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YUHO REPORT

Annual

Fiscal Year Ended	**December 31, 2012**
Traded	**JASDAQ**
Stock Code	**7963**

KOKEN LTD.

YUHOREPORT

Koken Ltd.

Fiscal Year Ended	**December 31, 2012**
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Company Profile

Financial highlights

Years ended December 31; Thousands of yen	2008	2009	2010	2011	2012	Change 2012/2008
Net sales	7,845,556	8,102,194	7,358,872	8,879,229	8,329,921	106%
Ordinary profit	594,546	448,168	532,880	1,112,847	661,983	111%
Net income	332,058	268,361	421,366	553,565	384,930	116%
Common stock	674,265	674,265	674,265	674,265	674,265	100%
Shares outstanding	5,104,003	5,104,003	5,104,003	5,104,003	5,104,003	100%
Net assets	7,618,476	7,737,594	8,019,514	8,466,354	8,647,479	114%
Total assets	16,357,462	16,330,742	15,563,206	16,262,836	15,966,154	98%
Net assets per share (Yen)	1,449.63	1,522.27	1,576.93	1,663.78	1,703.16	117%
Dividends per share (Yen)	25.00	25.00	25.00	35.00	25.00	100%
Net income per share (Yen)	65.71	53.06	83.31	109.46	76.07	116%
Net income per share, fully diluted (Yen)	65.62	-	-	108.79	75.77	
Dividend payout ratio (%)	38.0	47.1	30.0	32.0	32.9	
Net cash provided by operating activities	762,274	1,109,749	1,092,832	630,328	1,205,276	
Net cash used in investing activities	(1,900,182)	(397,396)	(170,094)	(530,507)	(46,337)	
Net cash provided by (used in) financing activities	847,578	(663,976)	(779,762)	(860,827)	109,316	
Cash and cash equivalents at end of term	1,617,654	1,666,031	1,809,006	1,048,000	2,320,852	
Employees	218	219	211	215	221	101%

Peer comparisons

Percent	2008	2009	2010	2011	2012
Net income / net sales (%)	4.2	3.3	5.7	6.2	4.6
Peers	(0.0)	(8.5)	0.9	1.9	2.2
Ordinary profit / net sales (%)	7.6	5.5	7.2	12.5	7.9
Peers	2.6	(2.7)	2.3	3.6	4.5
Net income / equity (%)	4.4	3.5	5.3	6.6	4.5
Peers	1.3	(10.6)	3.6	5.5	7.6
Net income / assets (%)	2.0	1.6	2.7	3.5	2.4
Peers	0.1	(5.1)	1.3	2.2	2.9
Ordinary profit / assets (%)	3.6	2.7	3.4	7.0	4.1
Peers	2.7	(1.1)	2.8	3.9	4.9
Equity / assets (%)	46.4	47.1	51.2	51.7	54.1
Peers	48.9	45.3	47.3	49.2	50.2

Peers include 31 companies in the other products sector on the JASDAQ market of the Osaka Securities Exchange.

Business Overview

Description of business

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

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

History

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

Risk factors

The Company recognizes the following risks or potential risk factors as existing as of December 31, 2012.

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

Research and Development

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

Legal and Regulatory

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

Quality Assurance and Quality Management

- Besides being designed for use in harsh environments, the Company's products must be extremely durable and trustworthy to fulfill their role in protecting human safety and health. To assure the highest levels of quality control, the Company has established quality management systems based on ISO9001 standards and has adopted the following measures:

a) It maintains an independent quality assurance office, which reports directly to the president; and
b) It assigns personnel from this office to each of the Company's manufacturing and technical facilities to monitor production and inspection procedures.

- The Ministry of Health, Labour and Welfare conducts tests on protective breathing equipment. In the unlikely event that such tests should reveal defects in the Company's products despite its stringent quality control, the costs incurred in recalling and repairing non-compliant equipment could have a negative impact on the Company's financial performance.

Natural Disasters and Epidemics

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

Environmental Issues

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

Information Security

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

Internal Controls

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

Research and development

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

A total of 72 staff are responsible for research and development, and related expenditures during the year under review totaled 526 million yen.

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

Mask segment

Koken has developed and introduced new particulate respirators, gas masks and PAPR masks to conform to requirements specified in a ministerial notice published in August 2012 concerning ways of upgrading OH&S standards for workers exposed to radiation risks or involved in emergency situations. This notice was issued to reflect lessons learned from the disaster at the Fukushima Daiichi nuclear power plant operated by Tokyo Electric Power Company.

1521 series full-face particulate respirator and gas mask models feature an original "HAWC (High Adaptable Wide Concave) lip" construction that provides wearers with a feeling of enhanced facepiece fit due to the suctorial effect of its wide concave face-contacting lip. A movable cartridge holder (designed to move back and forth) provides both a wide field of vision and easy attachment and removal of a protective clothing hood for decontamination. Koken has also developed the RDG–2HP series of chemical cartridges for use in respirators that provides extended protection from radioactive methyl iodide gas. In accordance with new requirements, these cartridges are packed in aluminum containers to enable storage for up to five years.

In addition to the better fit on the face provided by the "HAWC lip" construction due to the suctorial effect of its wide face-contact lip, the BL-711 PAPR mask provides a high degree of safety by maintaining positive air pressure inside the respirator. In response to feedback from nuclear power facility operations and maintenance staff, the facepiece and eyepiece employ an extra-wide design to accommodate eyeglass wearers who wear a full-face respirator on the worksite. A high-sensitivity speaking diaphragm is also built in to improve communication with co-workers and enhance workplace safety, and special coating technology is employed on the eyepiece surface to reinforce its scratch resistance.

Other businesses segment

During 2012, Koken upgraded its entire range of KOACH systems for spaces with or without surrounding walls to enable creation of super-clean environments conforming to international ISO Class 1 standards.

Two new advances were also developed to improve these products further. The first advance was the development of an air-flow separation technology (designed to install air-flow separators in clean zones created by “the Floor KOACH Ez”), which forces a portion of the horizontal air flow containing contaminants generated inside a clean zone downward toward the floor (D-1) and discharges the emissions from the clean zone (DC-1).

The “Floor KOACH Exp-Ezp” system was developed through the addition of a sleep mode in response to feedback from customers who wanted to “maintain a high level of cleanliness in the room, even when it is not in use” or felt hesitant to operate a clean room continuously because of high electricity costs. The “Floor KOACH Exp-Ezp” system with its surrounding guide screen enables the power to be turned off during breaks due to its ability to restore air cleanliness to optimal levels in a very short time after the power is turned back on.

When the clean room is not in use (in sleep mode), closing the entrance door, enables the air-flow speed to be reduced to a minimum while still maintaining ISO Class 1 air cleanliness. Power consumption in the sleep mode is reduced by approximately 70% compared with consumption during full operation, which can lead to a reduction in electricity consumption to less than one-tenth that of conventional clean rooms.

Analysis of financial condition and results of operations

(1) Significant accounting policies and estimates

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

(2) Financial analysis

Total assets stood at 15,966 million yen as of December 31, 2012, a decrease of 296 million yen from the previous year-end.

Current assets: 7,180 million yen (an increase of 325 million yen)

This mainly reflected increases in cash and deposits (of 1,272 million yen) and income taxes receivable (of 153 million yen), although these increases were somewhat offset by declines in accounts receivable - trade (of 636 million yen) and work in process (of 236 million yen).

Fixed assets: 8,785 million yen (a decrease of 622 million yen)

This mainly reflected an increase of 100 million yen in equity in affiliates in connection with the establishment of a new subsidiary in Thailand, and a decrease of 666 million yen in land holdings due to the sale of land to an external buyer.

Current liabilities: 4,496 million yen (a decrease of 545 million yen)

This primarily reflected an increase in short-term borrowings (of 200 million yen) as well as decreases in income taxes payable (of 489 million yen), accounts payable - facilities (of 142 million yen) and provision for bonuses (of 87 million yen).

Long-term liabilities: 2,821 million yen (an increase of 67 million yen)

This primarily reflected an increase in long-term debt (of 142 million yen) as well as a decrease in long-term accounts payable - other (of 52 million yen).

Net assets: 8,647 million yen (an increase of 181 million yen)

This mainly reflected an increase in special reserves (of 300 million yen) as well as a decrease in retained earnings carried forward (of 90 million yen).

The equity capital ratio increased to 54.1% from 51.7%.

