting matters pertaining to the Company's operations.

3) Names of certified public accountants participating in audit operations and composition of assistant teams

The Company receives financial auditing services under a contract signed with A&A Partners. Details of the personnel involved in the financial audits conducted under this contract are provided below:

Engagement partner: Yuko Sakamoto, CPA

Engagement partner: Satoshi Terada, CPA

Number of assistants involved in audits:

CPAs: 8

Other staff: 4

Note: No team member has more than seven years of continuous experience with the financial audits of the Company.

4) Outside directors and outside corporate auditors

Although the Group has not appointed any outside directors, two outside corporate auditors have been appointed to provide an independent, external auditing perspective on the actions of the directors. The Company has also introduced an executive officer system to enhance the separation between decision-making functions and the execution of operations and to clarify the delegation of management authority.

The Company believes its corporate governance systems provide sufficient management oversight and auditing capabilities without the appointment of outside directors.

In accordance with policies determined by the Board of Corporate Auditors, the outside auditors attend meetings of the Board of Directors to provide specialist input as well as participating in auditing of the actions taken by the directors. The corporate auditors work closely with the outside auditors and exchange information with them to achieve continual upgrading of audit functions. The Company believes that its internal audit systems are adequate for corporate governance purposes.

The outside corporate auditors are Hitoshi Emi, a professor emeritus of Kanazawa University, and Hiroyuki Kawai, a lawyer specializing in corporate law. Both bring high levels of specialist knowledge and expertise to their auditing roles. Neither of the outside corporate auditors has any conflict of interest by virtue of special relationships with the Company or related personnel, notwithstanding any ownership of Company stock, as noted below.

Prof. Emi owns 3,900 shares of Company stock. Although the Company has made financial donations to Kanazawa University, these are sufficiently small to be of no concern to shareholders or investors. The Company has nominated Prof. Emi as an independent executive to the Tokyo Stock Exchange.

Mr. Kawai owns 2,400 shares of Company stock and is a partner in Sakura Kyodo Law Offices. The Company has sought legal advice on occasion from other partners working for this law firm, but has no consulting contract with the firm, nor did the Company have any commercial dealings with the firm during the year under review. The Company has also nominated Mr. Kawai as an independent executive to the Tokyo Stock Exchange.

While the Company does not stipulate standards and other criteria regarding independence in terms of the election of outside corporate auditors, the Company does refer to the criteria established by the Tokyo Stock Exchange related to the independence of externally appointed executives of publicly listed companies.

In accordance with the provisions of Article 427-1 of the Companies Act, the Group has concluded agreements limiting the liability of both the outside corporate auditors, Hitoshi Emi and Hiroyuki Kawai, with respect to legal compensation claims under Article 423-1 of the Companies Act to the minimum amounts as specified in Article 425-1 of said legislation.

The outside corporate auditors receive reports from relevant directors with respect to financial or accounting matters that the independent auditors may highlight, as well as internal audit system evaluations based on reviews of the Group's internal controls.

5) Directors' compensation

a. Compensation of board members by category; breakdown by type of compensation; and number of board members in each category

Thousands of yen	Total amounts paid out to board members by type of compensation					Number of board members in each category
	Amount paid	Compensation	Bonuses	Stock options	Directors' and corporate auditors' retirement allowances	
Directors	218,822	139,050	11,450	6,622	61,700	9
Corporate auditors	21,746	16,800	2,000	946	2,000	2
Outside corporate auditors	9,946	7,200	1,000	946	800	2
	250,514	163,050	14,450	8,514	64,500	13

1. Bonuses include any provisions made during the fiscal year under review in the reserve for directors' and corporate auditors' bonuses. These bonuses were approved at the 52nd Annual General Meeting of Shareholders held on March 25, 2015.

2. Directors' and corporate auditors' retirement allowances represent the provisions made in the fiscal year under review in the reserve for directors' and corporate auditors' retirement benefits.

b. Policy regarding amounts paid to board members and the methods of calculating these amounts

Remuneration for directors is set in accordance with their assigned duties and responsibilities. Remuneration for corporate auditors is set in accordance with the relevant duties and responsibilities, which differ between the standing corporate auditors and the outside auditors. Total amounts of remuneration are subject to limits approved by the General Meeting of Shareholders.

Note: Total annual remuneration limit for directors: 180 million yen (approved at the 49th Annual General Meeting of Shareholders held on March 27, 2012)

Total annual remuneration limit for corporate auditors: 30 million yen (approved at the 29th Annual General Meeting of Shareholders held on March 27, 1992)

6) Shareholdings in other companies

a. Investment securities held for purposes other than pure investment

Number of issues: 9

Total value on balance sheet: 86,116,000 yen

b. Equity investment securities held for purposes other than pure investment whose fiscal year-end balance sheet carrying value exceeds 1% of capital (excluding unlisted stocks)

Thousands of yen	2013		2014		Reason for purchase
	Number of shares	Book value	Number of shares	Book value	
Resona Holdings, Inc. (8308)	76,835	39,493	76,835	47,637	To maintain and strengthen business relationships
Mizuho Financial Group, Inc. 11th series preferred stock (class 11)	50,000	22,815	50,000	22,815	To maintain and strengthen business relationships

7) Limited liability agreements

In accordance with the provisions of Article 427-1 of the Companies Act, the Group has concluded agreements limiting the liability of outside auditors with respect to legal compensation claims under Article 423-1 of said law to the minimum amounts specified in the legislation.

8) Number of directors

The Company's articles of incorporation stipulate 15 as the maximum number of directors.

9) Election of directors

The Group's articles of incorporation stipulate that approval of resolutions to elect directors requires a majority of the votes cast at meetings attended by shareholders representing at least one-third of the total voting rights.

Cumulative voting cannot be employed to elect directors.

10) Determination of interim dividends

The Group's articles of incorporation stipulate that an interim dividend may be paid from retained earnings in accordance with Article 454-5 of the Companies Act without shareholder approval by resolution of the Board of Directors. This rule provides the Board with the requisite authority to return profits to shareholders in a proactive and dynamic manner.

11) Acquisitions of treasury stock

The Company's articles of incorporation contain a provision that allows the Company to acquire shares of treasury stock in open market transactions by resolution of the Board of Directors. This enables the Company to undertake share buybacks as a dynamic response to changing business conditions.

12) Special resolutions of the General Meeting of Shareholders

The Company's articles of incorporation stipulate that approval of special resolutions under Article 309-2 of the Companies Act requires a two-thirds majority of the votes cast at meetings attended by shareholders representing at least one-third of the total voting rights. The quorum rule for approval of special resolutions is less strict than those normally applicable to general meetings of shareholders in Japan.

13) Steps taken within the past year to improve corporate governance

- The Board of Directors convened 14 times in the year ended December 2014 to make important management decisions and oversee their execution.
- As its disclosure policy, the Company released explanatory information about its financial results for the year ended December 2013 and its financial results for the interim period of the year ended December 2014 on the Company's website.

(2) Auditors' compensation

1) Compensation paid to CPAs and the Company's auditing firm was as follows:

Thousands of yen	2014	
	Financial audit services	Non-audit services
Koken Ltd.	22,500	-
Consolidated subsidiary	-	-
	22,500	-

2) Compensation policy for financial audit services

The Group has not established a set policy for determining compensation paid to CPAs and its auditing firm for financial audit services. Fees are set with the scale and characteristics of the auditing work and the number of days involved taken into consideration.

Directors

(As of March 25, 2015)

Name	Title	Joined company	Previous or current employers/ occupations	Date of birth	Term	Shares owned (Thousand shares)
Masakazu Sakai	Representative Director, Chairman	Aug-67	Renown Shoji	22-Aug-41	2 years from the General Meeting of Shareholders (GMS) held on March 27, 2014	856
Tsutomu Murakawa	Representative Director, President	Apr-89		8-Jan-66	2 years from GMS held on March 27, 2014	6
Nobuya Horiguchi	Representative Director, Executive Vice President	Apr-82		28-Aug-58	2 years from GMS held on March 27, 2014	13
Mitsuji Muramatsu	Senior Managing Director	Feb-06	Mizuho Bank	21-Feb-56	2 years from GMS held on March 27, 2014	12
Fumikazu Tanaka	Senior Managing Director	Apr-81		22-Feb-57	2 years from GMS held on March 27, 2014	7
Hideaki Ibata	Managing Director	Jun-14	Mizuho Bank	7-Dec-62	1 year from GMS held on March 25, 2015	-
Toshiaki Nagasaka	Director	Apr-82		16-Oct-59	2 years from GMS held on March 27, 2014	7
Hiroyuki Sakai	Director, Advisor	Apr-67		23-May-43	2 years from GMS held on March 27, 2014	824
Etsuo Koyama	Standing Corporate Auditor	Jul-81	Nikkei Aluminium (present Nippon Light Metal)	21-Sep-42	4 years from GMS held on March 27, 2013	3
Toshio Akiyama	Standing Corporate Auditor	Apr-73		2-Apr-49	4 years from GMS held on March 25, 2015	13
Teruo Shinato	Corporate Auditor	Mar-15	Nihon University	24-Feb-55	4 years from GMS held on March 25, 2015	-
Nikko Haku	Corporate Auditor	Mar-15	Attorney at law	77-Apr-44	4 years from GMS held on March 25, 2015	-
						1,744

Employees

Consolidated

The number of employees working for the KOKEN Group (the Company and its consolidated subsidiaries) as of December 31, 2014 was 225 (168).

