

For the Fiscal Year Ended December 31, 2017

Annual Select[®] 2017

KOKEN LTD.

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Corporate Profile

Since our founding in 1943, we have consistently stood by our two company policies of “never follow other companies” and “conduct thorough research.” Furthermore, the concepts of “promote research, create business, and refine business” are incorporated into our company name. In other words, we have set a goal to become a manufacturer that is second to none in research and development. Since we started from scratch and have grown and progressed gradually through the years, we are a pioneer for venture companies.

As a result, we have established ourselves, in both name and deed, as a top manufacturer of protective breathing equipment, which is the result of our aim to be “the only one, not number one.” Therefore, our research and development has no goal. To remain the only one in any era, we will continue to achieve breakthrough after breakthrough in the fields of “cleanliness, health, and safety” through basic research and original ideas based on the themes of safety, health, and the environment.

Additionally, we will clarify the Koken’s DNA we have promoted all along to the next new era, will newly set our three management philosophies of “(1) nurture people, (2) nurture technology, and (3) nurture new markets in the fields of cleanliness, health, and safety,” and will inherit the DNA. We would like to solve the many problems society faces today, and will face increasingly in the future, based on these management philosophies. We have already started taking the next steps. Please give further support to our upcoming activities.

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I. President's Message

Greeting

This is President Murakawa. I am deeply grateful for your continued support.

Since its founding, Koken has grown in a safety business centered on industrial masks, but we are looking to enter a new stage through the recent establishment of a clean business centered on an open clean zone creator "KOACH."

To realize new growth, we have adopted the management philosophies of "nurture people," "nurture technology," and "nurture new markets in the fields of cleanliness, health, and safety," which can also be called Koken's DNA.

In the next era, we will nurture the health business as a third pillar, and the management team and all of our employees are making the efforts needed to become a stable and strongly growing company by making each of three pillars of businesses stand on its own two feet.

I ask for your on-going understanding and support.



Our vision for long-term sustainable development

Based on the above-mentioned management philosophies, the Group is promoting management to pursue long-term sustainable development.

The current business environment surrounding the Group remains uncertain at home and abroad due to fast and drastic changes.

Under such circumstances, while maintaining the unchanging long-term goal to nurture new markets in the fields of "cleanliness, health, and safety" based on our own original technological innovations, we consider that (1) establishing and steadily implementing specific action objectives and an action plan every year and (2) achieving the objectives by modifying the action plan quickly and flexibly to respond to the ever-changing business environment are the best and surest ways to achieve the long-term sustainable development of the Group.

As mentioned above, to establish the "cleanliness" and the "health" business domains as the second and third pillars, respectively, following the "safety" business, we are now striving to develop our own original products such as an open clean zone creator, an automatic endoscope washer, masks for infection control and a copper-based antibacterial agent, which are first-of-their-kind products, and nurture and expand new markets.

With such management stance, we consider that our task for the time being is not to pursue rapid profit growth and capital efficiency but to focus on nurturing new businesses in the fields of "cleanliness" and "health," leading eventually to an improved operating margin as well as increased net sales and operating income.

We sincerely ask that our shareholders also take a long-term view in their expectations about the growth of the Group.

Outlook for the current term (Fiscal Year ending December 2018)

The outlook for the Japanese economy during the current term is expected to remain increasingly uncertain against the background of various concerns about changes at home and abroad.

While continuing to expand sales of high-value-added product lines including the "Hi-Luck" series disposable masks and the "BL" series of Breath Response Powered Air-Purifying Respirators (PAPR), the Group will work toward uncovering demand for industrial masks and toward steadily expanding market shares for medical and general-purpose masks.

For an open clean zone creator “KOACH,” supported by the previous installation results of 500 customers and 800 units on a cumulative basis, new and repeated orders are expected to increase.

Forecasts by segment are as given below.

(Mask-related business segment)

In addition to developing masks with great fit properties, the Group will disseminate these masks through on-going efforts to raise awareness of the importance of fit properties in the industrial, medical and general-purpose fields.

In the industrial field, the Group will continue strengthening efforts to sell breath-response PAPR for which demand is expected to increase. In the medical field, we will work to expand our market shares at Japan’s public health centers and medical institutions such as designated medical institutions for infectious diseases by conveying the superiority in infection prevention capabilities of the “Hi-Luck” series masks for infection control.

We will promote a sales strategy utilizing new domestic and foreign sales routes, including on-line sales, for “Hi-Luck Neo” series masks for general consumers.

Meanwhile, on the assumption that air pollution in China will be alleviated, we anticipate that demand for air pollution masks will decrease significantly from the fiscal year under review.

(Other businesses segments, including environment-related businesses)

For an open clean zone creator “KOACH,” we will strive for further expansion of the sales fields and markets by sales activities to promote its “Actual Cleanliness (cleanliness during actual work),” as well as the launch of new products with specifications of “stainless steel type” and “explosion-proof type” which enable to expand use environment.

II. Summary of Selected Financial Data (Consolidated)

	51st term Fiscal year ended December 31, 2013	52nd term Fiscal year ended December 31, 2014	53rd term Fiscal year ended December 31, 2015	54th term Fiscal year ended December 31, 2016	55th term Fiscal year ended December 31, 2017
Net sales (Thousands of yen)	–	7,500,731	7,785,973	7,936,710	8,459,868
Ordinary profit (Thousands of yen)	–	315,342	449,270	554,878	662,262
Net income attributable to owners of parent (Thousands of yen)	–	147,816	237,677	388,099	492,485
Comprehensive income (Thousands of yen)	–	185,331	232,224	333,671	549,583
Net assets (Thousands of yen)	–	8,775,028	8,891,395	9,004,311	9,428,496
Total assets (Thousands of yen)	–	15,552,696	16,294,705	16,504,547	17,354,879
Net assets per share (Yen)	–	1,720.40	1,739.64	1,783.40	1,867.80
Net income per share (Yen)	–	29.22	46.84	77.23	98.19
Net income per share, fully diluted (Yen)	–	29.06	–	–	–
Equity / Assets (%)	–	56.1	54.2	54.2	54.0
ROE (%)	–	1.70	2.69	4.34	5.38
Price earnings ratio (Times)	–	58.62	36.29	20.33	22.66
Net cash provided by operating activities (Thousands of yen)	–	687,046	707,584	830,228	919,664
Net cash used in investing activities (Thousands of yen)	–	(597,411)	(1,217,915)	(245,647)	(1,123,419)
Net cash provided by (used in) financing activities (Thousands of yen)	–	(238,639)	382,864	(353,433)	(1,951)
Cash and cash equivalents at end of term (Thousands of yen)	–	1,911,584	1,777,329	1,999,009	1,808,206
Employees	–	225	265	268	289
[Separately, average number of temporary employees] (Persons)	[–]	[168]	[176]	[165]	[159]

- Notes:
1. As the consolidated financial statements have been prepared since the 52nd term, there are none to be presented for the earlier terms.
 2. Consumption taxes, etc. are not included in net sales.
 3. Net income per share, fully diluted is not presented for the 53rd term, the 54th term and the 55th term because there are no potential shares with dilutive effect.
 4. Effective from the 54th term, the Company introduced “Stock Benefit Trust (BBT)” and “Stock Benefit Trust (J-ESOP).” The shares of the Company remaining in “Stock Benefit Trust (BBT)” and “Stock Benefit Trust (J-ESOP),” which are recorded as treasury stock in shareholders’ equity are included in the treasury stock not included in the calculation of the total number of issued and outstanding shares at the end of the term and the average number of shares during the term when calculating net assets per share and net income per share.

III. History

May, 1943	Koshinkai Kenkyujo was established.
February, 1952	Koshinkai Kenkyujo was converted to joint stock company.
December, 1963	Company's production and sales divisions spun off as independent operations; KOKEN LTD. was established and Hanno plant was established in Hanno City, Saitama Prefecture.
April, 1967	Hanno Laboratory was established in Hanno City, Saitama Prefecture.
December, 1968	Hoya plant was established in Hoya City (currently Nishitokyo City), Tokyo.
October, 1976	Ashio plant was established in Ashio-machi, Tochigi Prefecture.
January, 1977	Logistics center was established in Ninomiya-machi, Kanagawa Prefecture.
January, 1981	Koken Bosai System was established and sales of occupational safety and health-protection equipment and design and construction of fire-prevention equipment and workplace environment improvement equipment were transferred to this company.
December, 1984	Hoya plant was relocated to Tokorozawa City, Saitama Prefecture, and reestablished as Tokorozawa plant.
June, 1985	Koken completed the merger with Koshinkai Kenkyujo and Ninomiya Production Center.
December, 1986	Company's shares were registered with Japan Securities Dealers Association as OTC-traded stock issue.
July, 1987	Koken completed the merger with Koken Bosai System. Sayama Techno-Yard was established in Sayama City, Saitama Prefecture, and one portion of Hanno Techno-Yard was relocated to Sayama Techno-Yard. (Names of plants and factories were all changed to Techno-Yard.)
July, 1988	Second phase of Sayama Techno-Yard construction was completed, concluding relocation of Hanno Techno-Yard.
August, 1989	New head office building was constructed.
March, 1992	New research wing was constructed for Tokorozawa Laboratory.
December, 1997	Nakai Techno-Yard and Nakai Logistics Center were established in Nakai-machi, Kanagawa Prefecture. Ninomiya Techno-Yard and Ninomiya Logistics Center were integrated into newly established facilities of Nakai Techno-Yard and Nakai Logistics Center.
January, 1999	ISO 9001 certification was obtained by entire company (registered on inspection).
June, 1999	Gunma Techno-Yard was established in Kasakake-cho, Gunma Prefecture.
January, 2002	ISO 14001 certification was obtained by Gunma Techno-Yard (registered on inspection).

June, 2003	ISO 14001 certification was obtained by Nakai Techno-Yard and Nakai Logistics Center. (registered on inspection).
December, 2004	Registration for OTC trading with Japan Securities Dealers Association canceled; and shares were listed on the JASDAQ Securities Exchange.
May, 2005	ISO 14001 certification was obtained by Tokorozawa Techno-Yard (registered on inspection).
September, 2009	Saitama Logistics Center was established in Ranzan-machi, Saitama Prefecture. Nakai Logistics Center was integrated into newly established facilities of Saitama Logistics Center.
April, 2010	Company's shares were listed on JASDAQ-OSE integrated market after merger of JASDAQ Securities Exchange into Osaka Securities Exchange.
March, 2011	KOACH showroom was opened.
November, 2011	KOKEN Super Clean Technical Center was opened.
November, 2012	Overseas subsidiary SIAM KOKEN LTD. (currently consolidated subsidiary) was established in Chonburi Province, Thailand.
January, 2013	Ranzan Techno-Yard was established in Ranzan-machi, Saitama Prefecture.
July, 2013	Company's shares were listed on the JASDAQ Standard market following merger of the Osaka Securities Exchange with the Tokyo Stock Exchange.
June, 2015	Business operations were commenced at SIAM KOKEN LTD.
April, 2016	Shinichiro Sakai, chairman & CEO, was awarded the Order of the Rising Sun, Gold Rays with Rosette in a 2016 Spring conferment ceremony.

IV. Business Overview

Clean Air Solutions

We manufacture and sell three types of clean zone creators as clean solutions.

Super Clean Zone Creator “KOACH”

Born from a completely new idea, **the super clean zone creator “KOACH”** helps realize quality improvement, yield improvement and cost reduction via high cleanliness and low power consumption.

The development engineers of KOACH received the Prime Minister’s Award (top honor) in the 6th Monodzukuri Nippon Grand Awards in recognition of its unique features and substantial benefits.



Push-Pull Ventilation System “KOKENLAMINAR”

There are environments in factories and medical facilities where dust and gases that are harmful to humans are present.

We provide **the push-pull ventilation system “KOKENLAMINAR,”** which removes these harmful substances from the environment, to protect the health of workers and to create environments where workers can work comfortably.



Air Ventilation System as Contamination Source Control “LAMIKOACH”

An air ventilation system as contamination source control **“LAMIKAOCH,”** which is a combination of “KOACH” and “KOKENLAMINAR,” is used when there is a dust generating factor inside a clean room that is intended to maintain a high level of cleanliness.

This system reliably captures contaminants generated inside a clean room to prevent them from spreading out in the whole clean room.



Health Solutions

We are planning to expand business for the following products and devices as health solutions.

Copper-Based Antibacterial Agent “IMADEZE®”

This is an antibacterial agent we developed using a proprietary method for causing “copper” and “lactic acid” to react with one another.

We are planning business development as we seek fields that can make good use of its characteristics such as its superior antibacterial, mildew-resistant, and antiviral properties, as well as its high bio-safety and processability properties.



Masks for Medical Facilities

In addition to pathogens (bacteria, viruses) that cause infectious diseases, there are chemical substances that are harmful to humans, such as disinfectants and sterilizing gases, in medical facilities.

We provide masks for medical facilities that protect the respiratory system from such pathogens and chemical substances.



Masks for General Consumers

In recent years, events such as the avian influenza and PM 2.5, for which even the general public requires high performance masks, have been occurring frequently.

As a mask manufacturer who has been manufacturing and selling industrial masks for many years, we have developed and released masks for general consumers that can be used safely and securely by the general public.



Functional Water Production System

Functional water comes in various types, such as electrolyzed water, ozone water, hydrogen water, and magnetically treated water. We deal with electrolyzed water and magnetically treated water.

We sell electrolyzed water generators, automatic endoscope washer, blood stain washer kit and portable shower system for disinfection and decontamination that use electrolyzed water for washing and disinfecting, and magnetic water treatment system that uses magnetically treated water for removing scaling, rust, etc. from the insides of water distribution pipes.



Safety Solutions

We manufacture and sell the following masks and protective gear as safety solutions.

Industrial Masks

Improvement in working environment and the use of protective breathing equipment (masks), as a measure to protect individual workers against exposure to hazardous substances are required to prevent the health hazards caused by toxic substances generated at factories and construction sites.