(3) Results of operations

Sales:	8,329 million yen	(down 6.2%)
Operating income:	745 million yen	(down 36.1%)
Ordinary profit:	661 million yen	(down 40.5%)
Net income:	384 million yen	(down 30.5%)

Sales:

Sales decreased by 549 million yen compared with the previous year to 8,329 million yen. This primarily reflected declines in sales of protective masks for use in disaster recovery situations and for protecting workers from radiation.

Cost of goods sold:

Reflecting the decrease in sales, the cost of goods sold declined by 87 million yen compared with the previous year to 4,585 million yen. The gross profit margin contracted by 2.4 percentage points from 47.4% to 45.0%.

Selling, general and administrative expenses:

Selling, general and administrative expenses decreased by 40 million yen compared with the previous year to 2,999 million yen.

Operating income:

Operating income decreased by 421 million yen compared with the previous year to 745 million yen. The operating profit margin declined by 4.2 percentage points from 13.1% to 8.9%.

Nonoperating income and expenses:

Nonoperating income amounted to 36 million yen, which was broadly in line with the previous year's figure.

Nonoperating expenses increased by 29 million yen compared with the previous year to 120 million yen. This mainly reflected a year-on-year increase in commission fees of 35 million yen.

Extraordinary income and losses:

Extraordinary income was 42 million yen. This mainly reflected a gain on reversal of subscription rights to shares of 38 million yen.

Extraordinary losses decreased by 78 million yen to 21 million yen. This primarily reflected decreases in loss on valuation of investment securities (of 34 million yen) and loss on sales and retirement of fixed assets (of 35 million yen).

Corporate governance

(1) Basic philosophy concerning corporate governance

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

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

The following information related to corporate governance is as of March 15, 2013 (the publication date of the original Japanese report).

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

   a. Basic explanation of corporate governance structures

      - Board of Directors: The primary decision-making body of the Company, the Board of Directors meets once a month, as a rule, as provided for under the bylaws of the Board of Directors. In addition to deciding important matters concerning the execution of operations, the Board also oversees those operations. The Board is also prepared to meet on an as-needed basis to deal with issues that require prompt action.
      - Senior Management Meetings: Senior Management Meetings, whose members consist of the directors, division managers and heads of the respective departments, are convened once a month. Decisions of the Board of Directors are conveyed to the senior management at these meetings, which also provide occasions for divisional managers and heads of sales offices to present sales reports and for senior management to be updated on operations in the various departments. Problem areas and policy responses are also discussed.

- Board of Corporate Auditors: The Company has adopted a system of corporate auditors. It elects four auditors (two of whom are outside auditors), who participate in Board of Directors meetings and, in so doing, monitor the performance of the directors and the Board of Directors.

b. Overview of corporate governance structures and the development status of internal control systems

- The Company operates its business through four divisions: the Management Division, the Marketing Division, the Technology Division and the Manufacturing Division. Each division is headed by a general manager, and responsibilities are allocated in a manner that enable each division to act as a check on the others.
- To enhance efficiency and promote appropriate, rational management, the Company has established a number of internal regulations, which are reviewed regularly by the department heads to assure their compatibility with realities on the ground. The department heads perform the important role of ensuring that operations in their departments are carried out strictly in accordance with the applicable laws and ordinances.
- The Company continually upgrades its systems to ensure full compliance with laws, regulations and internal rules through various checking procedures. The Company has instituted compliance-related educational and training courses for directors and employees. In addition, the Company has set up the Koken Compliance Help Line as an internal reporting system designed to control and correct any compliance violations at the earliest possible time.
- As a responsible corporate citizen, the Company maintains no relations with antisocial forces or other organizations that threaten the social order, and it remains resolutely opposed to such forces.

c. Risk management system development status

- The Management Division, Marketing Division, Technology Division and Manufacturing Division all have their own systems to manage intra-divisional risks. At the same time, this arrangement is bolstered by a system of mutual checks and balances. Operational audits are conducted to assess the execution status of business processes according to internal auditing regulations. In particular, quality assurance audits are conducted to perform quality checks on product-related processes. The results of internal audits are reported to the president, and systems are in place to facilitate the institution of improvement measures where necessary.

- The executive officer in charge of internal controls assumes overall responsibility for managing risk at the corporate level. While promoting the adoption of any required regulations, he also continues to construct risk management systems with the aim of mitigating projected risks and developing contingency measures against any foreseeable emergency situations.

2) Status of internal audits and auditing by corporate auditors

- Internal audits are the responsibility of the executive officer in charge of internal controls, who directs an individual appointed by the president to audit the Company's operations. The results of this individual's audits are reported to the president, and any necessary measures to resolve problems are adopted and follow-up audits carried out.
- Quality management audits, another facet of the Company's internal audit structure (equivalent to internal audits based on ISO9001 and JIS Q9001), are the responsibility of the head of the Quality Management Office, who also reports the audit results to the president. If an audit uncovers any failure to conform with quality standards, the heads of the relevant departments concerned are requested to correct the problems, and the results of their follow-up measures are checked.
- In line with the initiation of production and sales activities concerned with medical devices whose manufacturing and sale require approval under the Pharmaceutical Affairs Law (notably fully automated systems for washing and sterilizing endoscopes), the Company has constructed quality and safety management systems based on Japanese ministerial ordinances concerning the relevant standards applicable to medical equipment, such as QMS (Quality Management System; manufacturing and quality control), GQP (Good Quality Practice; production-related quality control); and GVP (Good Vigilance Practice; post-marketing safety control). Under this structure, the Company has appointed one person who undertakes management oversight of all quality and safety issues related to the manufacture and sale of medical equipment. Two managers responsible for QC/QA issues and for safety management report to this person. The system involves close cooperation between these managers and the relevant departments. The Company

continues to work to strengthen its quality and safety management systems to ensure the production and sale of medical equipment of the highest quality and safety.

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

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

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

Engagement partner: Yuko Sakamoto, CPA
Engagement partner: Kenji Oka, CPA
Engagement partner: Satoshi Terada, CPA

Number of assistants involved in audits:

CPAs: 2

Other staff: 7

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

4) Outside directors and outside corporate auditors

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

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

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

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

Prof. Emi owns 3,600 shares of Company stock. Although the Company has made financial donations to Kanazawa University, these are sufficiently small to be of no concern to shareholders or investors. The Company has nominated Prof. Emi as an independent executive to the Osaka Securities Exchange.

Mr. Kawai owns 300 shares of Company stock and is a partner in Sakura Kyodo Law Offices. The Company has sought legal advice on occasion from other partners working for this law firm, but has no consulting contract with the firm, nor did the Company have any commercial dealings with the firm during the year under review. The Company has also nominated Mr. Kawai as an independent executive to the Osaka Securities Exchange.

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

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

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

5) Directors' compensation

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

		Total amounts paid out to board members by type of compensation				
Thousands of yen	**Amount paid**	**Compensation**	**Bonuses**	**Stock options**	**Directors' and corporate auditors' retirement allowances**	**Number of board members in each category**
Directors	178,450	124,500	28,400	350	25,200	8
Corporate auditors	23,370	16,800	4,400	70	2,100	2
Outside corporate auditors	9,870	7,200	1,800	70	800	2
	211,690	148,500	34,600	490	28,100	12

1. *Bonuses include any provisions made during the fiscal year under review in the reserve for directors' and corporate auditors' bonuses. These bonuses were approved at the 50th Annual General Meeting of Shareholders held on March 27, 2013.*
2. *Directors' and corporate auditors' retirement allowances represent the provisions made in the fiscal year under review in the reserve for directors' and corporate auditors' retirement benefits.*

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

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

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

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

6) Shareholdings in other companies

a. Investment securities held for purposes other than pure investment

Number of issues: 9

Total value on balance sheet: 60,616,000 yen

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

	2011		2012		
Thousands of yen	**Number of shares**	**Book value**	**Number of shares**	**Book value**	**Reason for purchase**
Resona Holdings, Inc. (8308)	76,835	26,431	76,835	27,583	To maintain and strengthen business relationships
Mizuho Financial Group, Inc. 11th series preferred stock (class 11)	50,000	22,815	50,000	22,815	To maintain and strengthen business relationships
Nippon Kanryu Industry (1771)	15,000	2,460	15,000	2,490	To maintain and strengthen business relationships
Mizuho Financial Group, Inc. (8411)	14,755	1,534	14,755	2,065	To maintain and strengthen business relationships
Mitsubishi UFJ Financial Group, Inc. (8306)	4,240	1,416	4,240	1,725	To maintain and strengthen business relationships
Nomura Holdings, Inc. (8604)	1,750	439	1,750	689	To maintain and strengthen business relationships

7) Limited liability agreements

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

8) Number of directors

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

9) Election of directors

The Company's articles of incorporation stipulate that approval of resolutions to elect directors requires a majority of the votes cast at meetings attended by shareholders representing at least one-third of the total voting rights. Cumulative voting cannot be employed to elect directors.