No business segment breakdown of employee numbers is provided, since some employees work in more than one segment.

Parent

Parent	Total or average
Number	216 [168]
Average age	39.6
Average years of service	14.8
Average annual salary (yen)	6,431,537

The number of employees refers to persons working on a regular basis; temporary employees are shown separately in parentheses.

The average annual salary includes bonuses.

No business segment breakdown of employee numbers is provided, since some employees work in more than one segment.

Union

The Company has no labor union.

Stock option plans

The Company has adopted a stock option system, the principal features of which are based on Articles 236, 238 and 239 of the Companies Act.

1) Share subscription rights based on Articles 236, 238 and 239 of the Companies Act Resolution passed on March 26, 2010

Date of resolution	March 26, 2010
Categories and numbers of persons to be granted rights	5 directors, 4 corporate auditors and 51 employees
Type of shares subject to rights	Common stock
Number of shares	28,000 shares (Note)
Amount paid in at time of execution of rights	704 yen
Period for execution of rights	April 1, 2012 - March 31, 2015
Item concerning the assignment of rights	Approval of Board of Directors required.
Item concerning the assignment of rights associated with organizational rearrangements	(Note)

2) Share subscription rights based on Articles 236, 238 and 239 of the Companies Act Resolution passed on March 27, 2013

Date of resolution	March 27, 2013
Categories and numbers of persons to be granted rights	6 directors, 4 corporate auditors and 62 employees
Type of shares subject to rights	Common stock
Number of shares	128,000 shares (Note)
Amount paid in at time of execution of rights	2,192 yen
Period for execution of rights	April 1, 2015 - March 31, 2018
Item concerning the assignment of rights	Approval of Board of Directors required.
Item concerning the assignment of rights associated with organizational rearrangements	(Note)

(Notes):

1. *The number of shares subject to rights shall be adjusted in accordance with the following formula in the event of a stock split or reverse stock split by the Company. The adjustment shall be made to the number of shares subject to rights corresponding to stock options that are unexercised at said time. Any fractional shares arising from such adjustment shall be rounded down.*

Adjusted number of shares = Pre-adjusted number of shares × Ratio of split or of reduction in number of shares outstanding

Moreover, if any adjustment of the number of shares subject to rights should be necessitated by the Company acquiring and merging with another firm or else establishing a new company, or by the Company undertaking any related exchange of shares, the Company shall be permitted to undertake any such adjustment as is deemed necessary.

2. *In the event of any takeover (limited to any merger in which the Company is not a surviving entity), absorptive split, demerger, establishment of a new firm, or exchange or transfer of shares (collectively hereinafter, "organizational rearrangements"), the Company shall grant stock subscription rights in the Company subject to rearrangement (hereinafter, "rearranged entity") in line with the various provisions 8a–8e of Section 1 of Article 236 of the Companies Act to all holders of rights that had not expired (hereinafter, "outstanding stock options") at the time the organizational rearrangements acquired legal force. In such eventuality, any outstanding stock options shall be cancelled and new stock subscription rights in the rearranged entity shall be issued. However, any such issuance based on the provisions set out below shall be limited to cases in which the issuance of new rights is stipulated in the agreement or plan covering the takeover, absorptive split, demerger, establishment of a new firm or share exchange/transfer.*

- 1) *Number of rights in rearranged entity to be issued*

Based on number of rights owned by outstanding stock option holders, taking into account any adjustments required pursuant to the terms and conditions of the specific organizational rearrangements

- 2) *Type of shares in rearranged entity subject to rights*

Common stock in the rearranged entity

- 3) *Number of shares in rearranged entity subject to rights*

Determined in accordance with Note 1 above, taking into account the conditions of the specific organizational rearrangements

- 4) *Amount of funds invested to exercise rights*

The exercise price, suitably adjusted to take into account the conditions of the specific organizational rearrangements, multiplied by the number of shares in the rearranged entity subject to rights as determined in accordance with item 3) above.

- 5) *All other terms and conditions shall be as stipulated in the agreements covering the granting of stock options between the Company and rights holders, based on resolutions approved at the 47th General Meeting of Shareholders and by the Board of Directors.*

Cash Flows

Consolidated statement of cash flows

Year ended December 31; Thousands of yen	2014
Net cash provided by operating activities	
Net income before taxes and other adjustments	312,314
Depreciation	505,346
Increase (decrease) in directors' and corporate auditors' retirement allowances	33,600
Increase (decrease) in reserve for bonuses	(25,000)
Increase (decrease) in reserve for directors' and corporate auditors' bonuses	(5,700)
Interest income	(550)
Dividends income	(2,523)
Interest expenses	56,679
Decrease (increase) in notes and accounts receivable	(108,093)
Decrease (increase) in inventory	77,330
Increase (decrease) in notes and accounts payable	13,514
Others	55,394
	912,312
Interest and dividend income	3,074
Interest expenses	(61,000)
Income tax and others	(167,340)
	687,046
Net cash used in investing activities	
Payments for acquisition of tangible fixed assets	(625,410)
Proceeds from sale of tangible fixed assets	33,642
Others	(5,642)
	(597,411)
Net cash provided by (used in) financing activities	
Net increase (decrease) in short-term loans payable	(500,000)
Proceeds from increase in long-term debt	1,700,000
Payments of long-term debt	(1,244,200)
Dividends	(126,189)
Others	(68,249)
	(238,639)
Effect of exchange rate fluctuations on cash and cash equivalents	5,479
Increase (decrease) in cash and cash equivalents	(143,523)
Cash and cash equivalents at beginning of term	1,652,808
Increase in cash and cash equivalents from newly consolidated subsidiary	402,300
Cash and cash equivalents at end of term	1,911,584

Relationship between balance of cash and cash equivalents as of term-end and balance sheet items

Years ended December 31; Thousands of yen	2014
Cash and deposit accounts	1,911,584
Time deposits, etc., of 3 months or longer	-
Cash and cash equivalents at end of term	1,911,584

Capital expenditures

Capital expenditures by the KOKEN Group in the fiscal year under review totaled 761 million yen (including investments in intangibles). Investments targeted the development of highly competitive new products in response to market needs and the establishment of efficient mass-production capabilities.

Significant capital expenditures during the year ended December 31, 2014 included (1) investments in buildings and production facilities at SIAM KOKEN LTD. totaling 356 million yen, and (2) investments in buildings and production facilities at the Company's techno-yard sites totaling 128 million yen.

There were no disposals of equipment with a material impact on operations, excluding any periodic renovation of existing facilities.

Dividend policy

The Company has consistently viewed rewarding shareholders as an important issue for management. In accordance with this view, it has adhered to a basic policy of maintaining a stable and increasing dividend payout.

The Company's articles of incorporation contain the following provision: "An interim dividend may be declared in accordance with the provisions of Article 454-5 of the Companies Act." The level of the final dividend shall be subject to the approval of the General Meeting of Shareholders, while the Board of Directors shall determine the interim dividend.

In accordance with the above policy and based on an overall consideration of the fiscal 2013 results, future business trends and the Company's financial condition, a final dividend for the year ended December 31, 2014 of 25 yen per share, was approved by resolution of the General Meeting of Shareholders held on March 25, 2015. The dividend payout ratio for the year was 69.0%, and the ratio of dividends to net assets was 1.5%.

With the aim of sustaining future growth, the Company plans to appropriate retained earnings to strengthen the business base by investing in research and development of new technologies and products and by applying funds to capital investment projects.

Dividend payments out of retained earnings for the fiscal year under review are outlined below.