We manufacture and sell industrial masks such as dust masks and gas masks for a range of working environments with different types and concentrations of hazardous substances.



Equipment for Accident and Disaster Countermeasures

In addition to fires and natural disasters, which can occur at any time, the state of social affairs has, in recent years, made it such that it is now also necessary to prepare against large-scale chemical disasters, NBC (Nuclear, Biological or Chemical) terrorism incidents, etc. In such accidents and disasters, it is necessary to have equipment for accident and disaster countermeasures that is suited for different purposes, such as for rescue teams that save lives, medical personnel who treat victims, and for local people who evacuate to safe places nearby.



Masks for Medical Facilities

In addition to pathogens (bacteria, viruses) that cause infectious diseases, there are chemical substances that are harmful to humans, such as disinfectants and sterilizing gases, in medical facilities.

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Masks for General Consumers

In recent years, events such as the avian influenza and PM 2.5, for which even the general public requires high performance masks, have been occurring frequently.

As a mask manufacturer who has been manufacturing and selling industrial masks for many years, we have developed and released masks for general consumers that can be used safely and securely by the general public.



Protective Clothes, Ear Plugs, Face Shields, etc.

In addition to protective breathing equipment (masks), we also supply protective clothes to prevent skin disorders during chemical handling activities, ear plugs to prevent noise related disorders, and face shields to protect eyes and faces from flying objects, etc.



V. Analysis of Financial Condition, Results of Operations and Cash Flows

(1) Significant accounting policies and estimates

The consolidated financial statements of the Group have been prepared in accordance with accounting standards generally accepted in Japan. Estimates deemed necessary for the preparation of the consolidated financial statements were based on reasonable standards.

(2) Analysis of financial condition

(Assets)

Total assets as of December 31, 2017 amounted to 17,354 million yen, an increase of 850 million yen (compared with 16,504 million yen as of December 31, 2016). The major factor contributing to the result was an increase in tangible fixed assets of 809 million yen.

(Liabilities)

Total liabilities as of December 31, 2017 amounted to 7,926 million yen, an increase of 426 million yen (compared with 7,500 million yen as of December 31, 2016). The major factor contributing to the result was an increase in long-term liabilities of 394 million yen due partly to an increase in long-term debt.

(Net Assets)

Total net assets as of December 31, 2017 amounted to 9,428 million yen (compared with 9,004 million yen as of December 31, 2016) and shareholders' equity ratio was 54.0% as of December 31, 2017 (compared with 54.2% as of December 31, 2016).

(3) Analysis of cash flows

The balance of cash and cash equivalents (hereinafter referred to as "funds") as of December 31, 2017 was 1,808 million yen, a decrease of 190 million yen compared with December 31, 2016.

The status of each cash flow and major factors thereof are as follows.

(Cash flow from operating activities)

Funds provided by operating activities were 919 million yen (830 million yen provided during the previous fiscal year). This was due mainly to net income before taxes and other adjustments of 662 million yen, an increase in inventory of 146 million yen, and depreciation of 425 million yen.

(Cash flow from investing activities)

Funds used in investing activities were 1,123 million yen (245 million yen used during the previous fiscal year). This was due mainly to payments for acquisition of tangible fixed assets of 1,167 million yen.

(Cash flow from financing activities)

Funds used in financing activities were 1 million yen (353 million yen used during the previous fiscal year). This was due mainly to proceeds from long-term debt of 1,417 million yen, and payments of long-term debt of 1,240 million yen.

VI. Business and Other Risk

The risks that may affect the Group's business, results of operation, financial condition, etc. are as follows. Note that matters relating to the future contained in the text below were determined by the Group as of this document's submission date.

(1) Research and development

As a research and development oriented company, the Group has invested management resources with the objective of supplying highly innovative products related to "cleanliness, health, safety" to the market, but all research and development do not necessarily lead to the development of new products or to growth in earnings, and thus the Group's business performance may be affected if it is forced to stop research and development due to any of a variety of circumstances.

While the Group has taken measures to protect the intellectual property it requires as a base for developing highly original technologies and already holds a large number of patents to that end, there are limits to which this proprietary technology can be perfectly protected under the law, and thus there is a chance that the Group will be unable to prevent third parties from manufacturing and selling counterfeit or similar goods using its intellectual property. If such an event were to occur, it could affect the Group's business performance.

(2) Legal restrictions

Since the Group's business is related to various laws and regulations, such as the "Industrial Safety and Health Act," the "Pharmaceuticals and Medical Devices Act" and the "Product Liability Act," we are working to strengthen compliance systems and internal controls to ensure we comply with these laws and regulations.

Should an event occur where we were found not in compliance with these laws and regulations, this could place limits on the businesses the Group pursues, and lead to recalls of its products. Furthermore, if new laws and regulations are established or revised, this will give rise to new costs, like new capital expenditures, which could have an impact on the Group's business performance.

(3) Quality assurance and quality control

In addition to the assumption that they will be used in harsh environments, the Group's products are required to be highly durable and reliable for the purpose of protecting the safety and health of their users. The Group has established the Quality Assurance Office, which acts as an independent department focused on quality under the direct supervision of the president, and has established a thorough quality assurance system by creating and maintaining a quality management system that is based on ISO 9001. Furthermore, the Quality Assurance Office posts product inspectors at each Techno-Yard (manufacturing base) to monitor the manufacturing processes and inspection processes at these Techno-Yards. It goes without saying that each of these Techno-Yards manufactures products according to the Japanese Industrial Standards, the national examination standards set by the Ministry of Health, Labour and Welfare, and our own strict quality assurance and quality control standards.

Although we thoroughly maintain and reinforce our quality assurance and quality control system, in the unlikely event that we receive indications of nonconformity via the Ministry of Health, Labour and Welfare's protective breathing equipment test purchases for an unexpected reason or if product defect or failure occurs, the Group's business performance could be affected by recall and repair expenses, and other such burdens.

(4) Disasters and infectious diseases

The Techno-Yards, which represent the Group's manufacturing base, have undergone surveys for earthquake risks, implemented business continuity plans based on the results of those surveys, and have set up systems that enable production to resume without disruption even in the event of an earthquake. However, the occurrence of an event that interferes with the continuation of business activities, that, for example, suppresses production activities, etc. such as a direct-type, large-scale earthquake with an epicenter in the vicinity of a base of operation, a natural disaster, other unexpected accident, or the spread

of an infectious disease, such as a new type of influenza, could affect the Group's business performance. Please note that, as a measure against infectious diseases, we distribute our own anti-infection masks to all employees, encourage the employees to wear the masks, and also stockpile the masks in each workplace.

(5) Environmental issues

The Group is implementing on-going measures to clean up the soil and groundwater contamination caused by trichloroethylene, which has occurred to date at a total of two of the Group's laboratories and Techno-Yards. However, it is difficult at present to predict when the cleanup process will be complete, and thus, if the decontamination measures take a long time, the costs related to the measures could have an impact on the Group's business performance.

(6) Information security

The Group possesses a large amount of confidential information relating to business execution, such as information related to technology, sales and other business. Although we are making every effort to manage this information, if it were to leak for some unforeseen reason, such leak could have an impact on the Group's business performance.

(7) Internal controls

The Group strives to enhance its internal control systems with respect to business effectiveness and efficiency, reliable financial reporting, compliance with laws and regulations, etc. related to business activities, and asset conservation. However, these internal control systems are, to some degree, limited, and thus if events should occur that are outside the scope presumed by the created internal control systems, such events could have an impact on the Group's business performance.

(8) Overseas subsidiaries

SIAM KOKEN LTD., which was established in Thailand as a production subsidiary, continues to steadily manufacture masks, and has even begun to contribute to the Group's profits. However, should unpredicted events occur due to political and social circumstances or legal restrictions relating to Thailand or due to trends in foreign exchange rates, etc., such events could have an impact on the Group's business performance.

VII. Research and Development

The Company is committed to research and development in its business domain, “cleanliness, health, and safety.” It aims to develop, with freedom, original technologies and employ these technologies for a multifaceted range of uses. A matrix-based R&D structure has been established that includes project teams for basic research on future technologies and project teams for application development. We have a research and development staff of 76, and our research and development expenses during the fiscal year under review amounted to 656 million yen.

The main development products for the fiscal year under review are as follows.

◇ Personal Air Cooler “V-200”

The product was developed as clothing to protect against heatstroke for use in hot environments in the construction and manufacturing industries, etc.

< Key features >

- Air is supplied from compressors and air pipes—no power supply needed
- The heat separation device utilizing vortex effect divides the air into hot air and cool air, and the cool air is provided inside the work clothes, etc.
- Control valves can adjust the volume and temperature of cool air to be sent
- Available with breathable mesh vest type and wearable tube type
- Effectively cools down a hot body by placing the end of the tube around the neck, back or chest, which are the most sensitive areas to feel cool air

◇ Clean gloves “Pureness Zero One”

The product was developed jointly with Okamoto Industries, Inc., a general rubber and plastics products manufacturer, by combining its low particle generation technology for gloves and the Group’s super-clean technology.

< Key features >

- Manufactured and packed in the world’s highest level of clean environment (ISO class 1) where particle generation is thoroughly reduced
- The individual packaging allows for every pair of gloves, including the last pair to be used, to have the same level of cleanliness
- Left-hand gloves and right-hand gloves are manufactured in different shapes with a wide range of sizes, and the gloves’ tight-fitting features make them suitable for fine work that requires precision

VIII. Corporate Governance

(1) Status of corporate governance

Basic approach to corporate governance

In order to raise corporate value and increase shareholder and investor value, the Company will strengthen our corporate governance system to ensure transparency and soundness, and clarify our system for taking responsibility, and is working on building a business management organization that can make management more efficient and that can respond quickly to management environment changes.

The Company also believes that information disclosure is an important management issue and so we will continue to strive to increase opportunities to disseminate information, improve communication methods and enhance disclosed contents in order to make information disclosure timely, fair, and transparent.

Note that the status of the corporate governance topics listed below was as described herein as of this document's submission date.

1) Description of the Company's organization, the status of maintenance of internal control systems, etc.

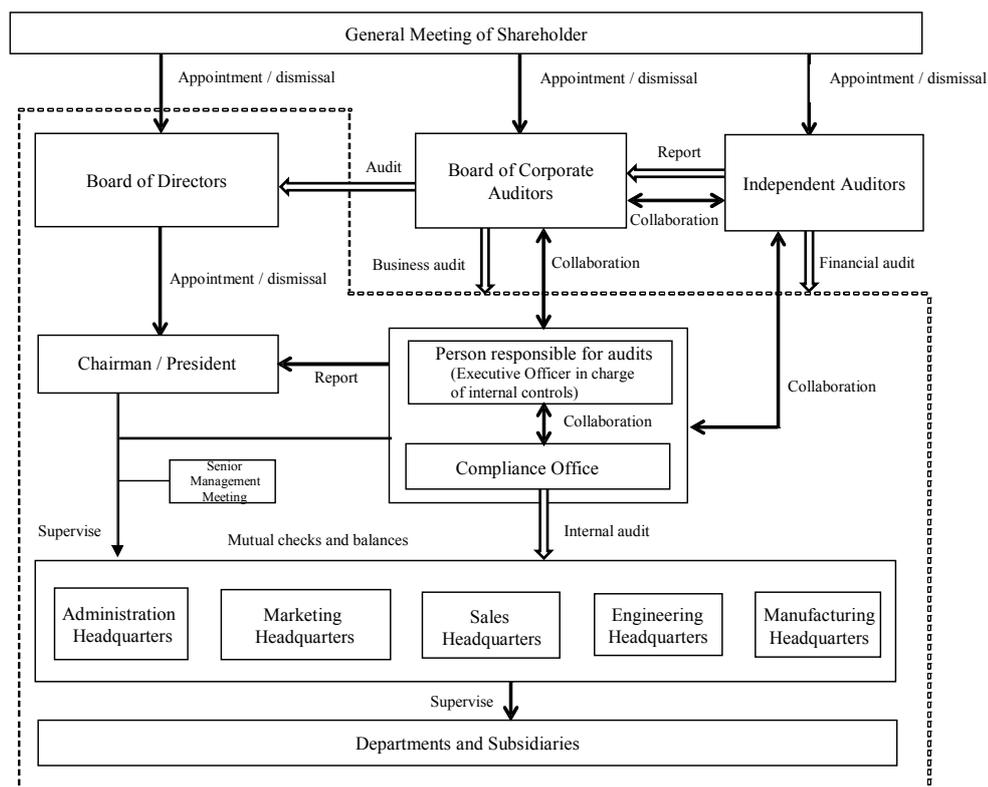
a. Basic description of the Company's organization

In principle, the Board of Directors, which is the primary decision-making body of the Group, meets once a month in accordance with the regulations of the Board of Directors to decide important matters in terms of managing business execution, and to oversee the execution of business. Furthermore, the system allows for meetings on an ad hoc basis to enable the Board to respond to issues quickly.

Moreover, Senior Management Meetings, whose members consist of the officers, chief of the headquarters and department heads, are held once a month where the intentions of management are communicated, and sales reports are given by each division and each sales office to gain an understanding of the status of work in each department and any problems therewith, and to discuss and decide on countermeasures.

The Company has adopted a corporate auditor system. It appoints four corporate auditors (of which, two are outside corporate auditors) who participate in Board of Directors meetings and, in so doing, monitor the performance of the directors and the Board of Directors.

b. A schematic diagram for describing the Company's corporate governance structures is as follows.



c. Reasons for adopting the structures

As a company with a Board of Corporate Auditors, the Company has appointed two of the four corporate auditors as outside corporate auditors who supervise the execution of duties by directors from an objective point of view outside the Company. In addition, the Company has introduced an executive officer system with the aim of strengthening functions and clarifying executive responsibilities by separating the Company's decision-making and business execution functions.