10) Determination of interim dividends

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

11) Acquisitions of treasury stock

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

12) Special resolutions of the General Meeting of Shareholders

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

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

- The Board of Directors convened 15 times in the year ended December 2012 to make important management decisions and oversee their execution.
- As its disclosure policy, the Company released explanatory information about its financial results for the year ended December 2011 and its financial results for the interim period of the year ended December 2012 on the Company's website.

(2) Auditors' compensation

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

Thousands of yen	2011	2012
Financial audit services	22,875	22,500
Non-audit services	-	-

2) Compensation policy for financial audit services

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

Directors

(As of March 27, 2013)

Name	Title	Joined company	Previous or current employers/ occupations	Date of birth	Term	Shares owned (Thousand shares)
Masakazu Sakai	Representative Director, Chairman	Aug-67	Renown Shoji	22-Aug-41	2 years from the General Meeting of Shareholders (GMS) held on March 27, 2012	890
Hiroyuki Sakai	Representative Director, President	Apr-67		23-May-43	2 years from GMS held on March 27, 2012	858
Yosuke Yamasato	Representative Director, Executive Vice President	Sep-02	Ground Self-Defense Force	22-Jun-45	2 years from GMS held on March 27, 2012	7
Mitsuji Muramatsu	Managing Director	Feb-06	Mizuho Bank	21-Feb-56	2 years from GMS held on March 27, 2012	9
Toshio Akiyama	Managing Director	Apr-73		2-Apr-49	2 years from GMS held on March 27, 2012	13
Nobuya Horiguchi	Managing Director	Apr-82		28-Aug-58	2 years from GMS held on March 27, 2012	12
Tsutomu Murakawa	Managing Director	Apr-89		8-Jan-66	2 years from GMS held on March 27, 2012	3
Fumikazu Tanaka	Managing Director	Apr-81		22-Feb-57	2 years from GMS held on March 27, 2012	3
Etsuo Koyama	Standing Corporate Auditor	Jul-81	Nikkei Aluminium (now Nippon Light Metal)	21-Sep-42	4 years from GMS held on March 27, 2013	3
Tadashi Shimosaka	Standing Corporate Auditor	Oct-88	Dayton Progress Corp.	3-Jan-43	4 years from GMS held on March 25, 2011	2
Hitoshi Emi	Corporate Auditor	Apr-03	Kanazawa University	12-Nov-37	4 years from GMS held on March 25, 2011	3
Hiroyuki Kawai	Corporate Auditor	Mar-07	Attorney at law	18-Apr-44	4 years from GMS held on March 25, 2011	0
						1,808

Employees

	Total or average
Number	221 [176]
Average age	38.9
Average years of service	14.2
Average annual salary (yen)	7,113,383

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

The average annual salary includes bonuses.

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

Union

The Company has no labor union.

Stock option plans

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

1) Share subscription rights based on Articles 236, 238 and 239 of the Companies Act

Resolution passed on March 26, 2010

Date of resolution	March 26, 2010
Categories and numbers of persons to be granted rights	5 directors, 4 corporate auditors and 51 employees
Type of shares subject to rights	Common stock
Number of shares	109,000 shares (Note)
Amount paid in at time of execution of rights	704 yen
Period for execution of rights	April 1, 2012 - March 31, 2015
Item concerning the assignment of rights	Approval of Board of Directors required.
Item concerning the assignment of rights associated with organizational rearrangements	(Note)

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

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

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

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

1) Number of rights in rearranged entity to be issued

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

2) Type of shares in rearranged entity subject to rights

Common stock in the rearranged entity

3) Number of shares in rearranged entity subject to rights

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

4) Amount of funds invested to exercise rights

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

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

2) Share subscription rights based on Articles 236, 238 and 239 of the Companies Act

Resolution passed on March 27, 2013

Date of resolution	March 27, 2013
Categories and numbers of persons to be granted rights	Up to 8 directors, up to 4 corporate auditors, employees
Type of shares subject to rights	Common stock
Number of shares	128,000 shares (Note)
Amount paid in at time of execution of rights	(Note)
Period for execution of rights	April 1, 2015 - March 31, 2018
Item concerning the assignment of rights	Approval of Board of Directors required.
Item concerning the assignment of rights associated with organizational rearrangements	(Note)

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

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

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

2. The amount of funds invested to exercise rights shall be the number of shares issuable on the exercising of such rights multiplied by the amount paid per share as determined by the formula below (hereinafter, "exercise price").

The exercise price shall be computed as the average closing price of shares of common stock in the Company traded on the JASDAQ market of the Osaka Securities Exchange (hereinafter, "closing price") during the month preceding that containing the allocation date of the stock option (excluding any days on which the stock was not traded), with any fractional amounts rounded up to the nearest yen. The exercise price shall not be less than the closing price on the issuance date of the stock option (or on the last previous day on which the stock was traded).

If the Company issues common stock or disposes of treasury stock at less than the market price (excluding instances in which it does so on the basis of exercise of stock options), moreover, the exercise price shall be adjusted in accordance with the following formula, with all fractional yen resulting from such adjustment rounded up to the next yen.

$$\text{Adjusted pay-in amount} = \text{Pre-adjusted pay-in amount} \times \frac{\text{Number of shares previously outstanding} \quad \dfrac{\text{Number of new shares issued} \times \text{Pay-in amount per share}}{\text{Market price per share}}}{\text{Number of shares previously outstanding} + \text{Number of new shares issued}}$$

The issued number of shares as quoted in the above formula shall be the total number of shares issued in the Company, less any shares of treasury stock held by the Company. In the case of any treasury stock disposals, the terms "newly issued" and "amount paid per share" shall be replaced, respectively, by the terms "treasury stock sold" and "proceeds per share from disposal." The exercise price shall be adjusted according to the formula below in the event of any stock split by the Company or merger involving the Company's stock, with any resulting fractional amounts being rounded up to the nearest yen.

$$\text{Adjusted pay-in amount} = \text{Pre-adjusted pay-in amount} \times \frac{1}{\text{Ratio of split or of reduction in number of shares outstanding}}$$

The Company may also adjust the exercise price as necessary to allow for a takeover of another firm by the Company, any establishment of a new merged entity or any related exchange of shares.

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

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

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

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

      Common stock in the rearranged entity

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

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

   4) *Amount of funds invested to exercise rights*

      The exercise price as determined in Note 2 above, suitably adjusted to take into account the conditions of the specific organizational rearrangements, multiplied by the number of shares in the rearranged entity subject to rights as determined in accordance with item 3) above.

   5) *All other terms and conditions shall be as stipulated in the agreements covering the granting of stock options between the Company and rights holders, based on resolutions approved at the 50th General Meeting of Shareholders and by the Board of Directors.*

Cash Flows

Nonconsolidated statement of cash flows

Years ended December 31; Thousands of yen	2010	2011	2012
Net cash provided by operating activities			
Net income before taxes and other adjustments	735,548	1,012,520	682,549
Depreciation	535,613	526,693	577,327
Increase (decrease) in retirement benefits	(428,316)	-	
Increase (decrease) in directors' and corporate auditors' retirement allowances	(48,800)	24,800	28,100
Increase (decrease) in reserve for bonuses	14,000	131,000	(87,000)
Increase (decrease) in reserve for directors' and corporate auditors' bonuses	1,100	24,400	(14,200)
Increase (decrease) in reserve for product recall expenses	(37,247)	-	-
Increase (decrease) in allowance for doubtful accounts	-	3,000	-
Interest income	(579)	(207)	(181)
Dividends income	(1,873)	(2,655)	(2,113)
Interest expenses	81,372	70,347	64.991
Interest expenses on bonds	5,158	-	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	5,231	-
Losses (gains) on sales and retirement of fixed assets	7,178	57,419	21,531
Losses (gains) on valuation of investments in securities	27,185	34,475	-
Foreign exchange losses (gains)	-	-	(4,596)
Gain on reversal of subscription rights to shares	-	-	(38,533)
Decrease (increase) in notes and accounts receivable	137,273	(739,693)	696,417
Decrease (increase) in inventory	320,764	(347,685)	256,095
Increase (decrease) in notes and accounts payable	(38,157)	66,394	(33,351)
Increase (decrease) in consumption tax payable	(16,360)	3,778	(17,184)
Increase (decrease) in long-term accounts payable - other	189,349	(49,725)	(52,486)
Others	82,037	29,618	(27,998)
	1,565,247	849,712	2,049,367
Interest and dividend income	2,452	2,614	2,543
Interest expenses	(92,051)	(67,272)	(66,073)
Income tax and others	(382,815)	(154,726)	(780,560)
	1,092,832	630,328	1,205,276