Date of decision	Dividend payout	Dividend per share
	(Millions of yen)	(Yen)
March 25, 2015 Resolution by General Meeting of Shareholders	126	25

Operations

Consolidated statement of income

Year ended December 31; Thousands of yen	2014
Net sales	7,500,731
Cost of goods sold	4,183,341
Gross profit on sales	3,317,389
Selling, general and administrative expenses	2,947,071
Operating income	370,317
Nonoperating income	
Interest income	550
Dividend income	2,523
Commissions received	9,109
Temporary assigned personnel payments received	4,112
Foreign exchange gains	7,887
Others	5,697
	29,881
Nonoperating expenses	
Interest expenses	56,679
Sales discounts	9,993
Others	18,183
	84,856
Ordinary profit	315,342
Extraordinary losses	
Loss on retirement of fixed assets	3,028
	3,028
Net income before taxes and special reserves for the term	312,314
Corporate, inhabitant and enterprise taxes	129,000
Deferred taxes	35,497
	164,497
Income (loss) before minority interests	147,816
Net income	147,816

Principal SG&A expenses

Thousands of yen	2014
Employees' salaries	785,667
Research and development expenses	523,588
Provision for employees' bonuses	86,925
Provision for directors' and corporate auditors' retirement benefits	64,500
Provision for directors' and corporate auditors' bonuses	14,450

Consolidated statement of comprehensive income

Year ended December 31; Thousands of yen	2014
Income (loss) before minority interests	147,816
Other comprehensive income	
Valuation difference on available-for-sale securities	6,014
Foreign currency translation adjustment	31,500
Total other comprehensive income	37,514
Comprehensive income	185,331
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	185,331
Comprehensive income attributable to minority interests	-

Consolidated statement of changes in net assets

December 2014 term

Thousands of yen; December 31, 2014	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance at beginning of current term	674,265	527,936	7,523,768	(93,864)	8,632,106
Changes in items during the term					
Dividends from retained earnings			(126,218)		(126,218)
Net income			147,816		147,816
Exercise of stock option			(20,002)	35,616	15,614
Other changes in non-shareholders' equity items during the term (net)					
Total changes during the term	-	-	1,595	35,616	37,212
Balance at end of current term	674,265	527,936	7,525,364	(58,247)	8,669,318

Thousands of yen; December 31, 2014	Other comprehensive income			Share subscription rights	Net assets
	Unrealized gains (losses) on other securities	Foreign currency translation adjustment	Total other comprehensive income		
Balance at beginning of current term	10,236	643	10,879	29,634	8,672,619
Changes during the term					
Dividends from retained earnings					(126,218)
Net income					147,816
Exercise of stock option				(2,590)	13,024
Other changes in non-shareholders' equity items during the term (net)	6,014	31,500	37,514	30,272	67,786
Total changes during the term	6,014	31,500	37,514	27,682	102,408
Balance at end of current term	16,250	32,143	48,394	57,316	8,775,028

Results of operations

Year ended December 31, 2014

The Japanese economy continued on a path of gradual recovery in the year under review. It suffered negative impacts, however, stemming from a consumption tax hike and increases in the prices of raw materials caused by depreciation of the yen. The prospects for the economy remained generally uncertain.

The Group focused on trying to expand its consolidated revenue base while also developing its mask and clean technology businesses. Total sales amounted to 7,500 million yen.

The factory at the newly consolidated overseas subsidiary SIAM KOKEN LTD. was completed. Production at the facility is scheduled to start in mid-2015.

The Group responded to increases in raw materials prices with an initiative to increase manufacturing productivity to lower the cost of goods. These efforts were successful in keeping the gross margin on a par with that of the previous year. However, SG&A expenses were inflated by additional costs associated with governmental approval of

powered air-purifying respirators and the establishment of the new subsidiary. The Group posted operating income of 370 million yen and net income of 147 million yen.

Total sales by the core mask business segment were 6,716 million yen. Sales of masks for use in emergency situations declined in year-on-year terms due to reduced preparatory stockpiling of supplies by local governments and nuclear power facilities across Japan. Orders for protective masks also declined, reflecting a shift in the national defense budget away from land forces. These factors were offset in part by rising demand for masks from private-sector manufacturers. Orders increased ahead of the April 2014 consumption tax hike but did not suffer a significant reflexive decline in subsequent months.

Sales by the environmental and other businesses segment amounted to 784 million yen. Koken's KOACH range of clean zone equipment and systems continued to gain more customers, among them the Center for iPS Cell Research and Application at Kyoto University and the Japan Aerospace Exploration Agency (JAXA). Besides employing them for applications in cutting-edge research, manufacturers are also installing KOACH systems in production assembly and inspection lines. The Floor KOACH Exp/Ezp system won an industrial design award from the Ministry of Economy and Industry, which contributed to a threefold surge in the number of inquiries about KOACH products to around 1,800. While actual orders did not grow as rapidly as initially anticipated, the installation base continued to expand steadily, leaving the business well positioned for further expansion.

Note that no comparisons have been provided with the previous year because this was the first year in which the Group provided consolidated results.

Year ended December 31, 2013

The Japanese economy recovered in the year under review, supported by economic stimulus measures implemented by the government and heightened expectations of monetary easing by the Bank of Japan, which helped to weaken the yen and push up share prices. Exporters led the recovery in corporate profits, despite emerging risks in the global economy. Signs of a recovery in consumer spending were seen as well.

Demand for protective masks did not benefit significantly from the economic upturn in Japan (demand for safety products is known to lag behind the overall economy by at least six months). Large companies continued to prioritize cost savings. Although Koken received many inquiries concerning the KOACH range of clean technology systems, it became clear that it takes longer than usual to begin receiving orders due to the nature of this business, and the sales volume was disappointing as a result. Total sales fell by 10.2% compared with the previous year to 7,476 million yen.

Koken responded to the dip in demand after the strong earthquake-related special demand occurred in the previous fiscal year by cutting costs across the board, but the weaker yen inflated materials costs. With new product development costs also rising, this resulted in a higher cost-of-goods ratio. Reflecting the fall in top-line revenues coupled with increased costs, operating income fell 37.3% to 466 million yen and net income fell 40.4% to 229 million yen.

Sales in the core mask business segment declined 7.5% to 6,836 million yen. The “Hi-Luck” series of tight-fitting disposable medical masks remained popular, achieving 60% coverage of sales in public health centers in Japan. Koken’s market share also rose further in university research departments, large public hospitals and medical institutions specializing in infectious diseases.

Sales of industrial masks increased only slightly in year-on-year terms, despite the success of the BL-711H powered air-purifying respirator and the 1521 series of full-facepiece gas masks, which are designed to provide users with greater safety and comfort at reasonable cost. No new orders were received in the year under review from Tokyo Electric Power Company for protective masks for clean-up efforts at the Fukushima site, although Koken products remained in use at nuclear power facilities across Japan.

In October 2013, Koken launched the first three products in its new “Hi-Luck Kids” series of close-fitting protective masks for children. Designed to protect children who are at high risk from infectious diseases such as influenza, these are being marketed directly to consumers. By targeting concerned mothers, an initial production capacity of 500,000 units per month is set.

Sales in the other businesses segment fell 32.0% to 640 million yen. Recognizing that it takes an unusually long time to secure orders for such large investments as the KOACH open clean system, Koken changed its sales policy during the year under review to focus on increasing inquiries from prospective customers by developing a network of scientific instrument distributors who have strong sales channels involving universities and research institutions. As a result, the number of inquiries exceeded 650 by the end of 2013, as expected.

Koken expects to supply KOACH systems to customers involved in cutting-edge research, including the Center for iPS Cell Research and Application, Kyoto University (CIRA), and the Japan Aerospace Exploration Agency (JAXA), both of which have expressed high praise for Koken's clean technology.

Sales of "KAGAMI-NAISHI" fully automated endoscope cleaning/sterilization systems generated steady growth with support from advertising campaigns in specialized medical publications. Orders for air-purification systems from customers in the public sector dropped significantly, as demand fell relative to the high levels following the earthquake of 2011.

Segment information

1. Segment reporting

Segment reporting is based on financial information gathered for the various separate parts of the Group's business. The Board of Directors reviews the reports regularly for purposes of improving decisions on resources allocation and evaluating performance.

The main business of the Group is the manufacture and sale of particulate respirators and gas masks. The mask segment includes the manufacture and sale of industrial masks and other protective equipment for use in a range of OH&S applications.

2. Method of calculating segment net sales, profits and losses, assets, liabilities, etc.

The accounting methods used in segment reporting are identical to those cited under "Fundamental and Important Matters for the Preparation of Nonconsolidated Financial Statements."

Reported segment earnings are based on operating income.

3. Figures for segment net sales, profits and losses, assets, liabilities, etc.

December 2014 term

Thousands of yen	Segment reporting Mask segment	Other businesses segment	Total	Adjustments	Book value
2014					
Net sales					
External customers	6,716,257	784,473	7,500,731	-	7,500,731
Inter-area	-	-	-	-	-
	6,716,257	784,473	7,500,731	-	7,500,731
Segment profits	3,013,669	269,381	3,283,050	(2,912,733)	370,317
Other items					
Depreciation expenses	355,134	40,623	395,758	109,588	505,346

(Notes)

- The "other businesses" segment includes the environment-related business and other operations not reported for the mask segment.
- The table above contains the following adjustments.
 - The deduction of 2,912,733 thousand yen from segment earnings reflect costs incurred across the Group that were not reported for the business segments, principally selling, general and administrative expenses.
 - Depreciation and amortization costs of 109,588 thousand yen apply to Company assets, but are not reported for any business segment.
- Segment profits are adjusted figures based on operating income as reported in the statement of income.