Through these corporate governance structures, we have determined that a system is in place that functions adequately in terms of management supervision functions.

d. Description of the Company's organization and the status of maintenance of internal control systems

The Company performs business management via a five headquarter system, which includes the Administration Headquarters, Marketing Headquarters, Sales Headquarters, Engineering Headquarters, and Manufacturing Headquarters. Each headquarters has an organizational structure where a chief of the headquarters apportions and enforces work responsibilities, and where check functions are in place for each of these responsibilities.

The Company is performing management and control by establishing various internal regulations for the purpose of improving management efficiency and optimizing and rationalizing business management. Each department head performs the important duties of holding regular reviews of whether the various regulations conform to the actual circumstances of management, establishing, revising, and abolishing various regulations, controlling their enforcement and implementation, and monitoring business execution and thorough implementation within the department, in compliance with laws and regulations as well as the various regulations.

Furthermore, to execute business in accordance with the compliance regulations, the Company performs checks with respect to compliance with corresponding laws and regulations and various internal regulations, implements relevant education and training of officers and employees, and maintains the "KOKEN Compliance Help Line" as an internal reporting system for quickly grasping and quickly correcting compliance infractions.

As a member of society, the Company has no relationships with antisocial forces or organizations that pose a threat to the order and safety of civil society, and all members of the Company will respond with a resolute and consistent attitude.

e. Status of maintenance of risk management system

The Company adopts a system whereby the Administration Headquarters, Marketing Headquarters, Sales Headquarters, Engineering Headquarters, and Manufacturing Headquarters control the risks of each of their own departments while they simultaneously check each other, perform business audits in accordance with internal auditing regulations with regard to the status of business execution at the divisions, and, in particular, perform product checks in accordance with quality assurance audits. Via the system, results are reported to the president, and remedial measures are taken as necessary.

Risk management for the Group as a whole falls under the supervision of executive officer in charge of internal controls, who promotes the maintenance of necessary regulations and works to maintain a risk management system that is able to reduce assumed risks and respond to emergency situations.

f. Status of system maintenance for ensuring the appropriate operations of subsidiaries

The Company and its subsidiaries share the "philosophy of the Company" as the philosophy of the Group as a whole, and efforts are made to maintain and operate a compliance system and a risk management system for the Group as a whole that are geared toward realizing this philosophy. The Company requests reports from subsidiaries regarding matters specified in the overseas subsidiary management regulations to ensure the appropriateness and efficiency of decision making and business execution by subsidiaries.

2) Status of internal audits and auditing by corporate auditors

Internal audits are the responsibility of the executive officer in charge of internal controls, and the officer directs individuals appointed by the president to audit, and audits the status of business execution. As a system is used whereby the audit results are approved by the person responsible for audits and then

reported to the president, improvement measures are taken as needed, and follow-up audits are implemented for these improvements.

For internal audits related to quality (equivalent to Quality Management System ISO 9001 and JIS Q9001 internal audits), a quality assurance auditor (the head of the Quality Management Office is responsible for audits) performs audits based on the quality assurance audit regulations and reports results to the president. Note that, when nonconformity is discovered via audit, the person responsible for audits makes a request to the head of the audited department that all nonconformities be corrected, and confirms the effectiveness of measures taken.

Furthermore, the Company has built a quality and safety management system based on QMS Ordinance (Ministerial Ordinance on Standards for Manufacturing Control and Quality Control for Medical Devices and In-Vitro Diagnostics), System Ordinance (Ministerial Ordinances on Standards for Systems for Performing Business Relating to Manufacturing Control and Quality Control for Medical Devices and In-Vitro Diagnostics), and GVP Ordinance (Ministerial Ordinance on Good Vigilance Practice for Drugs, Quasi-Drugs, Cosmetics, Medical Devices, and Regenerative Medicine Products) in conjunction with the commencement of the manufacture and sale of medical equipment (automatic endoscope washer) for which it received a medical equipment manufacture and sales approval in accordance with the “Act on Securing Quality, Efficacy and Safety of Products including Pharmaceuticals and Medical Devices.” The overall manufacturing and sales manager, who is the chief executive for manufacturing and sales, supervises and instructs the person responsible for domestic quality operations and the person responsible for safety management to perform quality and safety management. The person responsible for domestic quality operations and the person responsible for safety management, and related departments are in close cooperation and collaboration with one another. We will further strengthen this quality and safety management system and we will continue to manufacture and sell high quality and highly safe medical equipment.

The Company has established safety and health management regulations for the purpose of ensuring the safety and health of our employees and forming a comfortable work environment based on the Industrial Safety and Health Act. These regulations apply to the management of work environment, operations, and health of all employees. The staff and head of the Safety & Environment Management Office perform regular and ad hoc safety and health audits of all business offices based on these regulations, and report audit results to the president. Note that, when nonconformity is discovered via audit, the head of the Safety & Environment Management Office makes a request to the audited business office supervisor that all nonconformities be corrected, and confirms the effectiveness of measures taken.

As mentioned above, the four corporate auditors (of which, two are outside corporate auditors) audit the execution of duties by the directors and the Board of Directors via their attendance at the Board of Directors meetings, and they carry out internal audits based on the audit plan of the corporate auditors. They also strive to improve the effectiveness of audits by exchanging information with independent auditors.

3) Status of financial audit

The Company has signed an audit agreement with the A&A Partners as the independent auditor in charge of the financial audit, and receives the audit. Note that the certified public accountants who execute the audit work for the Company are as shown below.

Engagement Partner: Kenji Oka, Certified Public Accountant

Engagement Partner: Mayu Machida, Certified Public Accountant

Number of assistants involved in auditing work

Certified Public Accountants: 5

Others: 3

(Note) The number of years of continuous auditing experience has been omitted since all members have no more than seven years.

4) Outside Directors and Outside Corporate Auditors

The Company has appointed one outside director (independent officer) and two outside corporate auditors (independent officers) who supervise the execution of duties from an objective point of view outside the Company. In addition, the Company has introduced an executive officer system with the aim of

strengthening functions and clarifying executive responsibilities by separating the Company's decision-making and business execution functions. As a result of these efforts, we have provided a governance structure that functions appropriately in terms of management supervision functions.

The outside director and outside corporate auditors attend important meetings, such as those of the Board of Directors, mainly speak actively from the standpoint of their field of expertise, and conduct supervision and audits of the execution of duties by the directors.

Ms. Shinobu Sakurai was appointed as an outside director because she has abundant insight and experience as a professor at graduate schools and universities which engage in studies on public health nursing and community health nursing, and thus we are hopeful that her specialized insight will be leveraged in the enhancement of the Company's management structure. There are no personal, capital relationships, or any conflict of interest, between the Company and Ms. Sakurai. Furthermore, Ms. Sakurai has been reported to Tokyo Stock Exchange, Inc. as an independent officer.

Mr. Teruo Shinato was appointed as an outside corporate auditor because, in view of his expertise as a graduate school professor, we are hopeful that his specialized knowledge and rich experience will be reflected in the Company's audits. There are no personal, capital relationships, or any conflict of interest, between the Company and Mr. Shinato. Furthermore, Mr. Shinato has been reported to Tokyo Stock Exchange, Inc. as an independent officer.

Mr. Nikko Haku was appointed as an outside corporate auditor because he is familiar with corporate legal affairs as a lawyer, and thus we are hopeful that his high level of specialized knowledge and rich experience will be reflected in the Company's audits. Mr. Haku is a partner at Sakura Kyodo Law Offices, and while the Company has business relationships, such as the outsourcing of legal services, with other partners at this firm, it has never signed an advisory contract with the firm, and has had no business relationships with the firm in the fiscal year under review. Furthermore, Mr. Haku has been reported to Tokyo Stock Exchange, Inc. as an independent officer.

We have not established criteria or policies with regard to how independent candidates must be in order to be appointed as outside director and outside corporate auditors. However, we do make reference to determining factors, etc., relating to the independence of independent officers as set forth in the "Handling Procedures Relating to Securities Listing Regulations" of Tokyo Stock Exchange, Inc. when making appointments.

Note that the Company has entered into agreements with outside director and outside corporate auditors that limit liability for damages described in Article 423, paragraph 1 of the Companies Act, based on the provisions of Article 427, paragraph 1 of said act. Under these agreements, the maximum amount of liability for damages is the minimum liability amount set forth in Article 425, paragraph 1 of said act.

5) Description of officers' compensation

a. Total amount of compensation, etc. by each officer classification, total amount of compensation, etc. by type, and the number of officers to be paid

Officer classification	Total amount of compensation, etc. (Thousands of yen)	Total amount of compensation, etc. by type (Thousands of yen)				Number of officers to be paid (persons)
		Base compensation	Bonuses	Retirement benefits	Provision for directors' stock benefits	
Director (excluding outside director)	208,815	141,900	32,200	30,300	4,415	8
Internal corporate auditor (excluding outside corporate auditor)	24,000	21,600	–	2,400	–	3
Outside officer	19,600	16,500	1,000	2,100	–	3
Total	252,415	180,000	33,200	34,800	4,415	14

(Notes) 1. Bonuses are amounts treated as expenses processed as provision for directors' and corporate auditors' bonuses in the fiscal year under review.

2. Retirement benefits are treated as expenses processed as provision for directors' and corporate auditors' retirement benefits in the fiscal year under review.

3. Provision for directors' stock benefits is a provision for directors' stock benefits for six directors in the fiscal year under review.

b. Total amount of compensation, etc. for each officer of the submitting company, etc.

None is listed because no officer received compensation totaling 100 million yen or more.

c. Important matters among employee salaries for officers serving concurrently as employees

No items to report.

d. Descriptions of and methods for determining policies relating to determining the amount of compensation, etc. for officers, and the methods for calculating said amounts

The Company determines compensation for directors based on the duties and responsibilities of said directors within the limits of the total compensation according to the base compensation determined at the General Meeting of Shareholders. Compensation for corporate auditors is determined based on the duties and responsibilities of said corporate auditors and on whether they are full-time or part-time.

(Note) Compensation limit for directors: 180,000 thousand yen annually (based on a resolution at the 49th Annual General Meeting of Shareholders held on March 27, 2012)

Compensation limit for corporate auditors: 40,000 thousand yen annually (based on a resolution at the 53rd Annual General Meeting of Shareholders held on March 29, 2016)

The Company's compensation system for its officers consists of a basic fixed compensation, which is the base compensation, a bonus, which is performance-based compensation based on the results of each term, and a stock compensation system "Stock Benefit Trust (BBT)," which is a medium and long term incentive. The Stock Benefit Trust (BBT) was introduced as the officer compensation system at the 53rd Annual General Meeting of Shareholders held on March 29, 2016, in place of the previous stock option compensation system.

6) Status of shareholding

a. Investment shares for holding purposes other than for the purpose of net investment

Number of issues: 8

Total amount shown on the balance sheet: 103,820 thousand yen

b. Of the investment shares held for holding purposes other than net investment, issues where the amount shown on the balance sheet in the current fiscal year exceeds 1/100 of the capital amount (excluding unlisted stocks)

Previous fiscal year

Issues	Number of shares (shares)	Amount shown on the balance sheet (Thousands of yen)	Holding purpose
Resona Holdings, Inc.	76,835	47,023	For maintaining relationships for trading, etc.
Mizuho Financial Group, Inc. 11th series preferred stock (class 11)	191,495	41,554	For maintaining relationships for trading, etc.

Current fiscal year

Issues	Number of shares (shares)	Amount shown on the balance sheet (Thousands of yen)	Holding purpose
Resona Holdings, Inc.	76,835	49,328	For maintaining relationships for trading, etc.
Mizuho Financial Group, Inc.	191,495	39,256	For maintaining relationships for trading, etc.
NIPPON KANRYU INDUSTRY CO., LTD.	15,000	7,365	For maintaining relationships for trading, etc.

c. Investment shares held for the purpose of net investment

No items to report.

d. Investment shares held for purposes that have changed

No items to report.

7) Outline of the content of limited liability agreements

The Company has entered into agreements with outside director and each outside corporate auditor that limit the liability for damages described in Article 423, paragraph 1 of the Companies Act, based on the provisions of Article 427, paragraph 1 of said act. Under these agreements, the maximum amount of liability for damages is the minimum liability amount set forth in the law and regulations.

8) Number of directors

It is set forth in the articles of incorporation that “the Company shall have no more than 15 directors.”

9) Requirements for resolving the election of directors

The Company has stipulated in its articles of incorporation that resolutions for electing directors shall be attended by at least 1/3 of the shareholders who can exercise their voting rights, and shall be resolved by a majority of said voting rights. The Company has also stipulated in its articles of incorporation that directors shall not be elected based on cumulative voting.

10) Institutions for determining interim dividends

The Company has stipulated in its articles of incorporation that interim dividends from retained earnings set forth in Article 454, paragraph 5 of the Companies Act may be executed by resolution of the Board of Directors without resolutions by the General Meeting of Shareholders, unless otherwise stipulated in laws and regulations. This is for the purpose of providing a flexible return of profits to shareholders by setting interim dividends from retained earnings under the authority of the Board of Directors.

11) Acquisition of treasury stock

The articles of incorporation stipulate that “the Company may acquire treasury stock through market transactions, etc. by resolution of the Board of Directors.” This is aimed at acquiring treasury stock through market transaction, etc. in order to carry out agile capital policies that respond to changes in the business environment.

12) Requirements for special resolutions at General Meetings of Shareholders

The articles of incorporation stipulate that “resolutions set forth in Article 309, paragraph 2 of the Companies Act shall be attended by at least 1/3 of the shareholders who can exercise their voting rights, and shall be resolved by at least 2/3 of said voting rights.” This is for the purpose of conducting General Meetings of Shareholders smoothly by relaxing quorums needed for special resolutions at General Meetings of Shareholders.