Years ended December 31; Thousands of yen	2010	2011	2012
Net cash used in investing activities			
Payments for acquisition of tangible fixed assets	(254,246)	(618,999)	(669,580)
Proceeds from sale of tangible fixed assets	32,676	109,968	740,272
Purchases of long-term prepaid expenses	(340)	(300)	(4,536)
Payments for acquisition of intangible fixed assets	(6,473)	(8,734)	(13,365)
Proceeds from sales of investment securities	51,144	0	-
Payments for loans receivable	(1,050)	-	(1,000)
Proceeds from collection of loans and advances	3,082	1,536	1,856
Purchase of stocks of subsidiaries and affiliates	-	-	(100,875)
Others	5,113	(13,977)	890
	(170,094)	(530,507)	(46,337)
Net cash provided by (used in) financing activities			
Proceeds from increase in short-term borrowings	3,100,000	4,100,000	6,300,000
Payments of short-term borrowings	(1,100,000)	(5,100,000)	(6,100,000)
Proceeds from increase in long-term debt	800,000	1,500,000	1,500,000
Payments of long-term debt	(1,188,300)	(1,205,000)	(1,366,700)
Proceeds from exercise of stock option	-	-	8,448
Repayments of lease obligations	(65,461)	(29,459)	(55,810)
Payments for redemption of bonds	(2,200,000)	-	-
Payments for purchase of treasury stock	(107)	(14)	(81)
Dividends	(125,893)	(126,353)	(176,539)
	(779,762)	(860,827)	109,316
Effect of exchange rate fluctuations on cash and cash equivalents	-	-	4,596
Increase (decrease) in cash and cash equivalents	142,975	(761,005)	1,272,852
Cash and cash equivalents at beginning of term	1,666,031	1,809,006	1,048,000
Cash and cash equivalents at end of term	1,809,006	1,048,000	2,320,852

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

Years ended December 31; Thousands of yen	2010	2011	2012
Cash and deposit accounts	1,809,006	1,048,000	2,320,852
Time deposits, etc., of 3 months or longer	-	-	-
Cash and cash equivalents at end of term	1,809,006	1,048,000	2,320,852

Capital expenditures

Capital expenditures during the term totaled 526 million yen. Investments targeted the development of highly competitive new products in response to market needs and the establishment of efficient mass-production capabilities.

Major capital expenditures included manufacturing facilities at Sayama Techno-Yard and buildings and metal molds at Gunma Techno-Yard.

There were no sales or removals of equipment during the year that exerted a material impact on operations.

Dividend policy

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

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

In accordance with the above policy and based on an overall consideration of the fiscal 2012 results, future business trends and the Company's financial condition, a final dividend for the year ended December 31, 2012 of 25 yen per share, was approved by resolution of the General Meeting of Shareholders held on March 27, 2013. The dividend payout ratio for the year was 32.9%, and the ratio of dividends to net assets was 1.5%.

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

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

Date of decision	Dividend payout	Dividend per share
	(Millions of yen)	(Yen)
March 27, 2013 Resolution by General Meeting of Shareholders	126	25

Operations

Nonconsolidated statement of income

Years ended December 31; Thousands of yen	2010	2011	2012
Sales			
Net sales	7,358,872	8,879,229	8,329,921
	7,358,872	8,879,229	8,329,921
Cost of goods sold			
Finished goods and merchandise inventory, beginning of term	694,807	491,677	399,216
Production costs for the term	3,961,702	4,658,741	4,678,431
Purchase of merchandise for the term	26,673	16,707	48,242
	4,683,182	5,167,126	5,125,889
Transfers to other accounts	104,828	95,101	84,450
Finished goods and merchandise inventory, end of term	491,677	399.216	455,841
	4,086,677	4,672,809	4,585,598
Gross profit on sales	3,272,195	4,206,420	3,744,323
Selling, general and administrative expenses			
Packing and shipping expenses	101,712	94,750	92,263
Advertising expenses	130,896	211,954	216,229
Directors' and corporate auditors' salaries	136,560	137,120	148,500
Employees' salaries and allowances	714,099	718,532	728,022
Bonuses	104,463	142,091	75,646
Provision for bonuses	119,657	170,328	142,770
Provision for directors' and corporate auditors' bonuses	24,400	48,800	34,600
Provision for directors' and corporate auditors' retirement benefits	27,500	24,800	28,100
Retirement benefit expenses	23,372	49,095	49,932
Employee benefit expenses	135,333	153,871	155,278
Travel and transportation expenses	88,178	99,023	102,054
Other office expenses	83,869	80,593	103,588
Rental expenses	186,835	198,894	205,015
Research expenses	459,274	503,984	526,694
Taxes and public dues	43,068	50,650	47,587
Depreciation expenses	69,313	84,644	104,299
Others	187,861	270,623	238,556
	2,636,395	3,039,755	2,999,140
Operating income	635,800	1,166,664	745,183

Years ended December 31; Thousands of yen	2010	2011	2012
Nonoperating income			
Interest income	579	207	181
Dividend income	1,873	2,655	2,113
Commissions received	9,101	9,462	10,987
Rental income	1,801	1,801	1,801
Temporary assigned personnel payments received	-	3,611	4,106
Refund on cancellation of insurance premiums	1,728	11,183	8,358
Foreign exchange gains	-	-	4,596
Others	8,668	7,366	4,745
	23,752	36,288	36,890
Nonoperating expenses			
Interest expenses	81,372	70,347	64,991
Interest expenses on bonds	5,158	-	-
Commission fees	-	-	35,000
Others	40,142	19,757	20,099
	126,672	90,105	120,090
Ordinary profit	532,880	1,112,847	661,983
Extraordinary income			
Gain on abolishment of retirement benefit plan	223,108	-	-
Reversal of provision for product recall expenses	12,425	-	-
Gain on reversal of subscription rights to shares			38,533
Gain on sales of investment securities	12,422	-	-
Others	-	-	3,563
	247,957	-	42,096
Extraordinary losses			
Loss on sales and retirement of fixed assets	7,178	57,419	21,531
Loss on sales of investment securities	10,925	-	-
Loss on valuation of investments in securities	27,185	34,475	-
Provision of allowance for doubtful accounts	-	3,200	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	5,231	-
	45,288	100,326	21,531
Net income before taxes and special reserves for the term	735,548	1,012,520	682,549
Corporate, inhabitant and enterprise taxes	225,000	589,000	143,000
Deferred taxes	89,181	(130,044)	154,618
	314,181	458,955	297,618
Net income	421,366	553,565	384,930

Nonconsolidated statement of changes in net assets

Years ended December 31; Thousands of yen	2010	2011	2012
Shareholders' equity			
Common stock			
Balance at beginning of current term	674,265	674,265	674,265
Changes in items during the term			
Total changes in items during the term	-	-	-
Balance at end of current term	674,265	674,265	674,265
Capital surplus			
Additional paid in-capital			
Balance at beginning of current term	527,936	527,936	527,936
Changes in items during the term			
Total changes in items during the term	-	-	-
Balance at end of current term	527,936	527,936	527,936
Other capital surplus			
Balance at beginning of current term	756	756	756
Changes in items during the term			
Exercise of stock option	-	-	(514)
Total changes in items during the term	-	-	(514)
Balance at end of current term	756	756	242
Retained earnings			
Legal income reserves			
Balance at beginning of current term	168,566	168,566	168,566
Changes in items during the term			
Total changes in items during the term	-	-	-
Balance at end of current term	168,566	168,566	168,566
Other retained earnings			
Special reserve			
Balance at beginning of current term	5,786,000	5,886,000	6,086,000
Changes in items during the term			
Provision for special reserves	100,000	200,000	300,000
Total changes in items during the term	100,000	200,000	300,000
Balance at end of current term	5,886,000	6,086,000	6,386,000
Reserve for special depreciation			
Balance at beginning of current term	29,067	27,629	28,264
Changes in items during the term			
Reversal of reserve for asset reduction entries	(1,437)	(1,356)	(1,280)
Increase in reserves due to change in effective tax rate	-	1,990	-
Total changes in items during the term	(1,437)	634	(1,280)
Balance at end of current term	27,629	28,264	26,983