Reference:

December 2013 term (non-consolidated base)

Thousands of yen	Segment reporting Mask segment	Other businesses segment	Total	Adjustments	Book value
2013					
Net sales					
External customers	6,836,182	640,266	7,476,448	-	7,476,448
Inter-area	-	-	-	-	-
	6,836,182	640,266	7,476,448	-	7,476,448
Segment profits	3,023,205	269,481	3,292,687	(2,825,740)	466,946
Segment assets	-	-	-	-	-
Other items					
Depreciation expenses	380,797	52,584	433,381	127,363	560,745

(Notes)

- The "other businesses" segment includes the environment-related business and other operations not reported for the mask segment.
- The table above contains the following adjustments.
 - The deductions of 2,999,140 thousand yen (December 2012 term) and 2,825,740 thousand yen (December 2013 term) from segment earnings reflect costs incurred across the Company that were not reported for the business segments, principally selling, general and administrative expenses.

Related information

Information provided by principal customers

December 2014 term

Thousands of yen	Sales	Segment
Midori Anzen Youhin	1,305,568	Mask and other businesses segment
Ministry of Defense	749,038	Mask and other businesses segment

Issues requiring action

Management is focusing the Company's resources on tackling the following strategic challenges to ensure the long-term growth of the business.

Challenge #1: Passing on Koken's DNA

Led by founder Yoshijiro Sakai, Koken has successfully established a position as the leading manufacturer of industrial masks in Japan. Without resting on its laurels, the Company aims to develop a business base that targets the three areas of cleanliness, health and safety. This has required the cultivation of a younger generation of managers to lead the next stage of business growth to reduce reliance on the founding family's leadership. Koken has also adopted a structure based on five business divisions to reinforce management.

Management has codified Koken's genetic makeup in terms of three business principles: (1) human resources development; (2) technical development; and (3) development of new markets in the fields of cleanliness, health and safety. The challenge is to pass on this DNA to the next generation of managers.

The newly created Marketing Division is a specialized group focused on (1) building on the Group's leadership in existing markets through its capacity for technical innovation, one of its greatest assets, and (2) formulating plans to develop new markets by leveraging Koken's technical capabilities.

Challenge #2: Establishing a clean zone business and the KOACH brand

Marketed under the KOACH brand, Koken's proprietary "open space" clean room technology has received critical approval from some of Japan's leading research institutions as a method for creating clean zones within a laboratory environment. Private-sector manufacturers have also adopted these products for use in association with assembly and inspection lines. Building on the success achieved in the launch year of 2013, Koken continues to develop this business by ensuring that KOACH products become firmly established in the marketplace.

KOACH systems have the potential to help Japanese industry become more internationally competitive with their ability to realize super-clean environments at low cost. The value of KOACH technology has been officially recognized with awards for industrial design (2014) and energy efficiency (2015). It could even hold one of the keys to the rebirth of Japan's high-tech and precision industrial sectors. As of the end of 2014, the Company had received in excess of 1,800 inquiries related to the product range. Efforts continue to develop operations into a second core business on a par with the mask segment.

Challenge #3: Developing masks for medical and consumer markets

Besides the need to prepare for earthquakes, volcanic eruptions and other natural disasters, Japanese society has become increasingly concerned in recent years about the risks posed by pathogens such as the viruses that cause avian influenza or Ebola. The risk of pandemics and other emergencies makes protective masks essential items for today's society.

Koken organizes training on correct mask usage, related leakage testing and the importance of wearing close-fitting masks for people working in industry and medicine. More than 300,000 professionals working in various fields have now received this training. Koken has also entered the consumer market with close-fitting protective masks for children. Efforts continue to establish a stronger presence in this area.

Production of the "Hi-Luck" series of disposable masks is due to commence at SIAM KOKEN LTD., the Group's overseas production subsidiary in Thailand, in mid-2015. This facility will enable the Company to fulfill its social responsibility as a leading supplier of masks in the event of any influenza pandemic.

Challenge #4: Developing new businesses in the healthcare field

Building on proprietary copper and lactic acid processing technologies, Koken has developed an eco-friendly antibacterial gel, "IMADEZE™," that is highly effective against bacteria, viruses and molds. The gel can be blended into substances used to impregnate or coat a wide range of textiles, rubber and plastics.

Koken plans to develop various antibacterial gels for applications in medical and industrial products such as masks and protective clothing. Aiming to strengthen the Group's presence in the broader healthcare field, the Company is examining strategic alliances and licensing deals to develop this product.

Production and sales

Production

Thousands of yen	2014	
	Amount	Year-on-year comparison (%)
Mask segment	6,609,612	-
Others businesses segment	700,359	-
	7,309,971	-

The Company prepared consolidated financial statements for first time for the December 2014 fiscal term. Hence no year-on-year comparisons appear in the above table.

Sales

Thousands of yen	2014	
	Amount	Year-on-year comparison (%)
Mask segment	6,716,257	-
Other businesses segment	784,473	-
	7,500,731	-

The Company prepared consolidated financial statements for first time for the December 2014 fiscal term. Hence no year-on-year comparisons appear in the above table.

Principal customers

Thousands of yen	2014	
	Amount	% of net sales
Midori Anzen Youhin	1,305,568	17.4%
Ministry of Defense	749,038	10.0%

Capital Structure

Consolidated balance sheet: assets

December 31; Thousands of yen	2014
Current assets	
Cash and deposits	1,911,584
Notes and accounts receivable - trade	3,486,281
Merchandise and finished goods	442,725
Work in process	282,872
Raw materials and supplies	336,699
Deferred tax assets	190,416
Others	86,517
Allowance for doubtful accounts	(4,000)
	6,733,098
Fixed assets	
Tangible fixed assets	
Buildings and structures	4,187,395
Accumulated depreciation	(2,666,896)
Buildings and structures, net	1,520,498
Machinery, equipment and vehicles	4,083,016
Accumulated depreciation	(3,364,071)
Machinery, equipment and vehicles, net	718,944
Land	4,814,153
Lease assets	262,113
Accumulated depreciation	(183,565)
Lease assets, net	78,547
Construction in progress	250,466
Others	2,283,805
Accumulated depreciation	(2,125,253)
Others, net	158,551
	7,541,162
Intangible fixed assets	
Lease assets	55,562
Others	40,326
	95,889

December 31; Thousands of yen	2014
Investments and other assets	
Investments in securities	86,116
Deferred tax assets	177,968
Directors' retirement benefit insurance premiums	831,928
Others	90,532
Allowance for doubtful accounts	(4,000)
	<u>1,182,546</u>
Total fixed assets	<u>8,819,598</u>
Total assets	<u>15,552,696</u>

Consolidated balance sheet: liabilities and net assets

December 31; Thousands of yen	2014
Current liabilities	
Accounts payable - trade	158,285
Short-term borrowings	1,500,000
Current portion of long-term debt	1,238,000
Accounts payable - other	188,396
Accrued expenses	153,438
Lease obligations	59,585
Income taxes payable	59,701
Provision for bonuses	146,000
Provision for directors' and corporate auditors' bonuses	14,450
Others	137,130
	3,654,986
Long-term liabilities	
Long-term debt	2,510,500
Directors' and corporate auditors' retirement benefits	510,100
Asset retirement obligations	15,309
Lease obligations	83,597
Others	3,174
	3,122,681
Total liabilities	6,777,668
Net assets	
Shareholders' equity	
Common stock	674,265
Capital surplus	527,936
Retained earnings	7,525,364
Treasury stock	(58,247)
	8,669,318
Other comprehensive income	
Unrealized gains (losses) on other securities	16,250
Foreign currency translation adjustment	32,143
	48,394
Share subscription rights	57,316
Total net assets	8,775,028
Total liabilities and net assets	15,552,696

Securities

Financial instruments

Policies related to financial instruments

The Group seeks to conduct financing based on market conditions and by maintaining a balance between short-term and long-term instruments. The Group uses safe short-term deposits for operating funds and does not engage in speculative trading. Derivatives are used purely to mitigate risks due to fluctuations in interest rates or exchange rates, and are not used for speculative trading purposes.

Nature of financial instruments and management of related risks

The Group manages its exposure to credit risk from notes and accounts receivable by monitoring the amounts outstanding and due dates for each counterparty.

The Group manages its exposure to price fluctuation risk on its portfolio of investment securities by assessing market prices on a quarterly basis. With unlisted stocks, the financial situation of the issuing firms is reviewed periodically.

Trade payables and other operating liabilities are typically due within 60 days. Any related liquidity risk is managed by maintaining certain levels of cash and liquidity at all times.

The Group employs mainly short-term borrowings, long-term debt and related financial leases to finance business operations and capital investments. Any related liquidity risk is managed by maintaining certain levels of cash and liquidity at all times. It uses interest-rate swaps to hedge the risk of interest rate fluctuations on its debt. It enters into derivative transactions only with top-rated financial institutions as a means of effectively eliminating related counterparty credit risk. Details of its hedging techniques, policies and methods of evaluating the effectiveness of using such derivatives are provided in the section on significant accounting policies.

Additional information on pricing of financial instruments

The values of some financial instruments that do not have market prices are computed using mathematical formulae. The values of these instruments can fluctuate due to changes in the variables, initial conditions or underlying assumptions contained in such formulae.