13) Status of efforts to implement the Company’s corporate governance of the past year

- During the fiscal year under review, 12 Board of Directors meetings were held to decide important management issues and supervise the status of business execution.
- To strengthen the supervision on the business execution from an objective point of view outside the Company, one outside director (independent officer) was appointed.
- As a disclosure of corporate information, explanatory information about financial results for the fiscal year ended December 31, 2016 and for the second quarter of the fiscal year ended December 31, 2017, etc. have been posted on the Company’s website.

(2) Description of audit compensation, etc.

1) Description of compensation for the certified public accountants, etc. conducting the audit

Classification	Previous fiscal year		Current fiscal year	
	Compensation based on audit certification work (Thousands of yen)	Compensation based on non-audit work (Thousands of yen)	Compensation based on audit certification work (Thousands of yen)	Compensation based on non-audit work (Thousands of yen)
Submitting company	24,000	–	24,000	–
Consolidated subsidiaries	–	–	–	–
Total	24,000	–	24,000	–

2) Description of other important compensation

No items to report.

3) Description of non-audit work for submitting companies of the certified public accountants, etc. conducting the audit

No items to report.

4) Methods for determining audit compensation

With regard to the Company’s method for determining audit compensation for the certified public accountants, etc. conducting the audit, the Company does not stipulate any specific matters. Such compensation amounts are determined based on the size of the Company, the nature of the work, and the number of auditing days, etc.

IX. Status of Affiliates

Name	Address	Capital stock	Main business	Percentage of voting rights held (held by others) (%)	Relationship
(Consolidated subsidiary) SIAM KOKEN LTD.	Chonburi Province, Thailand	THB 150,000,000	Mask-related business	100.0	Manufacture of the Company's products Interlocking officers

- (Notes) 1. Segment name is noted in the "Main business" column.
2. Falls under specified subsidiaries.

X. Status of Employees

(1) Status of consolidated companies

As of December 31, 2017, the Group (the Company and its consolidated subsidiaries) had 289 (159) employees.

Since employees are engaged in more than one business, the number of employees is not described in conjunction with segments.

(Note) The number of employees indicates the number of working employees, and the annual average number of temporary employees is noted in parentheses.

(2) Status of submitting companies

As of December 31, 2017			
Number of employees (persons)	Average age (age)	Average years of service (years)	Average annual salary (yen)
231 (159)	40.6	15.8	6,979,535

(Notes) 1. The number of employees indicates the number of working employees, and the annual average number of temporary employees is noted in parentheses.

2. The average annual salary is gross with tax, and includes surplus wages and bonuses.

3. Since employees are engaged in more than one business, the number of employees is not described in conjunction with segments.

(3) Status of labor unions

There are no labor unions.

XI. Stock Option System

Share subscription rights based on the provisions of Articles 236, 238 and 239 of the Companies Act (resolution on March 27, 2013)

Based on the provisions of Articles 236, 238 and 239 of the Companies Act, the issuance of share subscription rights on particularly favorable terms for the Company's directors, corporate auditors and certain employees who remained in office at the conclusion of the 50th Annual General Meeting of Shareholders held on March 27, 2013 was resolved at the Annual General Meeting of Shareholders held on March 27, 2015. The details are as follows.

Resolution date	March 27, 2013
Classifications and number of grantees	Directors: 6 Corporate auditors: 4 Employees: 62 (Individuals specified by the Company, including executive officers, full-time or part-time advisors or contract employees)
Class of shares underlying share subscription rights	Common stock
Number of shares underlying share subscription rights	(Note) 1
Amount to be paid upon exercise of share subscription rights (Yen)	Same as above
Exercise period of share subscription rights	Same as above
Conditions for the exercise of share subscription rights	Same as above
Matters concerning transfer of share subscription rights	Same as above
Matters concerning substitute payment	–
Matters concerning the delivery of share subscription rights as a result of organizational restructuring	(Note) 2

(Notes) 1. If the Company conducts a share split or share consolidation, the number of shares underlying one share subscription right shall be adjusted in accordance with the following formula; provided, however, that said adjustment shall be made only for the number of shares underlying the share subscription rights unexercised at the relevant date, and any fraction of less than one share resulting from the adjustment shall be discarded.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition to the above, in the case of any event that makes it necessary to adjust the number of shares underlying one share subscription right, including the case of an absorption-type merger with other company, a consolidation-type merger or a share exchange, the Company may make an appropriate adjustment to the number of shares as deemed necessary.

2. If the Company conducts a merger (limited to the case where the Company is extinguished as a result of the merger), an absorption-type company split, an incorporation-type company split, a share exchange or a share transfer (hereinafter collectively referred to as the "Reorganization"), the Company shall, in each of the above cases, deliver share subscription rights of the stock company from among those listed in (a) through (e) of Article 236, paragraph 1, item 8 of the Companies Act (hereinafter referred to as the "Reorganized Company") to the holders of the share subscription rights remaining unexercised at the time of the effective date of the relevant Reorganization (hereinafter referred to as the "Remaining Share Subscription Rights") in accordance with the following terms and conditions. In such case, the Remaining Share Subscription Rights shall be extinguished and the Reorganized Company shall newly issue share subscription rights; provided, however, that the foregoing shall be on the condition that the

indication that such share subscription rights of the Reorganized Company are to be delivered in accordance with each of the following terms and conditions is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.

- 1) Number of share subscription rights of the Reorganized Company to be delivered
A number of share subscription rights obtained by adjusting the number of share subscription rights held by the holders of the Remaining Share Subscription Rights shall be delivered after taking into consideration the terms and conditions, etc. of the Reorganization.
- 2) Class of shares of the Reorganized Company underlying share subscription rights
Common stock of the Reorganized Company
- 3) Number of shares of the Reorganized Company underlying share subscription rights
To be determined in accordance with (Note) 1 above, after taking into consideration the terms and conditions, etc. of the Reorganization.
- 4) Value of assets to be contributed upon exercise of share subscription rights
The value of assets to be contributed upon exercise of share subscription right to be delivered shall be the amount obtained by multiplying the amount to be paid after reorganization obtained by adjusting the exercise price, after taking into consideration the terms and conditions, etc. of the Reorganization, by the number of shares of the Reorganized Company underlying such share subscription rights as determined in accordance with 3) above.
- 5) Any other terms and conditions shall be stipulated in the relevant “Share Subscription Rights Allotment Agreement” to be entered into between the Company and each holder of share subscription rights, in accordance with the resolution of the 50th Annual General Meeting of Shareholders and the resolution of the Board of Directors meeting.

XII. Employee Stock Ownership System

1. Introduction of Stock Benefit Trust (BBT) for directors

On June 1, 2016, the Company introduced “Stock Benefit Trust (BBT)” (hereinafter referred to as the “BBT system”) as a stock compensation system for directors based on a resolution at the General Meeting of Shareholders held on March 29, 2016.

1) Overview of the BBT system

“Officer stock benefit regulations” were newly established upon the introduction of the BBT system. The Company entrusted money to a trust bank for the pre-acquisition of shares to be provided in the future based on the established officer stock benefit regulations, and the trust bank used the entrusted money to acquire the Company’s stock.

The BBT system awards points to directors targeted for benefits, and shares are granted to directors based on the points they have been awarded.

2) The total number of shares to be granted to directors

7,830 shares

3) Scope of persons eligible to receive beneficiary and other rights under the BBT system

Persons who have retired as directors and satisfy the beneficiary requirements set forth in the officer stock benefit regulations.

2. Introduction of Stock Benefit Trust (J-ESOP) for employees

On June 1, 2016, in an effort to raise employee motivation and morale with respect to stock price and performance improvements, the Company introduced the “Stock Benefit Trust (J-ESOP)” incentive plan (hereinafter referred to as the “J-ESOP system”) whereby shares of its own stock are granted to the Company’s executive officers and to the Company’s employees who meet certain requirements (hereinafter referred to as the “Employees, etc.”).

1) Overview of the J-ESOP system

“Stock benefit regulations” were newly established upon the introduction of the J-ESOP system. The Company entrusted money to a trust bank for the pre-acquisition of shares to be provided in the future based on the established stock benefit regulations, and the trust bank used the entrusted money to acquire the Company’s stock.

The J-ESOP system awards points to Employees, etc., and shares are granted to Employees, etc. based on the points they have been awarded.

2) The total number of shares to be granted to Employees, etc.

22,870 shares

3) Scope of persons eligible to receive beneficiary and other rights under the J-ESOP system

Persons who are retired Employees, etc. and satisfy the beneficiary requirement set forth in the stock benefit regulations.

XIII. Status of Officers

The status of officers as of March 27, 2018 is as follows.

Men: 12, Women: 1 (Percentage of women among officers: 7.7%)

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares owned (Thousands of shares)
Representative Director, Chairman		Masakazu Sakai	August 22, 1941	<p>Apr. 1964 Joined Renown Commerce Co., Ltd.</p> <p>Aug. 1967 Joined KOKEN LTD.</p> <p>Sept. 1967 Appointed as Director, General Manager of the Technology Department</p> <p>Jan. 1981 Appointed as Representative Director, President</p> <p>Mar. 2003 Appointed as Representative Director, President, Sakai Kosan Co., Ltd.</p> <p>Mar. 2003 Appointed as Representative Director, President, Sakai Tatemono Ltd. (current position)</p> <p>Mar. 2003 Appointed as Representative Director, Chairman (current position)</p> <p>May 2006 Chairman, Japan Safety Appliances Association</p> <p>Apr. 2015 Appointed as Councilor, Sakai CHS Foundation (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	641
Representative Director, President	In charge of the Engineering Headquarters	Tsutomu Murakawa	January 8, 1966	<p>Apr. 1989 Joined KOKEN LTD.</p> <p>Sept. 1999 Head of the Quality Assurance Office</p> <p>Mar. 2002 Head of the Tokorozawa Techno-Yard</p> <p>Feb. 2007 Head of the Tokorozawa Techno-Yard and Overseas Division Manager</p> <p>Mar. 2008 Executive Officer, Head of the Tokorozawa Techno-Yard and Overseas Division Manager</p> <p>Jan. 2009 Executive Officer, Overseas Division Manager</p> <p>Mar. 2010 Appointed as Managing Director, in charge of the Engineering Headquarters, Overseas Division Manager</p> <p>Jul. 2013 Appointed as Senior Managing Director, in charge of the Engineering Headquarters, Overseas Division Manager</p> <p>Jan. 2014 Senior Managing Director, in charge of the Engineering Headquarters</p> <p>Mar. 2014 Appointed as Representative Director, President, in charge of the Engineering Headquarters (current position)</p> <p>Apr. 2015 Appointed as Director, Sakai CHS Foundation (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	8
Representative Director, Executive Vice President	In charge of the Manufacturing Headquarters	Nobuya Horiguchi	August 28, 1958	<p>Apr. 1982 Joined KOKEN LTD.</p> <p>Mar. 1998 Safety and Health Division Manager</p> <p>Mar. 2008 Executive Officer, Safety and Health Division Manager</p> <p>Mar. 2010 Appointed as Managing Director, in charge of the Manufacturing Headquarters</p> <p>Nov. 2012 Appointed as Representative Director, President, SIAM KOKEN LTD. (current position)</p> <p>Jul. 2013 Appointed as Senior Managing Director, in charge of the Manufacturing Headquarters</p> <p>Mar. 2014 Appointed as Representative Director, Executive Vice President, in charge of the Manufacturing Headquarters (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	16

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares owned (Thousands of shares)
Senior Managing Director	In charge of the Marketing Headquarters	Mitsuji Muramatsu	February 21, 1956	<p>Apr. 1978 Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.)</p> <p>Apr. 2002 Branch Manager of the Hongo Dori Branch, Mizuho Bank, Ltd.</p> <p>Feb. 2004 General Manager of the Osaka Public Affairs Department, Mizuho Bank, Ltd.</p> <p>Feb. 2006 Seconded to KOKEN LTD.</p> <p>Mar. 2006 Administration Headquarters Manager</p> <p>Mar. 2007 Joined KOKEN LTD.</p> <p>Mar. 2007 Appointed as Managing Director, Administration Headquarters Manager</p> <p>Mar. 2008 Managing Director, in charge of the Administration Headquarters</p> <p>Mar. 2014 Appointed as Senior Managing Director, in charge of the Administration Headquarters and in charge of the Marketing Headquarters</p> <p>Mar. 2015 Senior Managing Director, in charge of the Marketing Headquarters (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	14
Senior Managing Director	In charge of the Sales Headquarters	Fumikazu Tanaka	February 22, 1957	<p>Apr. 1981 Joined KOKEN LTD.</p> <p>Oct. 1996 Life Safety Division Manager</p> <p>Oct. 2003 General Manager of the Western Japan Block</p> <p>Mar. 2008 Executive Officer, General Manager of the Western Japan Block</p> <p>Apr. 2008 Executive Officer, General Manager of the Sales Management Department and General Manager of the Eastern Japan 2nd Block</p> <p>Apr. 2011 Executive Officer, Deputy Sales Headquarters Manager and General Manager of the Sales Management Department</p> <p>Mar. 2012 Appointed as Managing Director, in charge of the Sales Headquarters</p> <p>Mar. 2014 Appointed as Senior Managing Director, in charge of the Sales Headquarters (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	7
Managing Director	In charge of the Administration Headquarters	Hideaki Ibata	December 7, 1962	<p>Apr. 1986 Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.)</p> <p>May 2006 Branch Manager of the Ageo Branch, Mizuho Bank, Ltd.</p> <p>Mar. 2010 General Manager of the Branch Business Department No. 7, Mizuho Bank, Ltd.</p> <p>Jun. 2011 Branch Manager of the Tokyo-chuo Branch, Mizuho Bank, Ltd.</p> <p>Jun. 2014 Seconded to KOKEN LTD., Deputy Administration Headquarters Manager</p> <p>Mar. 2015 Appointed as Managing Director, in charge of the Administration Headquarters (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	0
Director	Director, Accounting Department	Toshiaki Nagasaka	October 16, 1959	<p>Apr. 1982 Joined KOKEN LTD.</p> <p>Mar. 2000 Head of the Tokorozawa Techno-Yard</p> <p>Mar. 2002 Head of the Sayama Techno-Yard</p> <p>Feb. 2007 Head of the Compliance Office</p> <p>Mar. 2008 Executive Officer, Head of the Compliance Office</p> <p>Nov. 2008 Executive Officer, Head of the Compliance Office and Head of the Safety & Environment Management Office</p> <p>Aug. 2009 Executive Officer, General Manager of the Accounting Department</p> <p>Mar. 2014 Appointed as Director, General Manager of the Accounting Department (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	7