Years ended December 31; Thousands of yen	2010	2011	2012
Retained earnings carried forward			
Balance at beginning of current term	549,347	745,711	972,206
Changes in items during the term			
Provision for special reserves	(100,000)	(200,000)	(300,000)
Reversal of reserve for asset reduction entries	1,437	1,356	1,280
Increase in reserves due to change in effective tax rate	-	(1,990)	-
Dividends from retained earnings	(126,440)	(126,436)	(177,010)
Net income (loss)	421,366	553,565	384,930
Total changes in items during the term	196,364	226,494	(90,799)
Balance at end of current term	745,711	972,206	881,406
Treasury stock			
Balance at beginning of current term	(41,779)	(41,887)	(41,901)
Changes in items during the term			
Exercise of stock option	-	-	10,642
Purchase of treasury stock	(107)	(14)	(81)
Total changes in items during the term	(107)	(14)	10,561
Balance at end of current term	(41,887)	(41,901)	(31,340)
Total shareholders' equity			
Balance at beginning of current term	7,694,160	7,988,979	8,416,093
Changes in items during the term			
Dividends from retained earnings	(126,440)	(126,436)	(177,010)
Net income (loss)	421,366	553,565	384,930
Exercise of stock option	-	-	10,128
Purchase of treasury stock	(107)	(14)	(81)
Total changes in items during the term	294,818	427,114	217,967
Balance at end of current term	7,988,979	8,416,093	8,634,060
Valuation/translation gains (losses)			
Unrealized gains or losses on other on securities			
Balance at beginning of current term	4,900	(13,720)	(1,624)
Changes in items during the term			
Other changes in non-shareholders' equity items during the term (net)	(18,621)	12,096	1,463
Total changes in items during the term	(18,621)	12,096	1,463
Balance at end of current term	(13,720)	(1,624)	(161)

Years ended December 31; Thousands of yen	2010	2011	2012
Share subscription rights			
Balance at beginning of current term	38,533	44,255	51,885
Changes in items during the term			
Other changes in non-shareholders' equity items during the term (net)	5,722	7,630	(38,305)
Total changes in items during the term	5,722	7,630	(38,305)
Balance at end of current term	44,255	51,885	13,580
Net assets			
Balance at beginning of current term	7,737,594	8,019,514	8,466,354
Changes in items during the term			
Dividends from retained earnings	(126,440)	(126,436)	(177,010)
Net income (loss)	421,366	553,565	384,930
Exercise of stock option	-	-	10,128
Purchase of treasury stock	(107)	(14)	(81)
Other changes in non-shareholders' equity items during the term (net)	(12,898)	19,726	(36,842)
Total changes in items during the term	281,919	446,840	181,124
Balance at end of current term	8,019,514	8,466,354	8,647,479

Cost of goods sold

Years ended December 31; Thousands of yen	2010	%	2011	%	2012	%
Raw materials costs	2,079,379	53.4	2,716,274	55.3	2,457,539	55.3
Labor costs	601,767	15.5	792,790	16.2	706,292	15.9
Other expenses	1,210,474	31.1	1,400,290	28.5	1,277,976	28.8
Total manufacturing overhead	3,891,622	100.0	4,909,355	100.0	4,441,808	100.0
Work-in-process inventory, beginning of term	320,919		253,243		503,857	
Transfers from other accounts	2,404		-		-	
	4,214,945		5,162,599		4,945,666	
Work-in-process inventory, end of term	253,243		503,857		267,235	
Production costs for the term	3,961,702		4,658,741		4,678,431	
Major items in other expenses above						
Subcontracted processing expenses	331,927		396,867		355,698	
Depreciation expenses	421,906		406,085		436,414	

Results of operations

Year ended December 31, 2012

Conditions remained difficult for Japanese companies during the year under review in an environment of a persistently strong yen, weak stock market, fiscal concerns in Europe, and slowing growth in China. Japanese economic growth was lackluster despite signs of recovery linked to demand for reconstruction after the earthquake.

Demand for protective masks for use in emergency situations and to protect workers from radiation was significantly lower in year-on-year terms as the boost from the earthquake faded. Koken was able to prevail against low-priced rival products in the industrial mask sector, however, by continuing awareness campaigns to emphasize the importance of a proper mask fit, while steadily gaining share in the medical market. Koken also made significant progress in its clean zone technology business, with key customers such as the Institute for Cosmic Ray Research, University of Tokyo and Shimane Fujitsu Ltd. buying the “Floor KOACH Ez” system, an open clean zone creator with a guide screen. Total sales declined by 6.2% compared with the previous year to 8,329 million yen.

Despite efforts to cope with the decline in post-disaster demand by reducing the cost-of-goods ratio and cutting selling, general and administrative expenses, operating income fell by 36.1% to 745 million yen and net income by 30.5% to 384 million yen.

By segment, the core mask business recorded an 8.4% decline in sales to 7,388 million yen. Sales of the “Hi-Luck” series of tight-fitting disposable masks grew as customers in the automotive and other industrial sectors adopted them. Usage of these masks also increased in public health centers and in medical institutions to prevent the spread of infection. Total sales of masks for disaster-response applications were lower than initially expected, however, due to delays in debris removal operations and the use of less expensive surgical masks in decontamination operations in an environment of enhanced cost consciousness.

Sales in the other businesses segment advanced by 16.4% to 940 million yen. This mainly reflected growth in sales of Table KOACH, table-top units, with research institutions and precision instrument makers placing more orders for the latter for use in laboratories and assembly lines. Other products generating steady growth in sales included push-pull ventilation systems for industrial use and “KAGAMI-NAISHI” fully automated endoscope cleaning and sterilization systems.

Year ended December 31, 2011

The Great East Japan Earthquake that occurred in March 2011 had a major impact on corporate activities during the year under review. Prospects for recovery of the Japanese economy remained uncertain, despite some signs of higher production and exports as supply chains were restored. Other drags on economic growth included fears of a global economic slowdown resulting from the sovereign debt crisis in Europe and the persistent strength of the yen.

The earthquake disaster led to a sudden rise in demand for masks for use in emergency situations and to protect workers from radiation. The Company strove to satisfy this demand. Total sales rose by 20.7% compared with the previous year to 8,879 million yen. Operating income rose by 83.5% to 1,166 million yen, and net income increased by 31.4% to 553 million yen. These figures all marked new record highs for the Company.

By segment, the core mask business recorded 18.2% growth in sales to 8,070 million yen. Although the disaster and resultant electricity supply disruptions restricted output from the Company's factories and orders for industrial masks declined, the sharp rise in demand for masks for emergency use and protection against radiation boosted sales by some 1,500 million yen.

Sales in the other businesses segment surged by 52.4% to 808 million yen. This reflected higher sales of fully automated endoscope cleaning and sterilization systems, which offset a decline in sales of ventilation systems for use in medical facilities to protect workers from formaldehyde fumes.

During the year under review, the Company adopted the ASBJ accounting standard on reporting of segment information (Statement No. 17, published March 27, 2009) and related guidelines (Guidance No. 20, published March 21, 2008). For purposes of comparison, the figures for the previous year have been restated based on the new accounting standard.

Segment information

1. Segment reporting

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

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

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

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

Reported segment earnings are based on operating income.

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

Thousands of yen	Segment reporting Mask segment	Other businesses segment	Total	Adjustments	Book value
2012					
Net sales					
External customers	7,388,943	940,978	8,329,921	-	8,329,921
Inter-area	-	-	-	-	-
	7,388,943	940,978	8,329,921	-	8,329,921
Segment profits	3,274,558	469,765	3,744,323	(2,999,140)	745,183
Segment assets	-	-	-	-	-
Other items Depreciation expenses	418,485	17,929	436,414	140,913	577,327
2011					
Net sales					
External customers	8,070,640	808,588	8,879,229	-	8,879,229
Inter-area	-	-	-	-	-
	8,070,640	808,588	8,879,229	-	8,879,229
Segment profits	3,869,483	336,936	4,206,420	(3,039,755)	1,166,664
Segment assets	-	-	-	-	-
Other items Depreciation expenses	378,375	27,710	406,085	120,608	526,693

(Notes)

1. The “other businesses” segment includes the environment-related business and other operations not reported for the mask segment.

2. The table above contains the following adjustments.

(1) The deductions of 3,039,755 thousand yen (December 2011 term) and 2,999,140 thousand yen (December 2012 term) from segment earnings reflect costs incurred across the Company that were not reported for the business segments, principally selling, general and administrative expenses.

(2) Depreciation and amortization costs of 120,608 thousand yen (December 2011 term) and 140,913 thousand yen (December 2012 term) apply to Company assets, but are not reported for any business segment.