Items related to current value

Thousands of yen	2014		
	Book value	Current value	Unrealized gain (loss)
Cash and deposits	1,911,584	1,911,584	-
Notes and accounts receivable - trade	3,486,281	3,486,281	-
Investment securities	60,054	60,054	-
Total assets	5,457,921	5,457,921	-
Accounts payable - trade	158,285	158,285	-
Accounts payable - other	188,396	188,396	-
Short-term borrowings	1,500,000	1,500,000	-
Current portion of long-term debt	1,238,000	1,240,070	2,070
Income taxes payable	59,701	59,701	-
Short-term leases	59,585	55,470	(4,114)
Long-term debt	2,510,500	2,519,043	8,543
Long-term leases	83,597	78,417	(5,180)
Total liabilities	5,798,066	5,799,383	1,317
Derivative transactions	(254)	(254)	-

Assets or liabilities arising from derivatives transactions are listed as net amounts, with net liabilities indicated by a negative figure.

Methods of calculating current value

Cash and deposits; notes and accounts receivable - trade; income taxes receivable: book value

Investment securities: market value

Accounts payable - trade; accounts payable - other; short-term borrowings; Income taxes payable: book value

Current portion of long-term debt; long-term debt: discounting at the interest rate that would apply if the Company were to newly borrow the same amount of principal and interest. Interest rate swaps subject to special treatment procedures are accounted for as an inseparable part of the long-term debt that is being hedged; hence, its market value is included as a part of the market value of said long-term debt.

Short-term and long-term leases: the current value is calculated based on the aggregate value of principal and interest for the related liability, discounted at the rates applicable to newly transacted equivalent leases.

Financial instruments with no easily ascertainable current value

Thousands of yen	2014
Unlisted stocks	26,061

Repayment schedule for receivables after accounting date

Thousands of yen	Up to 1 year	Greater than 1 and up to 5 years	Greater than 5 and up to 10 years	Greater than 10 years
2014				
Cash and deposits	1,911,584	-	-	-
Notes and accounts receivable - trade	3,486,281	-	-	-
	5,397,866	-	-	-

Market value of securities

Other quoted securities

Thousands of yen	2014		
	Book value	Cost of acquisition	Unrealized gain (loss)
Securities valued on the consolidated balance sheet at amounts greater than the purchase cost			
Shares	60,054	34,805	25,249
	60,054	34,805	25,249
Securities valued on the consolidated balance sheet at amounts not greater than the purchase cost			
Shares	-	-	-
	-	-	-
	60,054	34,805	25,249

Because unlisted stocks (with a balance sheet value of 26,061 thousand yen) have no market value and are generally considered to be extremely difficult to value at any given time, they are not included in "other securities" above.

Fixed assets

Facilities

The Company maintains plants (techno-yards) in five locations in Japan. It also operates 15 domestic sales offices as well as the Saitama Logistics Center and the Ninomiya Training Center. It conducts research at its Hannou Laboratories.

The Company's principal facilities are as follows:

Book value; Thousands of yen	Buildings and structures	Machinery, vehicles and delivery equipment	Land		Lease assets	Others	Total book value	Number of employees
				Square meters				
Parent company								
Company administration								
Head office	191,087	329	1,636,000	283.91	86,193	6,568	1,920,178	98
Manufacture of dust and gas masks								
Sayama Techno-Yard	316,737	258,309	792,433	11,430.44	8,132	9,110	1,384,725	18
Gunma Techno-Yard	399,255	74,551	405,140	9,256.83	33,278	21,310	933,537	16
Tokorozawa Techno-Yard	63,449	4,664	177,214	1,915.55	3,789	5,415	254,533	11
Nakai Techno-Yard	111,147	294,399	325,449	1,434.94	2,303	14,228	747,528	9
Ranzan Techno-Yard	16,939	56,109	-	-	-	16	73,066	4
Research activities								
Hannou Laboratories	26,431	5,120	31,217	3,637.49	-	15,925	78,695	8
Distribution of dust and gas masks								
Saitama Logistics Center	110,918	2,923	1,242,116	21,336.07	412	2,821	1,359,192	4
Subsidiary								
Manufacture of dust and gas masks								
SIAM KOKEN LTD.	241,905	12,720	73,766	13,430.40	-	34,280	362,672	9

The Ranzan Techno-Yard occupies the same site as the Saitama Logistics Center. The land value for the site is shown under the Saitama Logistics Center.

Fixed assets and depreciation

Thousands of yen	Beginning of term	Increase	Decrease	Depreciation Current	End of term	Depreciation Accumulated
Tangible fixed assets						
Buildings	1,343,376	32,474	2,585	112,685	1,260,579	2,458,570
Structures	23,498	-	-	5,485	18,013	204,803
Machinery and equipment	853,263	150,152	80,791	216,400	706,224	3,362,072
Vehicles and delivery equipment	0	-	-	-	0	1,249
Tools and fixtures	125,115	135,472	56,709	79,606	124,271	2,123,191
Land	4,740,386	-	-	-	4,740,386	-
Lease assets	97,084	46,494	-	65,031	78,547	18,565
Construction in progress	78,988	386,568	324,632	-	140,924	-
	7,261,712	751,161	464,718	479,207	7,068,948	8,333,454
Intangible fixed assets						
Patents	27,983	4,920	-	6,640	26,264	-
Telephone subscription rights	9,423	-	-	-	9,423	-
Leaseholds	1,057	-	-	-	1,057	-
Software	3,628	617	-	1,302	2,942	-
Lease assets	16,242	51,498	-	12,178	55,562	-
Usage rights for equipment and facilities	21,028	-	21,000	28	-	-
	79,363	57,036	21,000	20,149	95,250	-

Debt

Borrowings

Thousands of yen	Previous period	Outstanding	Average rate	Maturity
Short-term borrowings	2,000,000	1,500,000	1.13%	-
Current portion of long-term debt	1,124,200	1,238,000	1.07%	-
Current portion of leasing-related liabilities	70,340	59,585	-	-
Long-term debt (except current portion of long-term debt)	2,168,500	2,510,500	1.00%	2016 to 2019
Leasing-related liabilities (except current portion of leasing-related liabilities)	48,652	83,597	-	2016 to 2019
Other interest-bearing liabilities	-	-	-	-
	5,411,692	5,391,683	-	-

1. Average rates for borrowing shown in the table above are weighted averages of rates paid on loans outstanding as of term-end.

2. Amounts of long-term debt and other debt (excluding debt due in less than one year) scheduled to be repaid over the 5-year period subsequent to the balance sheet date are as follows:

Thousands of yen	Longer than 1 and up to 2 years	Longer than 2 and up to 3 years	Longer than 3 and up to 4 years	Longer than 4 and up to 5 years
Long-term debt	1,069,000	769,500	472,000	200,000
Leasing-related liabilities	30,392	23,347	18,694	11,163

Assets provided as collateral

Thousands of yen	2014
Assets provided as collateral	
Buildings	750,177
Land	2,996,037
	3,746,214
Liabilities for which collateral is provided	
Long-term debt	3,178,500
	3,178,500

Retirement benefits**Outline of retirement benefit system**

The Company operates a defined-contribution pension plan for employees.

Matters related to retirement benefit expenses

Thousands of yen	2014
Expenses related to defined-contribution pension plan	86,667

Reserves

Thousands of yen	Beginning of term	Increase	Decrease	End of term
Allowance for doubtful accounts	8,000	8,044	8,044	8,000
Provision for bonuses	171,000	146,000	171,000	146,000
Provision for directors' and corporate auditors' bonuses	20,150	14,450	20,150	14,450
Directors' and corporate auditors' retirement benefits	476,500	64,500	30,900	510,100

Related Parties

Transactions with related parties: Directors and major independent shareholders

December 2014 term

Directors and major individual shareholders

December 31; Thousands of yen	Address	Capital	Type of business or occupation	% of voting rights held (held by others)	Relationship with related party	Type of transaction	Value of transactions	Accounting classification	Balance at term-end
2014									
Companies in which a major shareholder or close relative has unshared decision-making authority over more than half the voting rights									
Sakai Tatemono Ltd.	Chiyoda-ku, Tokyo	228,000	Real estate leasing, Insurance agency business	Owned 3.28	Building leasing Interlocking directors	Payment of rental expenses	39,095	Accounts payable - other	1,632
								Others (Current assets)	2,272

Accounting Policies

Summary of accounting policies – consolidated

Basis of presentation	Japanese GAAP; consolidated
Marketable securities and investments in securities	Other securities: Quoted securities: current value method based on average market prices in the month prior to the end of the fiscal year (by which all valuation differences are credited directly to net assets, with the cost of securities sold calculated in accordance with the moving-average method) Unquoted securities: valued at cost using the moving-average method
Inventories	Finished goods, work in process: cost method computed on a periodic-average basis (method by which the book value is reduced based on declines in the profitability of inventories shown on the balance sheet) Merchandise, raw materials: cost method using the moving-average method (method by which the book value is reduced based on declines in the profitability of inventories shown on the balance sheet) Supplies: cost method using the final-purchase-cost method (method by which the book value is reduced based on declines in the profitability of inventories shown on the balance sheet)
Depreciation	Tangible fixed assets (excluding lease assets): declining-balance method (parent company) and straight-line method (consolidated subsidiary) Intangible fixed assets: straight-line method Software for internal use is amortized on a straight-line basis (based on the length of useful in-house life). Lease assets: lease terms for years of useful life are employed, assuming a residual value of zero; depreciation is assumed to be on a straight-line basis.
Allowance for doubtful accounts	The Company recognizes an amount calculated on the basis of a historical bad debt ratio for general accounts receivable, plus an amount for specific accounts for which collection appears doubtful.
Provision for bonuses	An amount is reserved based on estimated payments to employees.
Directors' and corporate auditors' retirement benefits	An amount that must be paid at term-end is reserved in accordance with the Company rules.
Provision for directors' and corporate auditors' bonuses	An amount is reserved based on estimated payments to directors and corporate auditors.