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares owned (Thousands of shares)
Director, Advisor		Hiroyuki Sakai	May 23, 1943	<p>Apr. 1967 Joined KOKEN LTD.</p> <p>Aug. 1970 Assistant Manager of the Sales Department</p> <p>Nov. 1974 Appointed as Director, General Manager of the Systems Department</p> <p>Nov. 1984 Appointment as Representative Director, President, Sakai Tatemono Ltd.</p> <p>Mar. 1986 Appointed as Managing Director</p> <p>Apr. 1990 Managing Director, Sales Headquarters Manager</p> <p>Mar. 1992 Representative Director, Senior Managing Director, Sales Headquarters Manager</p> <p>Mar. 1998 Representative Director, Executive Vice President, Sales Headquarters Manager</p> <p>Mar. 2003 Appointed as Representative Director, President</p> <p>Mar. 2014 Appointed as Director, Advisor (current position)</p> <p>Apr. 2015 Appointment as Director, Sakai CHS Foundation (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	609
Director		Shinobu Sakurai	May 10, 1961	<p>Apr. 2004 Professor, Course of Nursing, Mie University Faculty of Medicine;</p> <p>Professor, Course of Nursing Graduate Major, Mie University Graduate School of Medicine</p> <p>Sept. 2011 Professor Emeritus, Mie University (current position);</p> <p>Professor, Department of Nursing, Juntendo University Faculty of Health Care and Nursing (current position);</p> <p>Professor, Doctor's Course of Nursing, Juntendo University Graduate School of Health Care and Nursing (current position)</p> <p>Apr. 2014 Professor, Department of Health, Juntendo University Faculty of Health and Sports Science</p> <p>Mar. 2017 Appointed as Director (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	-
Standing Corporate Auditor		Toshio Akiyama	April 2, 1949	<p>Apr. 1973 Joined KOKEN LTD.</p> <p>Aug. 1986 Special Procurement Division Manager</p> <p>Mar. 2000 Appointed as Director, Special Procurement Division Manager and Hygienic Equipment Division Manager</p> <p>Apr. 2001 Director, Hygienic Equipment Division Manager</p> <p>Mar. 2003 Director, Sales Headquarters Manager and General Manager of the Sales Management Department</p> <p>Feb. 2006 Director, Sales Headquarters Manager, General Manager of the Sales Management Department and Overseas Division Manager</p> <p>Feb. 2007 Director, Sales Headquarters Manager and General Manager of the Sales Management Department</p> <p>Mar. 2008 Appointed as Managing Director, in charge of the Sales Headquarters</p> <p>Mar. 2012 Managing Director, in charge of internal controls</p> <p>Mar. 2015 Appointed as Standing Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 25, 2015	14
Standing Corporate Auditor		Yoshihiro Ito	July 12, 1949	<p>Jun. 1980 Joined KOKEN LTD.</p> <p>Sept. 1998 General Manager of the Central Japan Block</p> <p>Mar. 2001 Appointed as Director, General Manager of the Central Japan Block</p> <p>Mar. 2008 Executive Officer, General Manager of the Central Japan Block</p> <p>Apr. 2015 Executive Officer, in charge of internal controls</p> <p>Mar. 2017 Appointed as Standing Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 28, 2017	8

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares owned (Thousands of shares)
Corporate Auditor		Teruo Shinato	February 24, 1955	<p>Apr. 1978 Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.)</p> <p>Jan. 1990 Seconded to the Tokyo International Financial Futures Exchange (currently Tokyo Financial Exchange Inc.), Manager of the Planning Section</p> <p>Apr. 1994 Deputy Branch Manager of the Paris Branch, The Fuji Bank, Ltd.</p> <p>Jul. 2000 General Manager of the Sales Department, Mizuho Trust & Banking Co., Ltd.</p> <p>Apr. 2002 General Manager in charge of the General Planning Department, Mizuho Trust & Banking Co., Ltd.</p> <p>Apr. 2003 Professor, Asahi University Faculty of Business Administration</p> <p>Apr. 2006 Professor, Nihon University Graduate School of Social and Cultural Studies</p> <p>Apr. 2012 Professor and Dean, Nihon University Graduate School of Social and Cultural Studies (current position)</p> <p>Mar. 2015 Appointed as Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 25, 2015	0
Corporate Auditor		Nikko Haku	March 7, 1977	<p>Nov. 2002 Passed the Bar Examination</p> <p>Oct. 2004 Registered at the Daini Tokyo Bar Association; Joined Sakura Kyodo Law Offices</p> <p>Jan. 2011 Partner, Sakura Kyodo Law Offices (current position)</p> <p>Mar. 2015 Appointed as Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 25, 2015	-
Total						1,328

- (Notes) 1. Director Shinobu Sakurai is an outside director.
2. Corporate Auditor Teruo Shinato and Corporate Auditor Nikko Haku are outside corporate auditors.
3. Director Hiroyuki Sakai is the younger brother of Director Masakazu Sakai.

XIV. Capital Expenditures

[Overview of capital expenditures, etc.]

A total of 1,176 million yen of capital expenditures (including intangible fixed assets) were made in the Group (the Company and its consolidated subsidiaries) in the fiscal year under review in order to develop highly competitive new products that meet market requirements, and to prepare an efficient mass production system for these new products.

Moreover, the main capital expenditures made in the fiscal year under review are as follows.

Hanno Advanced Technology Center buildings (ongoing)	816 million yen
Techno-Yard manufacturing equipment	117 million yen
Dies for occupational safety and health protection equipment, etc.	81 million yen
Head office facilities attached to buildings	22 million yen
Laboratory devices and equipment	17 million yen
Techno-Yard devices and equipment	15 million yen

Disposal of important facilities, etc.

Except for disposal in conjunction with regular updates to existing facilities, the Group did not dispose of important facilities, etc.

XV. Dividend Policy

The Company has consistently viewed the return of profits to shareholders as one of the important management issues, and thus follows a basic policy of maintaining and improving stable dividends.

The Company has stipulated in its articles of incorporation that “interim dividends may be executed as set forth in Article 454, paragraph 5 of the Companies Act.” Year-end dividends are determined by the Annual General Meeting of Shareholders, and interim dividends are determined by the Board of Directors’ meeting.

As a result of a comprehensive consideration of business performance in the fiscal year under review, future business development trends, and changes in earnings and the financial condition based on the policy described above, with regard to dividends for the fiscal year under review, the Company has decided to pay a year-end dividend of 30 yen per share, consisting of an ordinary dividend of 25 yen per share and a special dividend of 5 yen per share.

Aiming to further strengthening our management base, we will effectively utilize retained earnings for research and development and capital expenditures in new technology and products with an eye to ensuring the Group’s on-going development in the future.

Dividends from retained earnings in the fiscal year under review are as follows.

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)
March 27, 2018 Resolution at the Annual General Meeting of Shareholders	151	30

XVI. Status of Business

[Overview of business performance, etc.]

Business performance

The Japanese economy in the fiscal year under review (January to December 2017) continued on a gradual recovery trend due partly to improvements of corporate earnings and the employment environment. However, the outlook remained unclear due to concerns over uncertainty about the global economy amid political developments in Europe and the U.S. and impact of geopolitical risks.

Amid this business environment, the Group continued to promote aggressive business development in each of the “cleanliness, health, and safety” markets. As a result, performance of the mask-related business segment and other businesses segments, including environment-related businesses, exceeded that of the previous fiscal year, and net sales were 8,459 million yen (an increase of 6.6% over the previous fiscal year).

Amid growing raw material and transportation costs, efforts were made to optimize procurement, improve production efficiency and streamline other operations in general. As a result, operating income was 725 million yen (an increase of 14.4% over the previous fiscal year), ordinary profit was 662 million yen (an increase of 19.4% over the previous fiscal year), and net income attributable to owners of parent was 492 million yen (an increase of 26.9% over the previous fiscal year), all of which exceeded those of the previous fiscal year.

Business performance by segment is as follows.

(Mask-related business segment)

Capital investment, employment and production are on an increasing trend generally for domestic manufacturing industry, which is the major customer for this business segment, and we took advantage of it to sell more dust masks and gas masks. Sales of the “Hi-Luck” series disposable masks for medical institutions and general consumers remained robust with particular growth of air pollution masks for China.

As a result, total net sales for this business segment were 7,584 million yen (an increase of 6.6% over the previous fiscal year), offsetting the reactionary decrease in the sales of “BL-Series” of breath-response PAPR, used as a countermeasure against refractory ceramic fibers, which contributed to the revenue growth for the previous fiscal year.

(Other businesses segments, including environment-related businesses)

For an open clean zone creator “KOACH,” aggressive sales activities to promote its “Actual Clean (cleanliness during actual work)” resulted in an increase in an awareness of innovative technology and led to the increased orders received after a short period of consideration. Sales and markets steadily expanded in various fields including the introduction by medical institutions specialized in infertility treatment and the U.S. National Aeronautics and Space Administration (NASA) and application for generating clean injection-molding environment. The number of deliveries increased 1.4 times of that of the previous fiscal year.

As a result, total net sales for the business segments were 875 million yen (an increase of 6.3% over the previous fiscal year).

XVII. Segment Information

(1) Production performance

Production performance by segment for the current fiscal year is as follows.

Segment name	Current fiscal year (January 1, 2017 through December 31, 2017)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	9,150,320	107.4
Other businesses (Thousands of yen)	867,760	100.6
Total (Thousands of yen)	10,018,080	106.8

(Notes) 1. Amounts are based on sales price.

2. Consumption taxes, etc. are not included in the amounts shown above.

(2) Status of orders received

The Group engages in make-to-stock production and so there are no items to report.

(3) Sales performance

Sales performance by segment for the current fiscal year is as follows.

Segment name	Current fiscal year (January 1, 2017 through December 31, 2017)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	7,584,308	106.6
Other businesses (Thousands of yen)	875,559	106.3
Total (Thousands of yen)	8,459,868	106.6

(Notes) 1. Consumption taxes, etc. are not included in the amounts shown above.

2. The sales performance by major transaction partners and the ratio of sales performance to total sales performance for the last two fiscal years are as follows.

Transaction partner	Previous fiscal year		Current fiscal year	
	Amount (Thousands of yen)	Ratio (%)	Amount (Thousands of yen)	Ratio (%)
MIDORI ANZEN YOUHIN CO., LTD.	1,451,942	18.3	1,437,978	17.0

(Note) Consumption taxes, etc. are not included in the amounts shown above.

XVIII. Issues to be Addressed

To further improve its corporate value and realize sustainable development and growth, the Group has been making efforts on the long-range issues as described below based on the previously stated management philosophies.

(1) Nurture people

The Group has operated for over 20 years according to our human resource management system (Koken total human resource system) called “HOPES” (High-ideal Open-minded Personal Affairs by various Evaluation Systems), which was established based on the concept that companies exist to both help their employees to thrive and to stay in business, and it is critical that a company’s activities enhance the happiness and dignity of the employees they hire.

This is a human resource system that accepts diversity, and evaluates and manages each and every employee independently from three perspectives: professional skill, ability to attain business performance, and management ability. The system provides opportunities for advancement for employees regardless of age, gender, or the number of years of services, constantly putting motivated employees in positions suitable for them.

For business development and expansion, having the right people in the right places is critical and making continual efforts to educate employees for that purpose poses an everlasting issue. The Group has been promoting human resource development systematically by implementing internal training programs to improve employees’ professional knowledge and skills.

We are aware that the Group currently has fewer female employees who are willing to play a managerial role than companies where women have more opportunities to work. To address the situation, the Group has been operating a human resource system that evaluates employees from the aforementioned three perspectives (professional skill, ability to attain business performance, and management ability) and facilitates promotion. As a result, out of all female employees, 51% have become qualified managerial personnel and 46% have become a certified professional known as a Meister, the ratios of which are almost equivalent to those of male employees. We aim for a company where women, including managerial personnel, will be able to further play active roles to the fullest.

(2) Nurture technology

To thoroughly infuse a philosophy of research and development based on the concepts of “never follow other companies” and “conduct thorough research,” which has been carried down since the founding of the Group into each and every one of our technical developers, and thus, we have established a matrix-based R&D structure and have created and have been operating mechanisms for personnel evaluations such as adopting a Meister system for enhancing technical expertise, and holding monthly research presentations, which are given by all technical developers and attended by all directors.

As a result, we have gone on to produce many products that were the only ones or the best ones of their type, and thus, at the end of December 2017, we hold a combined total of 166 domestic and 93 foreign intellectual properties including patents, designs, trademarks, and prior use rights. In recognition of our contribution to the development, etc., of the intellectual property rights system in Japan, we received a FY2017 “Intellectual Property Achievement Award” by the Japan Patent Office of the Ministry of Economy, Trade and Industry.

As a corporate group that pursues growth as technology-driven companies, we always give top priority to intellectual properties from business and corporate strategic points of view. We therefore consider that improvement in both the quality and quantity of intellectual property rights to be acquired is our critical issue.

Hanno Advanced Technology Center, to be completed in August 2018, will serve as a research and development base where new seeds for technical innovation are cultivated and collaboration with external institutions is also undertaken so that a variety of cutting-edge technologies can emerge one after another.