3. Segment earnings are adjusted figures based on operating income as reported in the statement of income.

Related information

Information provided by principal customers

Thousands of yen	Sales 2011	Sales 2012	Segment
Midori Anzen Youhin	1,331,149	1,293,039	Mask and other businesses segment
Ministry of Defense	1,001,531	1,252,639	Mask and other businesses segment

Issues requiring action

In the mask segment, the Company aims to strengthen its position as Japan's leading manufacturer of industrial masks while seeking to gain market share in the medical field by supplying masks to prevent the spread of infection.

In environmental and other businesses, the Company is seeking to leverage its innovative, world-first technologies in airflow control and nano-fiber filter production to promote growth in the emerging sector of "open space" airflow products. In addition, the Company is working to develop new business categories in the medical field by promoting endoscope cleaner/sterilizer units and ventilation systems as new ways of mitigating occupational health risks.

Mask segment

Koken aims to generate stable earnings from this business amid an ongoing decline in Japan's industrial workforce, based on a three-pronged strategy.

First, Koken is working to educate employers about the importance of buying masks that provide a superior fit, in addition to the quality of the masks' filtering capabilities. Special devices to measure mask leakage are being used in the Company's awareness campaigns to help individual workers understand the importance of using close-fitting masks. Tests have involved more than 220,000 workers to date, contributing to higher sales of Koken masks. Koken will endeavor to continue its efforts as a mask manufacturer's important mission.

Second, Koken is continuing to develop high value-added products to boost sales and market share by enhancing user safety and convenience. An example is breath-synchronized blower masks, powered air-purifying respirator (PAPR). These products offer a combination of safety and utility, which makes them ideal in varied industrial settings from tunneling and welding to asbestos-related operations. Demand for them is expected to continue increasing going forward.

In March 2012, the Company concluded a joint development alliance with DuPont Japan and AZEARTH Corp. to utilize Koken's mask technology in the development of new products. Market launches are expected in due course.

Third, Koken is targeting growth in the medical field by promoting masks for protecting medical staff as well as preventing the spread of infection. The Company continues to undertake training activities in medical institutions to provide users with information on correct usage and the importance of using tight-fitting masks such as the "Hi-Luck" series. Sales activities are aimed at boosting the uptake rate from 40% to 50% by the end of 2013.

Preventing the spread of infection is an area of increasing concern in Japan's hospitals. Koken aims to secure the leading share of the medical-use mask market by supplying differentiated products designed to prevent patients from infecting other people (the "Hi-Luck Utsusanzo") or to protect healthy workers from infection (the "Hi-Luck Kakaranzo").

In November 2012, Koken moved to create a manufacturing system spanning two countries in readiness for any influenza pandemic by establishing a local production subsidiary in Thailand. Koken views this move as integral to fulfilling its social responsibility as a leading manufacturer of masks.

Other businesses segment

In this segment, Koken aims to develop second and third business categories in "open space" clean room systems and the medical field.

"Open space" airflow technologies are used to create clean zones, an essential technical infrastructure for upgrading Japanese industries to deliver high-precision manufacturing performance. Combined with proprietary "Ferena" nano-fiber filters, Koken's KOACH series of table-top units and room type systems can help to realize super-clean spaces in a convenient and highly economical manner, paving the way for the commoditization of clean zones across all industrial sectors. By the end of 2012, more than 40 companies and institutions had installed KOACH technology throughout their workplaces. Notable examples are the Institute for Cosmic Ray Research, University of Tokyo and Shimane Fujitsu Ltd.

Koken has responded to society's demands for energy savings by equipping KOACH products with a newly developed sleep mode. Moving forwards, the Company will endeavor to establish a brand image of KOACH as a "super clean zone creator."

The medical field remains a growth sector in Japan. It is attractive to Koken not only because of expanding employment in the sector, but also due to the prevalence of risk-mitigation opportunities related to bacteria, viruses and the widespread use of disinfectants and sterilizing agents.

In addition to masks, Koken has developed products using such original technologies as automatic endoscope cleaning and sterilization systems, electrolyzed water generators and ventilation systems. These offer medical institutions a range of innovative solutions for improving workplace safety.

Production and sales

Production

Thousands of yen	2012	
	Amount	Year-on-year comparison (%)
Mask segment	7,448,959	90.0
Others businesses segment	864,294	119.5
	8,313,253	92.4

Sales

Thousands of yen	2012	
	Amount	Year-on-year comparison (%)
Mask segment	7,388,943	91.6
Other businesses segment	940,978	116.4
	8,329,921	93.8

Principal customers

Thousands of yen	2011		2012	
	Amount	% of net sales	Amount	% of net sales
Midori Anzen Youhin	1,331,149	15.0%	1,293,039	15.5%
Ministry of Defense	1,001,531	11.3%	1,252,639	15.0%

Leases

Under generally accepted accounting principles in Japan, finance leases that do not involve transfer of ownership are accounted for in the same manner as operating leases when "as if capitalized" information is disclosed. The Company's principal finance lease contracts are as follows:

Item	Number	Term	Current payments	Future payments
		(Months)	(Thousands of yen)	
Vehicles	85	12-60	22,575	39,853
OA equipment	1	12-72	26,729	40,956
Metal molds	94	12-36	31,626	58,567

Finance leases that do not transfer ownership (lessee)

1) Nature of lease assets

   a. Tangible fixed assets

      The primary tangible fixed assets are production facilities.

2) Depreciation method applied to lease assets

   Lease terms for years of useful life are employed, assuming a residual value of zero; depreciation is assumed to be on a straight-line basis.

All lease transactions entered into on/before December 31, 2008 related to finance leases that do not transfer ownership continue to be treated as ordinary rental transactions. The details of these transactions are described below.

Pro forma information on leased property is as follows:

Thousands of yen	2011	2012
Vehicles and delivery equipment		
Acquisition cost	5,800	-
Accumulated depreciation	5,800	-
Net leased property	-	-
Tools, furniture and fixtures		
Acquisition cost	158,069	50,479
Accumulated depreciation	144,984	47,489
Net leased property	13,085	2,989
Total		
Acquisition cost	163,869	50,479
Accumulated depreciation	150,784	47,489
Net leased property	13,085	2,989
Future minimum lease payments, including interest portion		
Due within one year	10,095	2,989
Due after one year	2,989	-
	13,085	2,989
Lease payments and pro forma depreciation expenses		
Lease payments	25,379	10,095
Pro forma depreciation expenses (assuming straight-line method)	25,379	10,095

Capital Structure

Nonconsolidated balance sheet: assets

December 31; Thousands of yen	2010	2011	2012
Current assets			
Cash and deposits	1,809,006	1,048,000	2,320,852
Notes receivable - trade	1,116,542	1,171,287	1,111,250
Accounts receivable – trade	2,102,823	2,787,771	2,151,390
Merchandise and finished goods	491,677	399,216	455,841
Raw materials and supplies	323,955	513,487	437,388
Work in process	253,243	503,857	267,235
Prepaid expenses	44,630	43,943	45,140
Deferred tax assets	196,185	383,246	238,219
Income taxes receivable	-	-	153,002
Others	3,646	7,790	4,191
Allowance for doubtful accounts	(4,000)	(4,000)	(4,000)
	6,337,710	6,854,602	7,180,514
Fixed assets			
Tangible fixed assets			
Buildings	3,457,464	3,498,982	3,713,773
Accumulated depreciation	(2,075,500)	(2,154,930)	(2,272,679)
Buildings, net	1,381,964	1,344,052	1,441,094
Structures	217,132	212,945	226,043
Accumulated depreciation	(180,512)	(185,400)	(195,307)
Structures, net	36,620	27,544	30,735
Machinery and equipment	3,750,405	3,572,307	3,870,393
Accumulated depreciation	(2,843,665)	(2,787,942)	(3,039,781)
Machinery and equipment, net	906,739	784,364	830,612
Vehicles and delivery equipment	1,500	1,500	1,500
Accumulated depreciation	(1,470)	(1,485)	(1,499)
Vehicles and delivery equipment, net	30	15	0
Tools, furniture and fixtures	2,342,981	2,353,315	2,338,893
Accumulated depreciation	(2,180,712)	(2,168,293)	(2,165,134)
Tools, furniture and fixtures, net	162,269	185,021	173,759
Land	5,377,462	5,407,133	4,740,386
Lease assets	75,722	159,829	221,030
Accumulated depreciation	(20,338)	(48,395)	(101,548)
Lease assets, net	55,383	111,434	119,481
Construction in progress	78,352	349,181	131,257
	7,998,822	8,208,747	7,467,326