Significant hedge accounting methods	<p>Method of accounting for hedges:</p> <p>Hedge accounting is conducted a deferred basis. Hedging is limited to interest-rate swaps and currency forwards. Interest rate swaps are undertaken only in exceptional circumstances. Currency forwards use the exchange rates defined in the related hedging contract.</p> <p>Hedging instruments and risks being hedged:</p> <p>A: Hedging instruments: interest rate swaps Risks being hedged: loans payable</p> <p>B: Hedging instruments: currency forwards Risks being hedged: foreign currency-denominated transactions and related trade payables/receivables</p> <p>Hedging policy:</p> <p>Derivatives transactions are used to hedge risks due to fluctuations in interest rates and exchange rates. Such transactions are managed in accordance with internally stipulated regulations.</p> <p>Method of evaluating the effectiveness of hedging:</p> <p>The effectiveness of individual hedging instruments is evaluated by comparing the difference in proportional terms between the movement in market value or related cumulative cash flows of the risk being hedged with the corresponding figures for the hedging instrument. The effectiveness of hedging based on the use of interest-rate swaps is not evaluated, since these hedges are used only in exceptional circumstances. The effectiveness of hedging using currency forwards is not evaluated, since such transactions are conducted at exchange rates as defined in the related hedging contract.</p>
Opinion of independent auditors	<p>Auditors: A&A Partners</p> <p>Opinion: unqualified</p>

Share-related Information

Shares in issue

Class of shares	Common
Number of shares authorized	20,000,000
Issued	
As of December 31, 2014	5,104,003
As of March 13, 2015	5,104,003
Stock exchange listings	JASDAQ-TSE (Standard)
Comments	Trading unit 100-share min.

Changes in common stock and number of shares outstanding

	Shares outstanding		Common stock		Additional paid-in capital		Remarks
	Increase or decrease	Balance	Increase or decrease	Balance	Increase or decrease	Balance	
	(Shares)		(Thousands of yen)		(Thousands of yen)		
December 31, 1999	4,611	5,104,003	2,254	674,265	2,246	527,936	Conversion of convertible bonds

Shareholders by type of investor

Type of investor	Number of shareholders	Units owned (100 shares)	% owned
National and local government agencies	-	-	-
Financial institutions	7	6,528	12.80
Securities companies	26	831	1.63
Business and other corporations	25	1,916	3.76
Non-residents - institutions and corporations	13	197	0.39
Non-residents - individuals	-	-	-
Individuals and others	2,612	41,545	81.42
	2,683	51,017	100.00
Shares less than one unit	-	2,303	-

Largest shareholders

Name	Thousands of shares owned	% of shares outstanding
Masakazu Sakai	856	16.77
Hiroyuki Sakai	824	16.15
Resona Bank	244	4.79
Kaori Sakai	229	4.50
Rie Sakai	229	4.50
Mizuho Bank	227	4.47
Miho Kuboi	226	4.43
Haruna Sakai	226	4.43
Sakai Tatemono Ltd.	166	3.26
Mitsubishi UFJ Trust & Banking	72	1.41
	3,301	64.69

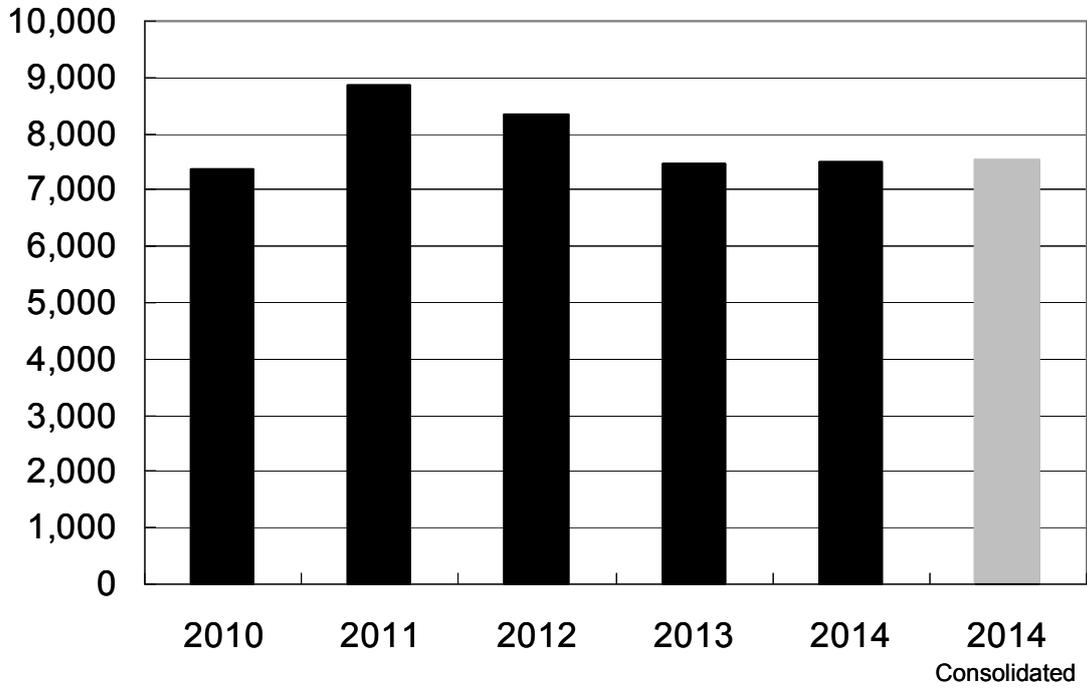
Share information

Business year	January 1 to December 31
Ex-rights date	December 31
Date of record for dividends	June 30 and December 31
Annual General Meeting of Shareholders	March
Trading unit	100 shares
Transfer agent	Mitsubishi UFJ Trust & Banking, 1-4-5, Marunouchi, Chiyoda-ku, Tokyo
Publication of record	The Company's method of public notice shall be by electronic means. In the event of an accident or other unavoidable circumstance, notices shall be published in <i>The Nihon Keizai Shimbun</i> . The address of the Company's website is as follows: http://www.koken-ltd.co.jp/