(3) Nurture new markets in the fields of cleanliness, health, and safety

The Group continuously contributes to the development and advancement of new markets by offering our proprietary technologies to the fields of “cleanliness, health, and safety.”

<Cleanliness> Contribute to a dramatic evolution of technology and production

The open clean zone creator “KOACH” is an innovative clean air system that creates a zone that has the world’s highest level of cleanliness, without walls that encircle the working space, in a short time with low power consumption. The Group strives to implement the mission to disseminate “KOACH” as a critical device to support the development of advanced technologies to a wide range of customers from the world’s most advanced laboratories and facilities to medium- and small-sized enterprises that believe clean rooms to be unaffordable.

At the initial stage of marketing, sales activities to promote “Super Cleanliness (the world’s highest level of cleanliness)” resulted in anticipatory introductions of KOACH to certain sectors including research laboratories and facilities that particularly welcomed the product specifications. These introductory cases for “KOACH” have proved the practicality of “Actual Cleanliness (cleanliness during actual work)” that “KOACH” can provide and has raised the awareness of “KOACH,” steadily expanding the area and market of application.

Going forward, the Group aims to contribute to the dramatic evolution of scientific technology and the Japanese manufacturing industry by being ahead of competitors in foreseeing customers’ needs.

<Health> Accelerate product development and develop new business

Sales of the disposable mask “Hi-Luck” series for medical institutions have been steadily expanding owing to the acknowledgement of its superior fit properties. Going forward, we will aim to promote the series to children, pregnant women, and patients suffering nasal and cough allergies who need masks with high fitting properties.

With regard to the automatic endoscope washer “Kagami-Naishi” that reliably washes and disinfects at a low running cost, we will undertake sales activities on the back of its high reputation from existing customers.

While having high antibacterial, mildew resistant, and antiviral properties, “IMADESE[®],” a copper-based antibacterial agent, also has high bio-safety and eco-friendly properties. We will conduct studies to find ways in which we can differentiate it from many other antibacterial agents for its commercialization.

<Safety> Promote further dissemination of masks

Since the manufacturing industry is the major consumer of industrial masks, which are the core products of this segment, an increase and decrease in employment within the industry greatly affects the sales of masks and related products. As seen in media reports that the manufacturing industry’s domestic employment for 2017 is expected to recover to the 10 million level for the first time in seven years, part of the industry is experiencing an increase in capital expenditure and employment due to the return of production sites to Japan. As an initiative to maintain steady revenue even if this trend is reversed, the Group continues its efforts to develop high-quality and high-value-added products to underpin safe and comfortable work environments for workers, striving for further improvement of the secure and safe Koken brand that we have nurtured.

In response to the growing social anxiety about natural disasters and unexpected events, we will also make continuous recommendations to relevant agencies for the stockpiling of masks for countermeasures against pandemics and emergencies, and implementation of training on how to wear masks.

XIX. Financial Instruments

1. Matters concerning the status of financial instruments

(1) Policy with regard to financial instruments

The Group is procuring funds needed, taking into consideration the market environment and long-term and short-term balances. Furthermore, the Group's policy is to operate funds using highly safe short-term deposits, etc., and not to conduct speculative transactions. The Group also has a policy of using derivative transactions to avoid interest rate fluctuation risk and foreign exchange fluctuation risk, and not for conducting speculative transactions.

(2) Description and risks of financial instruments, and the risk management system for said financial instruments

Notes and accounts receivable - trade and electronically recorded monetary claims - operating, which are operating receivables, are exposed to customer credit risk. However, we manage such risk by managing due dates and balances for each customer.

Investments in securities are exposed to the risk of fluctuations in market prices. However, we manage such risk by keeping track of the fair value of listed stocks, etc. on a quarterly basis, and by regularly monitoring our financial situation and other factors with respect to unlisted stocks, etc.

Most accounts payable - trade and accounts payable - other, which are operating obligations, are due within two months, and thus are exposed to liquidity risk. However, we manage liquidity risk by maintaining on hand liquidity at a certain level.

Short-term loans payable, current portion of long-term debt, long-term debt, and lease obligations related to finance lease transactions are mainly for the purpose of financing working capital and capital expenditures, and thus are exposed to liquidity risk. However, we manage liquidity risk by maintaining on hand liquidity at a certain level. Furthermore, since loans are exposed to interest rate fluctuation risk, we consider the use of derivative transactions (interest rate swaps), and implement them when necessary, as hedging instruments.

For foreign currency-denominated receivables and obligations and forecasted transactions denominated in foreign currencies, which are based on transactions with subsidiaries and are also exposed to foreign exchange fluctuation risk, we consider the use of derivative transactions (foreign exchange contracts), and implement them when necessary, as hedging instruments of such transactions.

The Accounting Department obtains approval to execute and manage derivative transactions from responsible authorities in accordance with accounting regulations, etc. In addition, we limit derivative transaction contract holders to major financial institutions with high credit ratings only, and thus we believe that there is almost no so-called credit risk that arises from contractual default by counterparties. Please note that, in accordance with internal regulations, etc., our policy is to not engage in derivative transactions other than those for the purpose of hedging risk.

(3) Supplementary explanation about matters concerning the fair value, etc. of financial instruments

The fair value of financial instruments includes the value based on the market price, and the value reasonably calculated when there is no market price. Since a fluctuation factor is also included in the calculation of the above value, the value may vary by adopting different assumptions, etc.

2. Matters relating to the fair value, etc. of financial instruments

The amount recorded in the consolidated balance sheet, fair value, and the difference between the two, are as follows. Note that items for which fair value is deemed to be extremely difficult to determine are not included (refer to (Note) below).

(Note) Financial instruments for which fair value is deemed to be extremely difficult to determine

(Thousands of yen)

Classification	Previous fiscal year (December 31, 2016)	Current fiscal year (December 31, 2017)
Unlisted stocks	3,246	3,246

*There are no market prices for unlisted stocks and so it is impossible to estimate future cash flows, which, in turn, makes it extremely difficult to determine fair value, and thus these stocks are not subject to fair value disclosure.

XX. Fixed Assets

1. Status of major facilities

(1) Submitting company

The Company has Techno-Yards (manufacturing bases) in five locations in Japan.

The Hanno Laboratory serves as the Company's research facility.

The Company also possesses sales offices in 15 locations, the Saitama Logistics Center, and the Ninomiya Training Center, all located in Japan.

The main facilities among the facilities described above are as follows.

As of December 31, 2017

Business office name (location)	Segment name	Description of facility	Book value						Number of employees (persons)
			Buildings and structures (Thousands of yen)	Machinery, equipment and vehicles (Thousands of yen)	Land (Thousands of yen) (Area m ²)	Lease assets (Thousands of yen)	Others (Thousands of yen)	Total (Thousands of yen)	
Head office (Chiyoda-ku, Tokyo)	Mask-related business and other businesses	Company management work	185,826	136	1,636,000 (283.91 m ²)	29,411	9,456	1,860,830	106
Sayama Techno-Yard (Sayama City, Saitama Prefecture)		Production facility	266,175	132,492	792,433 (11,430.44 m ²)	4,026	4,812	1,199,941	17
Gunma Techno-Yard (Midori City, Gunma Prefecture)		Production facility	329,778	93,323	405,140 (9,256.83 m ²)	56,125	26,563	910,931	15
Tokorozawa Techno-Yard (Tokorozawa City, Saitama Prefecture)		Production facility	51,022	5,381	177,214 (1,915.55 m ²)	3,151	6,510	243,280	10
Nakai Techno-Yard (Nakai-machi, Kanagawa Prefecture)		Production facility	83,492	189,807	325,449 (1,434.94 m ²)	156	1,715	600,621	9
Ranzan Techno-Yard (Ranzan-machi, Saitama Prefecture)		Production facility	33,651	59,028	–	–	2,222	94,903	4
Hanno Laboratory (Hanno City, Saitama Prefecture)		Research facility	18,076	3,548	31,217 (3,637.49 m ²)	68	28,824	81,735	12
Saitama Logistics Center (Ranzan-machi, Saitama Prefecture)		Logistics facility	90,070	774	1,242,116 (21,336.07 m ²)	156	2,812	1,335,930	5

(Notes) 1. Consumption taxes, etc. are not included in the amounts shown above.

2. Since the Ranzan Techno-Yard is located on the same site as the Saitama Logistics Center, all the land of that site is shown under the Saitama Logistics Center, while monetary amounts are classified in accordance with the area used by each facility and are shown for each facility separately.

(2) Overseas subsidiaries

As of December 31, 2017

Company name	Business office name (location)	Segment name	Description of facility	Book value						Number of employees (persons)
				Buildings and structures (Thousands of yen)	Machinery, equipment and vehicles (Thousands of yen)	Land (Thousands of yen) (Area m ²)	Lease assets (Thousands of yen)	Others (Thousands of yen)	Total (Thousands of yen)	
SIAM KOKEN LTD.	Chonburi Province, Thailand	Mask-related business	Production facility	205,696	123,410	73,766 (13,430.40 m ²)	–	17,172	420,045	58

(Note) Consumption taxes, etc. are not included in the amounts shown above.

2. Plans for the new establishment and disposal of facilities

The Group's capital expenditures are formulated after comprehensively considering economic trends, investment efficiency, etc.

At the end of the fiscal year under review, the plans for newly establishing and disposing important facilities were as follows.

(1) New establishment of important facilities

Company name and business office name	Location	Segment name	Description of facility	Planned investment amount		Financing method	Scheduled start and completion dates		Increased capacity after completion
				Total (Millions of yen)	Amount already paid (Millions of yen)		Start	Completion	
Hanno Advanced Technology Center of the Company	Hanno City, Saitama Prefecture	Mask-related business and other businesses	Research facility	3,000	816	Company resources and loans	May 2017	August 2018	–

(Note) Consumption taxes, etc. are not included in the amounts shown above.

(2) Disposal of important facilities, etc.

No items to report.

XXI. Loans

[Schedule of loans, etc.]

Classification	Balance at beginning of current term (Thousands of yen)	Balance at end of current term (Thousands of yen)	Average interest rate (%)	Repayment deadline
Short-term loans payable	1,400,000	1,400,000	0.53	–
Current portion of long-term debt	1,219,500	1,060,175	0.77	–
Current portion of lease obligations	46,099	53,816	–	–
Long-term debt (excluding those to be repaid within one year)	3,107,000	3,442,825	0.66	2019 through 2028
Lease obligations (excluding those to be repaid within one year)	60,599	46,568	–	2019 through 2020
Other interest-bearing liabilities	–	–	–	–
Total	5,833,199	6,003,384	–	–

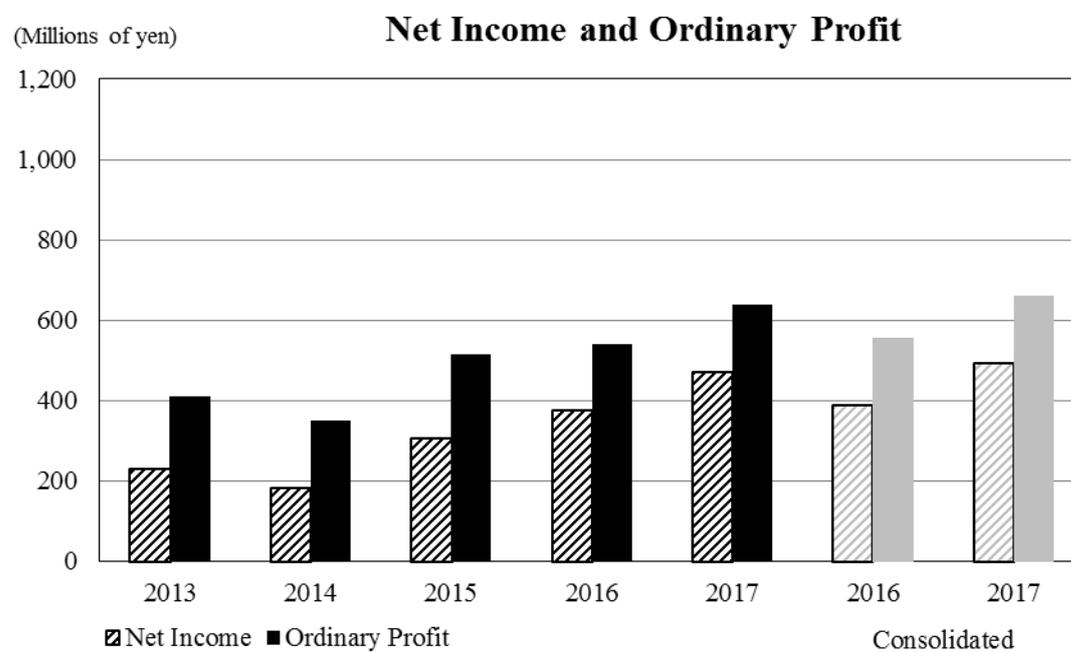
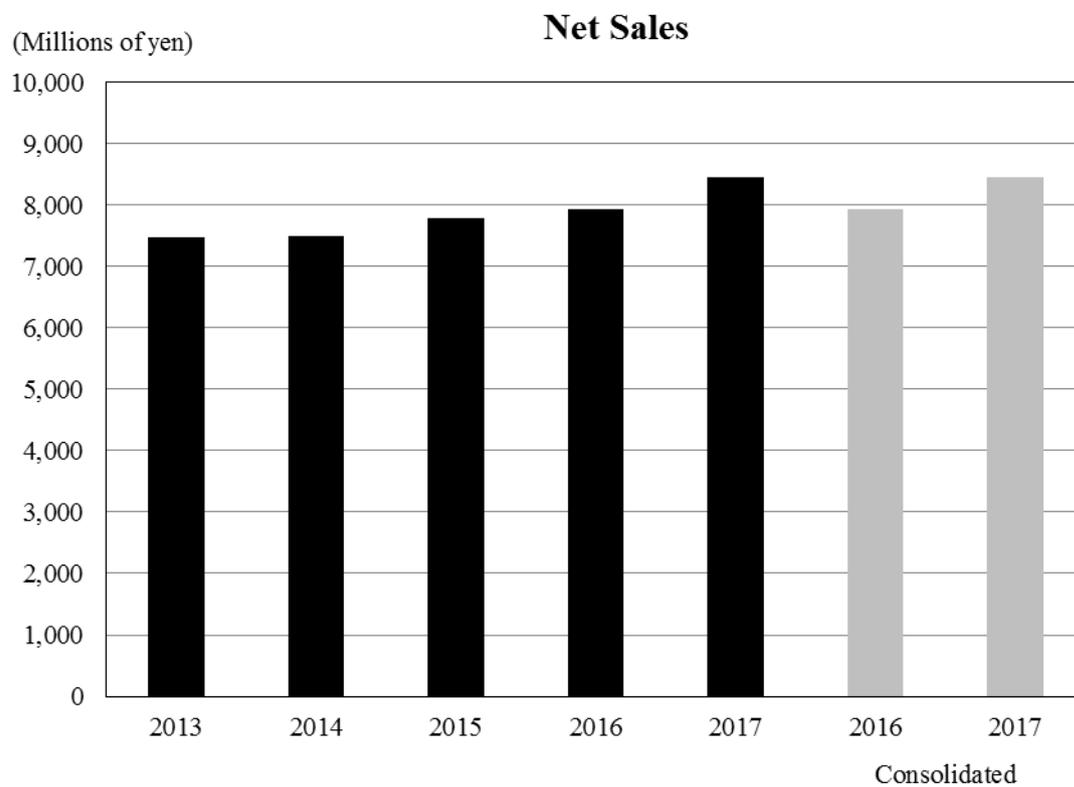
- (Notes) 1. The weighted average interest rate on the year-end balance of loans is stated for the average interest rate.
2. The average interest rate is omitted for lease obligations because the lease obligations recorded in the consolidated balance is the amount before deducting the interest equivalent amount included in the lease payments.
3. The scheduled repayment amounts for long-term debt and lease obligations (excluding those to be repaid within one year) for the five years following the date of consolidated balance sheet are as follows.