December 31; Thousands of yen	2010	2011	2012
Intangible fixed assets			
Patents	16,755	21,440	28,032
Telephone subscription rights	9,423	9,423	9,423
Leaseholds	1,057	1,057	1,057
Software	1,924	1,363	2,079
Others	315	204	92
	29,476	33,488	40,685
Investments and other assets			
Investments in securities	72,209	58,342	60,616
Stocks of subsidiaries and affiliates	-	-	100,875
Long-term loans to employees	4,118	2,582	1,726
Claims provable in bankruptcy, claims provable in rehabilitation and others	-	-	130
Long-term prepaid expenses	479	477	3,124
Deferred tax assets	269,702	204,172	193,770
Leasing and guarantee deposits	69,377	83,354	82,463
Directors’ retirement benefit insurance premiums	782,310	821,070	838,921
Allowance for doubtful accounts	(1,000)	(4,000)	(4,000)
	1,197,197	1,165,998	1,277,627
Total fixed assets	9,225,495	9,408,234	8,785,639
Total assets	**15,563,206**	**16,262,836**	**15,966,154**

Nonconsolidated balance sheet: liabilities and net assets

December 31; Thousands of yen	2010	2011	2012
Current liabilities			
Accounts payable - trade	144,508	210,903	177,551
Short-term borrowings	3,100,000	2,100,000	2,300,000
Current portion of long-term debt	1,128,000	1,244,200	1,235,400
Lease obligations	-	-	57,990
Accounts payable - other	159,516	211,793	167,542
Accounts payable - facilities	-	179,606	36,816
Accrued expenses	132,035	161,491	157,169
Income taxes payable	59,580	489,250	-
Consumption taxes payable	30,681	34,459	17,274
Advances received	3,169	3	24,826
Deposits received	26,597	29,919	42,599
Provision for bonuses	201,000	332,000	245,000
Provision for directors' and corporate auditors' bonuses	24,400	48,800	34,600
	5,009,489	5,042,427	4,496,771
Long-term liabilities			
Long-term debt	1,891,800	2,070,600	2,212,700
Lease obligations	58,152	117,005	67,465
Long-term accounts payable - other	189,349	139,624	87,138
Directors' and corporate auditors' retirement benefits	391,900	416,700	444,800
Asset retirement obligations	-	7,124	6,659
Others	3,000	3,000	3,139
	2,534,202	2,754,054	2,821,903
Total liabilities	7,543,692	7,796,481	7,318,674
Net assets			
Shareholders' equity			
Common stock	674,265	674,265	674,265
Capital surplus			
Additional paid-in capital	527,936	527,936	527,936
Other capital reserves	756	756	242
	528,693	528,693	528,178

December 31; Thousands of yen	2010	2011	2012
Retained earnings			
Legal income reserves	168,566	168,566	168,566
Other legal income reserves			
Special reserves	5,886,000	6,086,000	6,386,000
Reserve for reduction of asset costs due to contributions or subsidies	27,629	28,264	26,983
Retained earnings carried forward	745,711	972,206	881,406
	6,827,907	7,255,036	7,462,956
Treasury stock	(41,887)	(41,901)	(31,340)
	7,988,979	8,416,093	8,634,060
Valuation/translation gains (losses)			
Unrealized gains (losses) on other securities	(13,720)	(1,624)	(161)
	(13,720)	(1,624)	(161)
Share subscription rights	44,255	51,885	13,580
Total net assets	8,019,514	8,466,354	8,647,479
Total liabilities and net assets	**15,563,206**	**16,262,836**	**15,966,154**

Trade credits

Notes receivable

Thousands of yen	2012
Shimatsu	96,206
Ohtsuka Brush Manufacturing	68,305
Simon	61,324
Tanizawa Seisakusho	51,286
Riken Optech	44,603
Others	789,524
	1,111,250

Accounts receivable — trade

Thousands of yen	2012
Midori Anzen Youhin	697,606
Ministry of Defense	672,021
Komatsu Ltd.	47,087
TOYOBO CO., LTD.	43,416
AS ONE Corporation	35,902
Others	655,356
	2,151,390

Turnover of accounts receivable

Thousands of yen	2012
Beginning balance	2,787,771
Increase	8,736,610
Collected	9,372,991
Ending balance	2,151,390
Turnover	81.3%
Average days for collection	103.2

Accounts payable — trade

Thousands of yen	2012
Takaoka Shoji	28,164
Nakayama	9,171
Tsukuba Chemical	9,167
Sanwa Sangyo	8,224
Kyokuto Shokai Co., Ltd.	8,201
Others	114,621
	177,551

Securities

Financial instruments

Policies related to financial instruments

The Company seeks to conduct financing based on market conditions and by maintaining a balance between short-term and long-term instruments. The Company uses safe short-term deposits for operating funds and does not engage in speculative trading.

Nature of financial instruments and management of related risks

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

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

Trade payables and other operating liabilities are typically due within 60 days. The Company employs mainly short-term borrowings, long-term debt and related financial leases to finance business operations and capital investments. Any related liquidity risk is managed by maintaining certain levels of cash and liquidity at all times.

The Company also uses interest-rate swaps to hedge the risk of interest rate movements on its debt. The Company only enters into derivative transactions with top-rated financial institutions as a means of effectively eliminating related counterparty credit risk. Details of hedging techniques, policies and methods of evaluating the effectiveness of using such derivatives are provided in the section on significant accounting policies.

Additional information on pricing of financial instruments

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

Items related to current value

	2011			2012		
Thousands of yen	**Book value**	**Current value**	**Unrealized gain (loss)**	**Book value**	**Current value**	**Unrealized gain (loss)**
Cash and deposits	1,048,000	1,048,000	-	2,320,852	2,320,852	-
Notes receivable - trade	1,171,287	1,171,287	-	1,111,250	1,111,250	-
Accounts receivable - trade	2,787,771	2,787,771	-	2,151,390	2,151,390	-
Income taxes receivable	-	-	-	153,002	153,002	-
Investment securities	32,281	32,281	-	34,554	34,554	-
Total assets	5,039,340	5,039,340	-	5,771,051	5,771,051	-
Accounts payable - trade	210,903	210,903	-	177,551	177,551	-
Accounts payable - other	211,793	211,793	-	167,542	167,542	-
Accounts payable - facilities	179,606	179,606	-	36,816	36,816	-
Short-term borrowings	2,100,000	2,100,000	-	2,300,000	2,300,000	-
Current portion of long-term debt	1,244,200	1,247,841	3,641	1,235,400	1,238,608	3,208
Income taxes payable	489,250	489,250	-	-	-	-
Short-term leases	-	-	-	57,990	55,448	(2,541)
Long-term accounts payable - other	139,624	138,550	(1,073)	87,138	86,901	(236)
Long-term debt	2,070,600	2,077,367	6,767	2,212,700	2,222,261	9,561
Long-term leases	-	-	-	67,465	65,678	(1,787)
Lease obligations	117,005	112,105	(4,900)	-	-	-
Total liabilities	6,762,983	6,767,419	4,435	6,342,604	6,350,809	8,204
Derivative transactions	-	-	-	-	-	-

Methods of calculating current value

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

Investment securities: market value

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

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

Long-term accounts payable - other: the current value for these liabilities is based on discounting at the risk-free rate for Japanese government bonds with maturities matching the anticipated future payment schedule.

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

Financial instruments with no easily ascertainable current value

Thousands of yen	2011	2012
Unlisted stocks	26,061	26,061
Shares in subsidiaries	-	100,875

Repayment schedule for receivables after accounting date

Thousands of yen	Up to 1 year	Greater than 1 and up to 5 years	Greater than 5 and up to 10 years	Greater than 10 years
2012				
Cash and deposits	2,320,852	-	-	-
Notes receivable - trade	1,111,250	-	-	-
Accounts receivable - trade	2,151,390	-	-	-
	5,583,494	-	-	-
2011				
Cash and deposits	1,048,000	-	-	-
Notes receivable - trade	1,171,287	-	-	-
Accounts receivable - trade	2,787,771	-	-	-
	5,007,059	-	-	-

Market value of securities

Other quoted securities

	2011			2012		
Thousands of yen	Book value	Cost of acquisition	Unrealized gain (loss)	Book value	Cost of acquisition	Unrealized gain (loss)
Securities valued on the consolidated balance sheet at amounts greater than the purchase cost						
Shares	2,460	1,785	675	3,179	2,303	876
	2,460	1,785	675	3,179	2,303	876
Securities valued on the consolidated balance sheet at amounts not greater than the purchase cost						
Shares	29,821	33,020	(3,198)	31,375	32,502	(1,126)
	29,821	33,020	(3,198)	31,375	32,502	(1,126)
	32,281	34,805	(2,523)	34,554	34,805	(250)

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

Marketable securities subject to writedowns

The Company recognized impairment losses of 34,475 thousand yen on other quoted securities in the December 2011 term.