Performance in Graphs

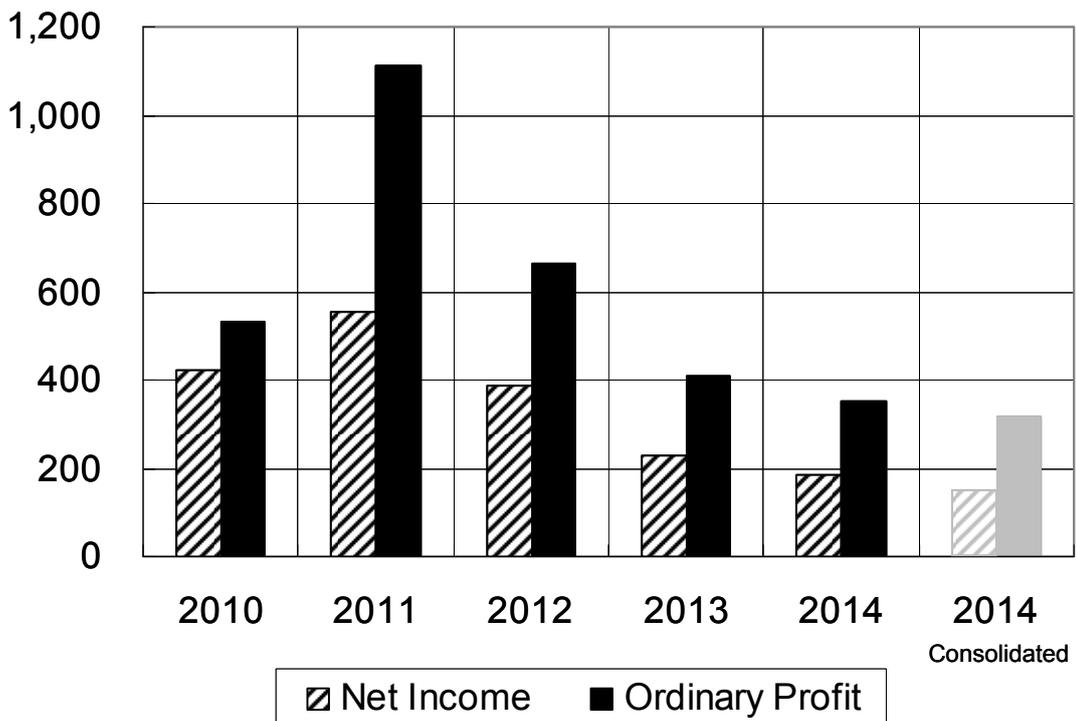
Net Sales

Millions of Yen



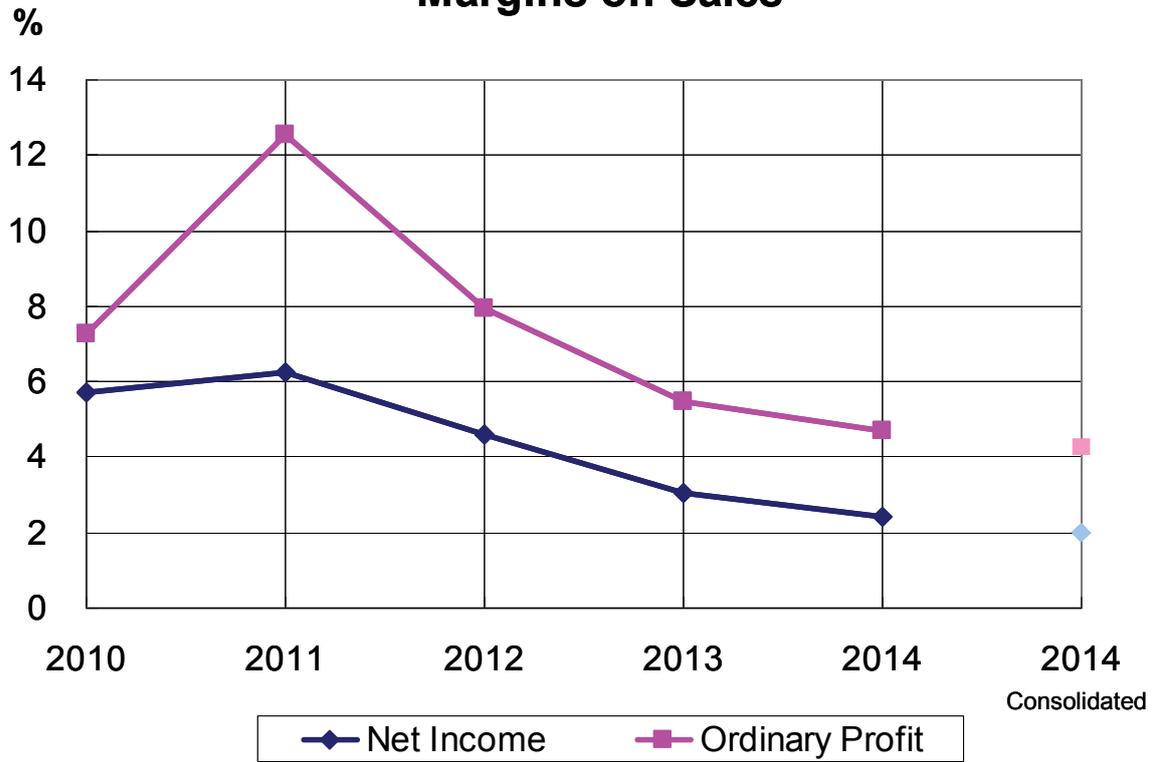
Net Income and Ordinary Profit

Millions of Yen

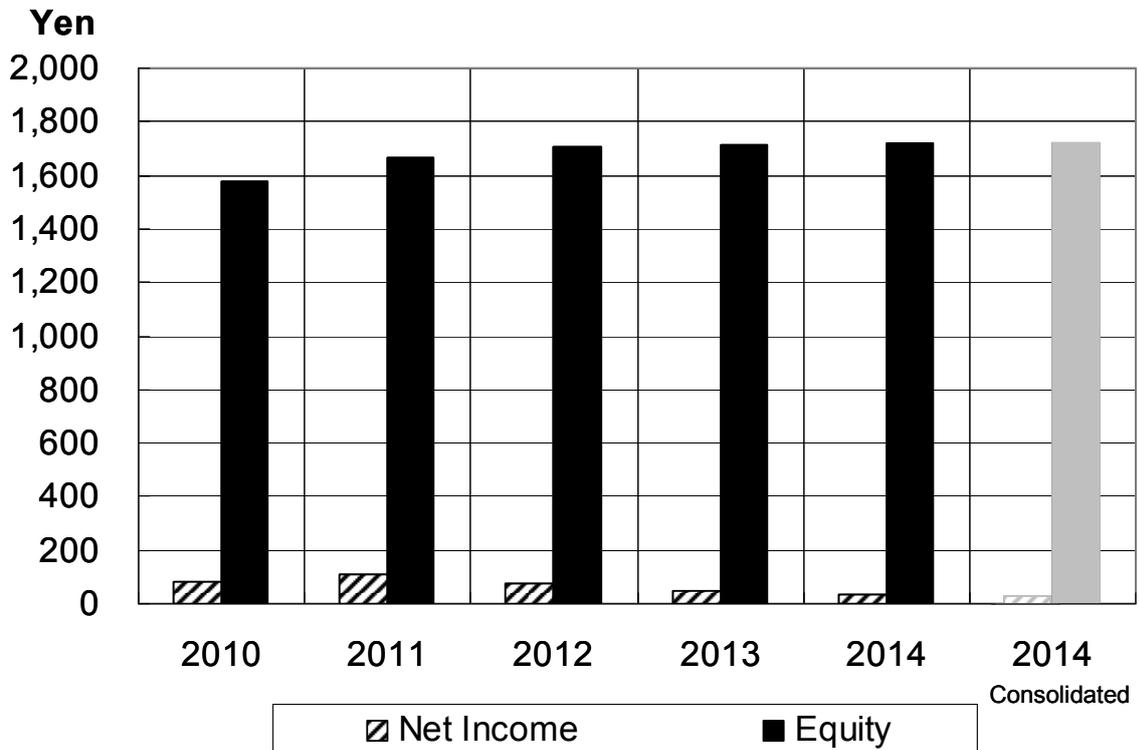


▨ Net Income ■ Ordinary Profit

Margins on Sales

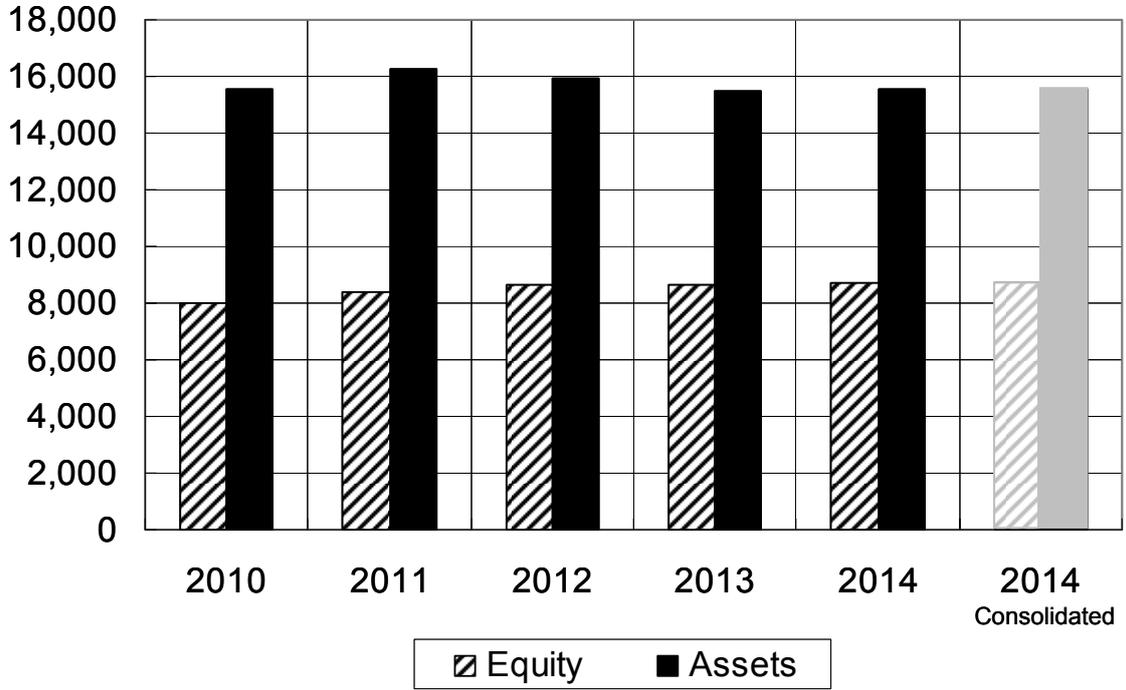


Per Share

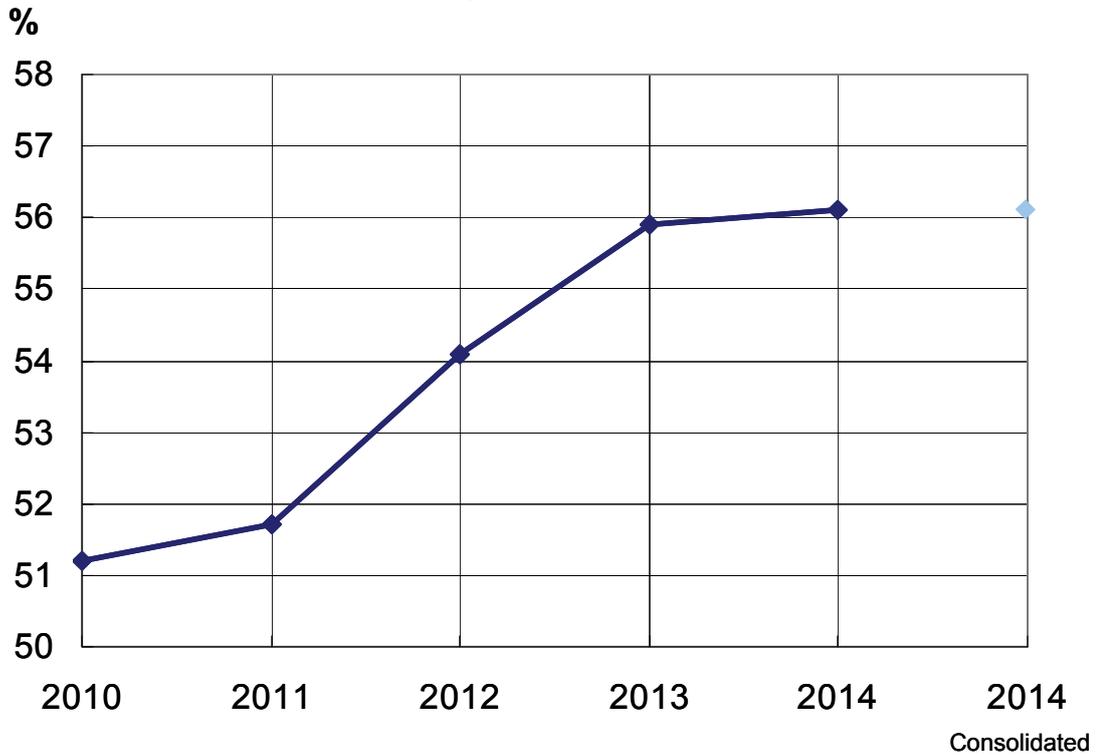


Equity and Assets

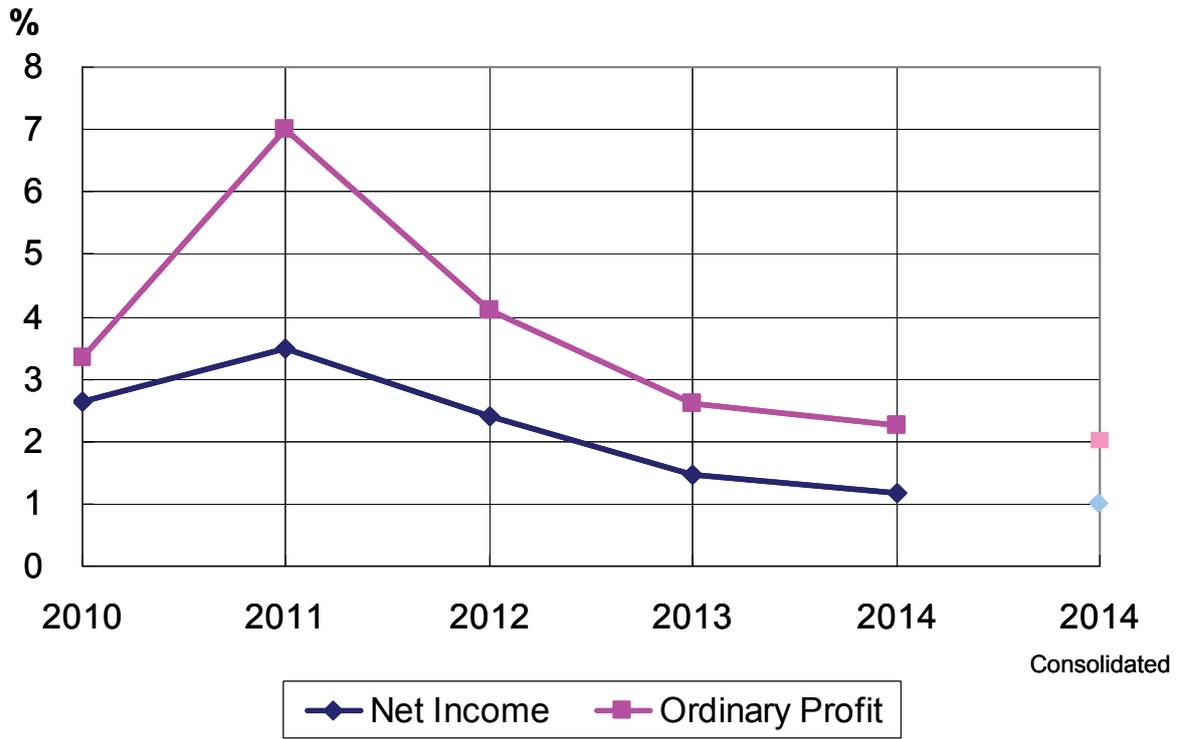