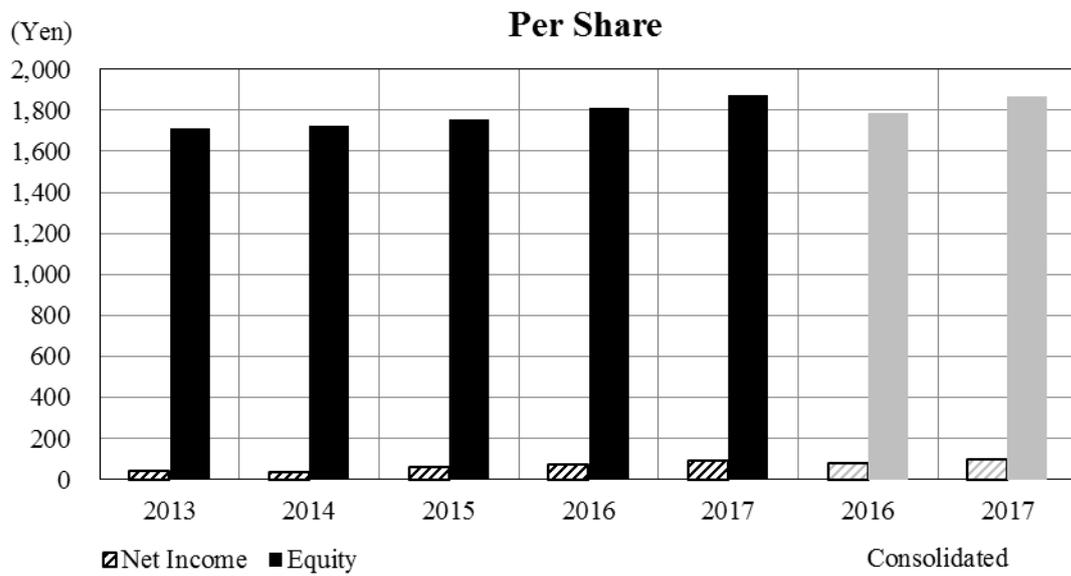
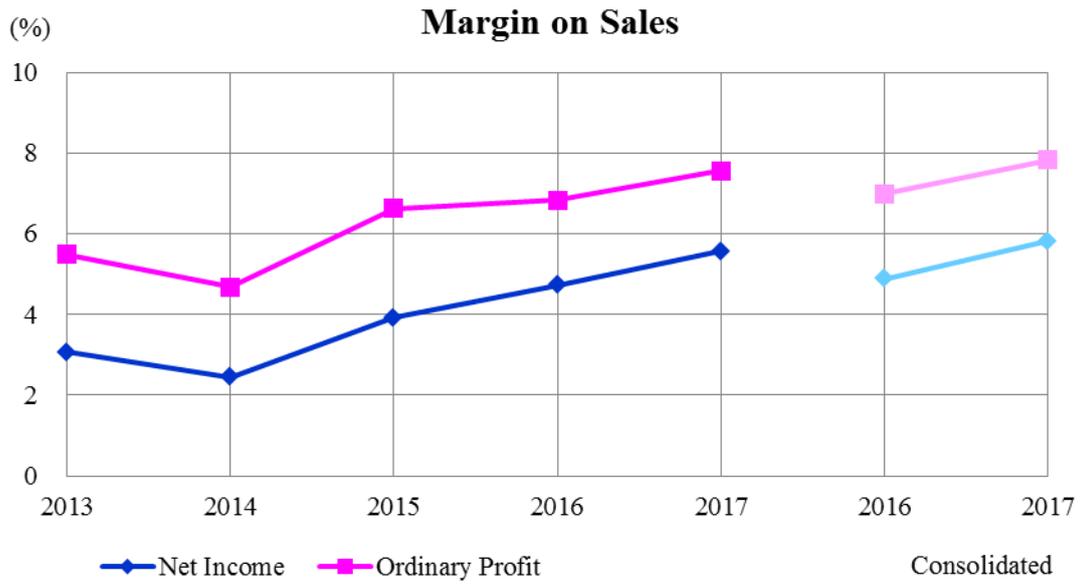
	More than one year to two years (Thousands of yen)	More than two years to three years (Thousands of yen)	More than three years to four years (Thousands of yen)	More than four years to five years (Thousands of yen)
Long-term debt	871,950	1,300,700	410,700	214,700
Lease obligations	37,309	9,259	–	–

[Schedule of asset retirement obligations]

Since the amount of asset retirement obligations at the beginning and the end of the fiscal year under review was 1/100 or less of the total of liabilities and net assets at the beginning and the end of the fiscal year under review, said obligations are omitted in accordance with the provisions of Article 92-2 of the Ordinance on Consolidated Financial Statements.

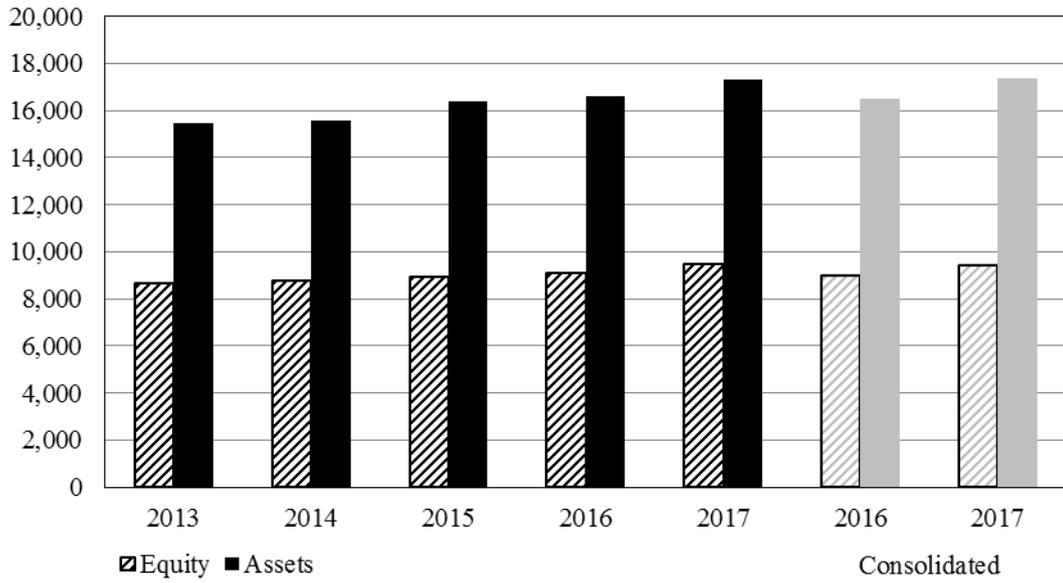
XXII. Summary of Selected Financial Data (Graphs)





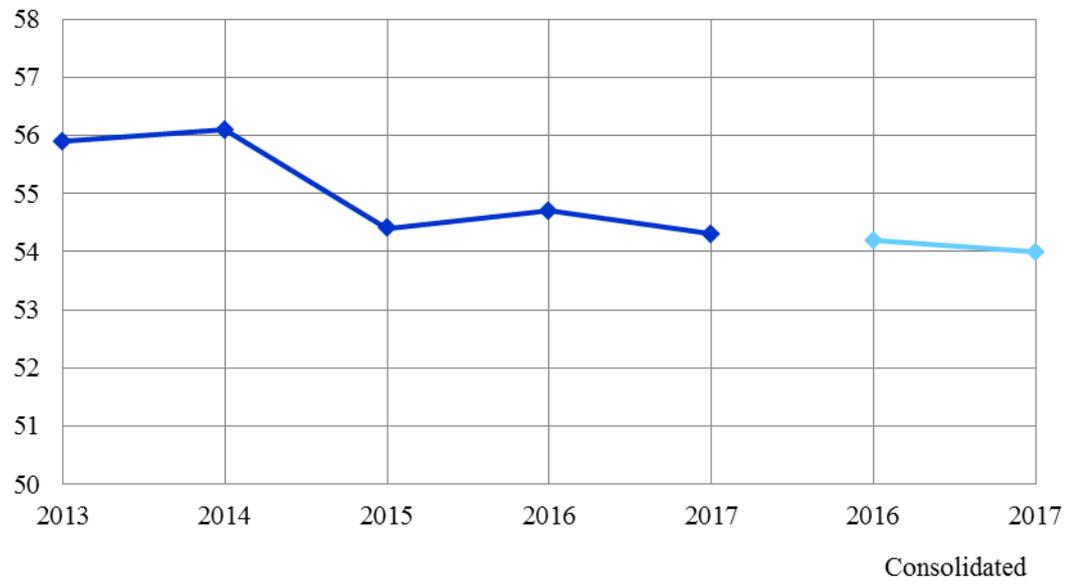
(Millions of yen)

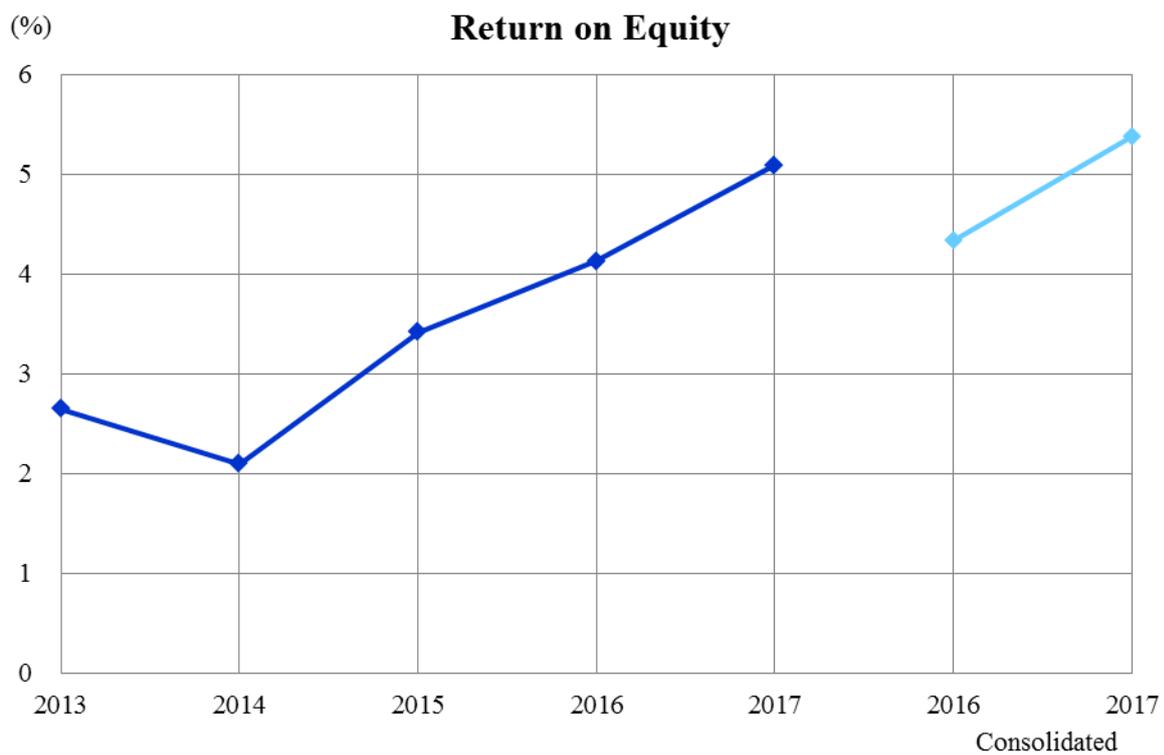
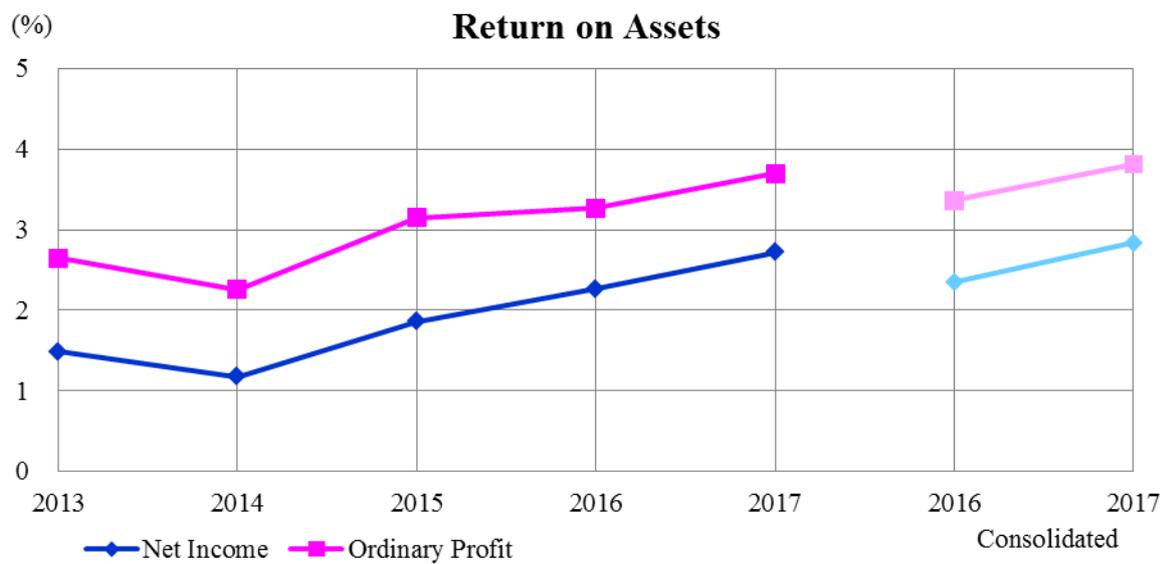
Equity and Assets



(%)

Equity / Assets





XXIII. Consolidated Financial Statements

(1) Consolidated financial statements

1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	1,999,009	1,808,206
Notes and accounts receivable - trade	2,859,214	2,412,829
Electronically recorded monetary claims - operating	533,584	1,012,324
Merchandise and finished goods	680,173	787,793
Work in process	313,168	288,091
Raw materials and supplies	436,870	516,320
Deferred tax assets	220,744	212,787
Others	91,055	121,787
Allowance for doubtful accounts	(4,000)	(4,000)
Total current assets	7,129,820	7,156,140
Fixed assets		
Tangible fixed assets		
Buildings and structures	4,174,273	4,251,847
Accumulated depreciation	(2,851,713)	(2,960,672)
Buildings and structures, net	1,322,559	1,291,174
Machinery, equipment and vehicles	4,297,785	4,438,799
Accumulated depreciation	(3,637,498)	(3,828,572)
Machinery, equipment and vehicles, net	660,286	610,226
Land	5,829,290	5,839,548
Lease assets	133,171	166,918
Accumulated depreciation	(63,718)	(91,411)
Lease assets, net	69,453	75,507
Construction in progress	117,566	1,003,534
Others	2,296,862	2,277,262
Accumulated depreciation	(2,175,382)	(2,167,270)
Others, net	121,479	109,991
Total tangible fixed assets	8,120,636	8,929,983
Intangible fixed assets		
Lease assets	29,718	17,588
Others	41,187	42,902
Total intangible fixed assets	70,906	60,491
Investments and other assets		
Investments in securities	101,449	103,820
Deferred tax assets	159,021	187,378
Directors' retirement benefit insurance premiums	835,707	837,598
Others	91,006	85,466
Allowance for doubtful accounts	(4,000)	(6,000)
Total investments and other assets	1,183,184	1,208,264
Total fixed assets	9,374,726	10,198,739
Total assets	16,504,547	17,354,879

(Thousands of yen)

	As of December 31, 2016	As of December 31, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	202,129	243,794
Short-term loans payable	1,400,000	1,400,000
Current portion of long-term debt	1,219,500	1,060,175
Accounts payable - other	142,547	158,230
Accrued expenses	174,817	201,420
Lease obligations	46,099	53,816
Income taxes payable	138,632	102,477
Provision for bonuses	235,000	287,000
Provision for directors' and corporate auditors' bonuses	27,400	33,200
Others	165,855	243,166
Total current liabilities	3,751,982	3,783,280
Long-term liabilities		
Long-term debt	3,107,000	3,442,825
Provision for directors' and corporate auditors' retirement benefits	539,000	564,300
Provision for stock benefits	16,954	28,896
Provision for directors' stock benefits	5,750	10,165
Asset retirement obligations	15,739	14,773
Lease obligations	60,599	46,568
Others	3,209	35,573
Total long-term liabilities	3,748,253	4,143,102
Total liabilities	7,500,236	7,926,382
Net assets		
Shareholders' equity		
Common stock	674,265	674,265
Capital surplus	527,963	527,963
Retained earnings	7,887,822	8,254,153
Treasury stock	(134,796)	(134,039)
Total shareholders' equity	8,955,254	9,322,343
Other comprehensive income		
Valuation difference on available-for-sale securities	28,156	34,598
Deferred gains or losses on hedges	-	(22,746)
Foreign currency translation adjustment	(39,643)	33,757
Total other comprehensive income	(11,487)	45,609
Share subscription rights	60,544	60,544
Total net assets	9,004,311	9,428,496
Total liabilities and net assets	16,504,547	17,354,879

2) Consolidated statement of income and consolidated statement of comprehensive income
Consolidated statement of income

(Thousands of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Net sales	7,936,710	8,459,868
Cost of goods sold	4,172,496	4,393,903
Gross profit on sales	3,764,213	4,065,964
Selling, general and administrative expenses	3,129,833	3,340,119
Operating income	634,380	725,845
Nonoperating income		
Interest income	196	123
Dividend income	2,863	3,170
Commissions received	8,676	10,424
Temporary assigned personnel payments received	4,087	4,087
Foreign exchange gains	–	2,100
Others	3,895	5,020
Total nonoperating income	19,720	24,927
Nonoperating expenses		
Interest expenses	48,844	39,996
Sales discounts	10,234	9,108
Commission fee	–	22,000
Foreign exchange losses	22,126	–
Others	18,016	17,405
Total nonoperating expenses	99,221	88,510
Ordinary profit	554,878	662,262
Extraordinary losses		
Loss on retirement of fixed assets	164	66
Total extraordinary losses	164	66
Net income before taxes and other adjustments	554,714	662,195
Corporate, inhabitant and enterprise taxes	210,000	176,000
Deferred taxes	(43,385)	(6,290)
Total income taxes	166,614	169,709
Net income	388,099	492,485
Net income attributable to owners of parent	388,099	492,485

Consolidated statement of comprehensive income

(Thousands of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Net income	388,099	492,485
Other comprehensive income		
Valuation difference on available-for-sale securities	11,484	6,442
Deferred gains or losses on hedges	(1,031)	(22,746)
Foreign currency translation adjustment	(64,882)	73,401
Total other comprehensive income	(54,428)	57,097
Comprehensive income	333,671	549,583
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	333,671	549,583
Comprehensive income attributable to non-controlling interests	—	—

3) Consolidated statement of changes in net assets

Fiscal year ended December 31, 2016 (January 1, 2016 through December 31, 2016)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current term	674,265	527,936	7,626,629	(40,920)	8,787,910
Changes in items during the term					
Dividends from retained earnings			(126,906)		(126,906)
Net income attributable to owners of parent			388,099		388,099
Purchase of treasury stock				(93,849)	(93,849)
Disposal of treasury stock		26		47,241	47,268
Purchase of treasury stock for stock benefit trust				(47,268)	(47,268)
Other changes in non-shareholders' equity items during the term (net)					-
Total changes during the term	-	26	261,193	(93,875)	167,343
Balance at end of current term	674,265	527,963	7,887,822	(134,796)	8,955,254

	Other comprehensive income				Share subscription rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total other comprehensive income		
Balance at beginning of current term	16,671	1,031	25,238	42,940	60,544	8,891,395
Changes in items during the term						
Dividends from retained earnings						(126,906)
Net income attributable to owners of parent						388,099
Purchase of treasury stock						(93,849)
Disposal of treasury stock						47,268
Purchase of treasury stock for stock benefit trust						(47,268)
Other changes in non-shareholders' equity items during the term (net)	11,484	(1,031)	(64,882)	(54,428)	-	(54,428)
Total changes during the term	11,484	(1,031)	(64,882)	(54,428)	-	112,915
Balance at end of current term	28,156	-	(39,643)	(11,487)	60,544	9,004,311

Fiscal year ended December 31, 2017 (January 1, 2017 through December 31, 2017)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current term	674,265	527,963	7,887,822	(134,796)	8,955,254
Changes in items during the term					
Dividends from retained earnings			(126,154)		(126,154)
Net income attributable to owners of parent			492,485		492,485
Disposal of treasury stock				757	757
Other changes in non-shareholders' equity items during the term (net)					-
Total changes during the term	-	-	366,330	757	367,088
Balance at end of current term	674,265	527,963	8,254,153	(134,039)	9,322,343

	Other comprehensive income				Share subscription rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total other comprehensive income		
Balance at beginning of current term	28,156	-	(39,643)	(11,487)	60,544	9,004,311
Changes in items during the term						
Dividends from retained earnings						(126,154)
Net income attributable to owners of parent						492,485
Disposal of treasury stock						757
Other changes in non-shareholders' equity items during the term (net)	6,442	(22,746)	73,401	57,097	-	57,097
Total changes during the term	6,442	(22,746)	73,401	57,097	-	424,185
Balance at end of current term	34,598	(22,746)	33,757	45,609	60,544	9,428,496

4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Cash flows from operating activities		
Net income before taxes and other adjustments	554,714	662,195
Depreciation	435,510	425,378
Increase (decrease) in allowance for doubtful accounts	–	2,000
Increase (decrease) in provision for directors' and corporate auditors' retirement benefits	35,000	25,300
Increase (decrease) in provision for bonuses	61,000	52,000
Increase (decrease) in provision for directors' and corporate auditors' bonuses	7,150	5,800
Increase (decrease) in provision for stock benefits	16,954	11,941
Increase (decrease) in provision for directors' stock benefits	5,750	4,415
Interest income	(196)	(123)
Dividend income	(2,863)	(3,170)
Interest expenses	48,844	39,996
Decrease (increase) in notes and accounts receivable	161,457	(32,355)
Decrease (increase) in inventory	(274,017)	(146,167)
Increase (decrease) in notes and accounts payable	(18,374)	38,334
Others	57,290	105,847
Subtotal	1,088,219	1,191,393
Interest and dividend income	3,060	3,294
Interest expenses	(49,388)	(39,894)
Income taxes and others	(211,663)	(235,128)
Net cash provided by operating activities	830,228	919,664
Cash flows from investing activities		
Payments for acquisition of tangible fixed assets	(298,080)	(1,167,569)
Proceeds from sale of tangible fixed assets	61,465	60,036
Others	(9,032)	(15,887)
Net cash used in investing activities	(245,647)	(1,123,419)
Cash flows from financing activities		
Proceeds from long-term debt	1,300,000	1,417,000
Payments of long-term debt	(1,389,000)	(1,240,500)
Purchase of treasury stock	(141,117)	–
Proceeds from sale of treasury stock	47,268	–
Dividends	(126,639)	(126,145)
Others	(43,944)	(52,305)
Net cash used in financing activities	(353,433)	(1,951)
Effect of exchange rate fluctuations on cash and cash equivalents	(9,466)	14,903
Increase (decrease) in cash and cash equivalents	221,680	(190,802)
Cash and cash equivalents at beginning of term	1,777,329	1,999,009
Cash and cash equivalents at end of term	1,999,009	1,808,206

XXIV. Corporate Data

Basic Information (As of December 31, 2017)

Trade name:	KOKEN LTD.
Established:	May 1943
Listed market:	JASDAQ Standard market of Tokyo Stock Exchange (Securities Code: 7963)
Listed:	December 2004
Fiscal year:	From January 1 to December 31
Capital stock:	674 million yen
Number of employees:	289 persons (Consolidated)
Head office:	7, Yonbancho, Chiyoda-ku, Tokyo
Telephone:	+81-3-5276-1911
Consolidated subsidiaries:	SIAM KOKEN LTD.

Directors and Corporate Auditors (As of March 27, 2018)

Representative Director, Chairman	Masakazu Sakai
Representative Director, President	Tsutomu Murakawa
Representative Director, Executive Vice President	Nobuya Horiguchi
Senior Managing Director	Mitsuji Muramatsu
Senior Managing Director	Fumikazu Tanaka
Managing Director	Hideaki Ibata
Director	Toshiaki Nagasaka
Director, Advisor	Hiroyuki Sakai
Director*	Shinobu Sakurai
Standing Corporate Auditor	Toshio Akiyama
Standing Corporate Auditor	Yoshihiro Ito
Corporate Auditor**	Teruo Shinato
Corporate Auditor**	Nikko Haku

* Outside Director ** Outside Corporate Auditor

Stock Status (As of December 31, 2017)

Total number of authorized shares:	20,000,000 shares
Total number of issued shares:	5,104,003 shares
Number of shareholders:	2,388

Major shareholders (Top 10)

Name	Number of shares held (Thousands)	Shareholding ratio (%)
Masakazu Sakai	641	12.56
Hiroyuki Sakai	609	11.94
Sakai CHS Foundation	400	7.84
Resona Bank, Limited	244	4.79
Kaori Sakai	229	4.50
Rie Sakai	229	4.50
Mizuho Bank, Ltd. (Standing proxy: Trust & Custody Services Bank, Ltd.)	227	4.47
Miho Kuboi	226	4.43
Haruna Sakai	226	4.43
Sakai Tatemono Ltd.	166	3.26