Millions of Yen



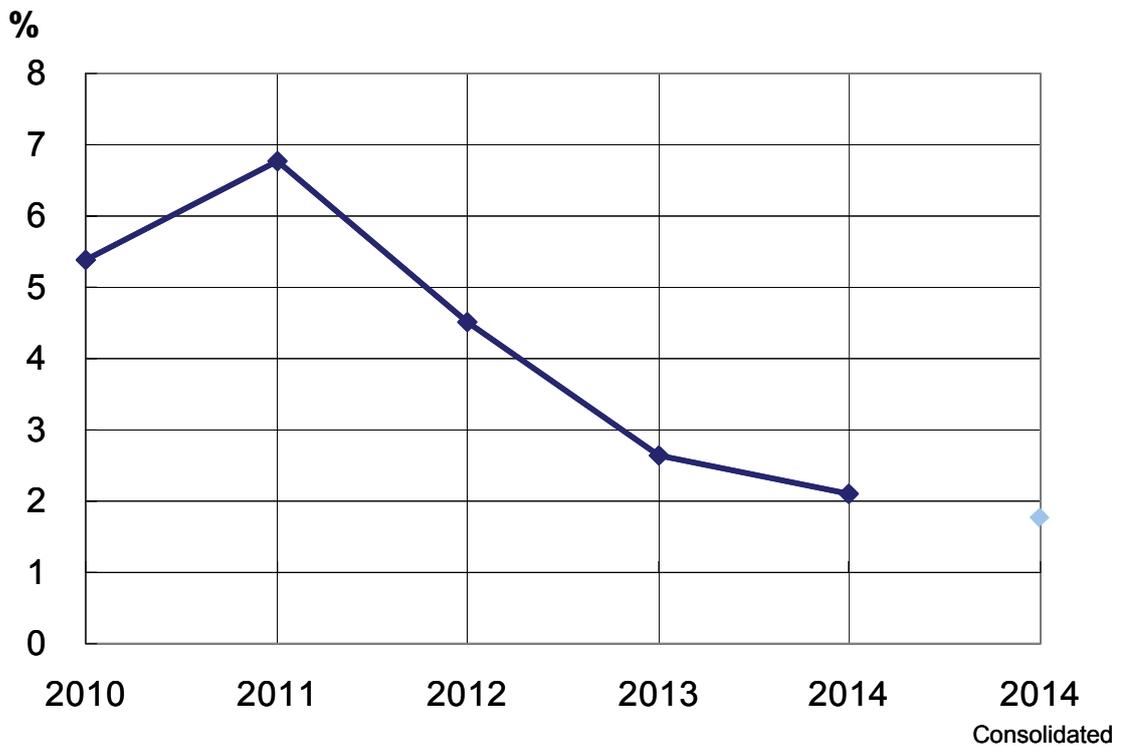
Equity / Assets



Return on Assets



Return on Equity



K O K E N

Contact

Toshiaki Nagasaka
Director
Accounting Department
KOKEN LTD.
7, Yonbancho, Chiyoda-ku,
Tokyo
Telephone 81-3-5276-1911
Facsimile 81-3-5276-6530

KOKEN LTD.

7, Yonbancho, Chiyoda-ku, Tokyo 102-8459, JAPAN
Telephone: 81-3-5276-1911 Facsimile: 81-3-5276-6530
<http://www.koken-ltd.co.jp>