Any such unlisted stocks whose year-end market value was more than 50% below their historical cost were fully written off. Stocks whose year-end market value was 30–50% below their historical cost were written down to suitable levels, depending on the materiality of the amount and probability of recovery. Any stocks for which market prices were unavailable were written down in cases in which it was deemed that their real value had fallen substantially as a result of deterioration of the financial situation of the issuing firm.

Fixed assets

Facilities

The Company maintains plants (techno-yards) in four locations in Japan. It also operates 14 domestic sales offices as well as the Saitama Logistics Center and the Ninomiya Training Center. It conducts research at its Hannou Laboratories.

The Company's principal facilities are as follows:

Book value; Thousands of yen	Buildings and structures	Machinery, vehicles and delivery equipment	Land		Tools, furniture and fixtures	Lease assets	Total book value	Number of employees
				Square meters				
Company administration								
Head office	214,415	1,660	1,636,000	283.91	20,915	18,917	1,891,909	92
Manufacture of dust and gas masks								
Sayama Techno-Yard	387,102	431,935	792,433	11,430.44	11,242	20,856	1,643,570	21
Gunma Techno-Yard	439,451	99,316	405,140	9,256.83	24,958	50,726	1,019,594	18
Tokorozawa Techno-Yard	69,217	2,389	177,214	1,915.55	3,939	25,625	278,387	10
Nakai Techno-Yard	118,617	160,058	325,449	1,434.94	5,849	3,355	613,330	8
Research activities								
Hannou Laboratories	35,696	8,195	31,217	3,637.49	24,467	-	99,578	9
Distribution of dust and gas masks								
Saitama Logistics Center	114,740	8,709	1,242,116	21,336.07	5,761	-	1,371,328	5

Fixed assets and depreciation

Thousands of yen	Beginning of term	Increase	Decrease	End of term	Depreciation		End of term, net
					Accumulated	Current	
Tangible fixed assets							
Buildings	3,498,982	220,292	5,501	3,713,773	2,272,679	123,001	1,441,094
Structures	212,945	13,097	-	226,043	195,307	9,907	30,735
Machinery and equipment	3,572,307	306,216	8,131	3,870,393	3,039,781	259,146	830,612
Vehicles and delivery equipment	1,500	-	-	1,500	1,499	14	0
Tools and fixtures	2,353,315	208,012	222,434	2,338,893	2,165,134	125,936	173,759
Land	5,407,133	-	666,746	4,740,386	-	-	4,740,386
Lease assets	159,829	61,200	-	221,030	101,548	53,153	119,481
Construction in progress	349,181	559,047	776,971	131,257	-	-	131,257
	15,555,195	1,367,867	1,679,784	15,243,277	7,775,951	571,159	7,467,326
Intangible fixed assets							
Patents	-	-	-	44,632	16,599	5,305	28,032
Telephone subscription rights	-	-	-	9,423	-	-	9,423
Leaseholds	-	-	-	1,057	-	-	1,057
Software	-	-	-	3,443	1,364	750	2,079
Usage rights for equipment and facilities	-	-	-	1,423	1,330	111	92
	-	-	-	59,979	19,293	6,168	40,685
Long-term prepaid expenses	1,470	4,536	1,281	4,725	1,600	1,079	3,124

Debt

Borrowings

Thousands of yen	Previous period	Outstanding	Average rate	Maturity
Short-term borrowings	2,100,000	2,300,000	1.17%	-
Current portion of long-term debt	1,244,200	1,235,400	1.31%	-
Current portion of leasing-related liabilities	43,289	57,990	-	-
Long-term debt (except current portion of long-term debt)	2,070,600	2,212,700	1.16%	2014 to 2017
Leasing-related liabilities (except current portion of leasing-related liabilities)	73,716	67,465	-	2014 to 2018
Other interest-bearing liabilities	-	-	-	-
	5,531,805	5,873,555	-	-

1. *Average rates for borrowing shown in the table above are weighted averages of rates paid on loans outstanding as of term-end.*
2. *Amounts of long-term debt and other debt (excluding debt due in less than one year) scheduled to be repaid over the 5-year period subsequent to the balance sheet date are as follows:*

Thousands of yen	Longer than 1 and up to 2 years	Longer than 2 and up to 3 years	Longer than 3 and up to 4 years	Longer than 4 and up to 5 years
Long-term debt	884,200	674,000	477,000	177,500
Leasing-related liabilities	47,493	13,924	4,441	1,567

Assets provided as collateral

Thousands of yen	2011	2012
Assets provided as collateral		
Buildings	754,967	828,478
Land	2,996,037	2,996,037
	3,751,005	3,824,516
Liabilities for which collateral is provided		
Long-term debt	3,120,000	3,298,100
	3,120,000	3,298,100

Retirement benefits

Outline of retirement benefit system

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

Matters related to retirement benefit expenses

Thousands of yen	2011	2012
Expenses related to defined-contribution pension plan	82,884	85,000

Reserves

Thousands of yen	Beginning of term	Increase	Decrease	End of term
Allowance for doubtful accounts	8,000	4,000	4,000	8,000
Provision for bonuses	332,000	245,000	332,000	245,000
Provision for directors' and corporate auditors' bonuses	48,800	34,600	48,800	34,600
Directors' and corporate auditors' retirement benefits	416,700	28,100	-	444,800

Related Parties

Transactions with related parties: Directors and major independent shareholders

December 2012 term

Directors and major individual shareholders

December 31; Thousands of yen	Address	Capital	Type of business or occupation	% of voting rights held (held by others)	Relationship with related party	Type of transaction	Value of transactions	Accounting classification	Balance at term-end
2012									
Companies in which a major shareholder or close relative has unshared decision-making authority over more than half the voting rights									
Sakai Tatemono Ltd.	Chiyoda-ku, Tokyo	228,000	Real estate leasing, Insurance agency business	3.28	Building leasing Interlocking directors	Payment of rental expenses	39,201	Accounts payable - other	1,533

December 2011 term

Directors and major individual shareholders

December 31; Thousands of yen	Address	Capital	Type of business or occupation	% of voting rights held (held by others)	Relationship with related party	Type of transaction	Value of transactions	Accounting classification	Balance at term-end
2011									
Companies in which a major shareholder or close relative has unshared decision-making authority over more than half the voting rights									
Sakai Tatemono Ltd.	Chiyoda-ku, Tokyo	228,000	Real estate leasing, Insurance agency business	3.29	Building leasing Interlocking directors	Payment of rental expenses	39,185	Accounts payable - other	1,433

Accounting Policies

Summary of accounting policies – nonconsolidated

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

Significant hedge accounting methods	Method of accounting for hedges: Hedging is limited to interest-rate swaps, which are undertaken only in exceptional circumstances. Hedging instruments and risks being hedged: Hedging instruments: interest rate swaps Risks being hedged: loans payable Hedging policy: Interest-rate swaps linked to borrowings may be used to hedge the risk due to interest rate fluctuations. The target of such hedging transactions varies according to the individual contract. Method of evaluating the effectiveness of hedging: The effectiveness of hedging is not evaluated, since interest-rate swaps are used only in exceptional circumstances and, when utilized, these swaps are virtually standardized with respect to the notional principal, contract term and conditions related to receipt or payment of interest (including rates of interest and related dates).
Opinion of independent auditors	Auditors: A&A Partners Opinion: unqualified

Share-related Information

Shares in issue

Class of shares	Common
Number of shares authorized	20,000,000
Issued	
As of December 31, 2012	5,104,003
As of March 15, 2013	5,104,003
Stock exchange listings	JASDAQ-OSE (Standard)
Comments	Trading unit 100-share min.

Changes in common stock and number of shares outstanding

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

Shareholders by type of investor

Type of investor	Number of shareholders	Units owned (100 shares)	% owned
National and local government agencies	-	-	-
Financial institutions	8	6,410	12.56
Securities companies	12	357	0.70
Business and other corporations	20	1,915	3.75
Non-residents - institutions and corporations	3	572	1.12
Non-residents - individuals	1	30	0.06
Individuals and others	1,228	41,734	81.80
	1,272	51,018	100.00
Shares less than one unit	-	2,203	-

Largest shareholders

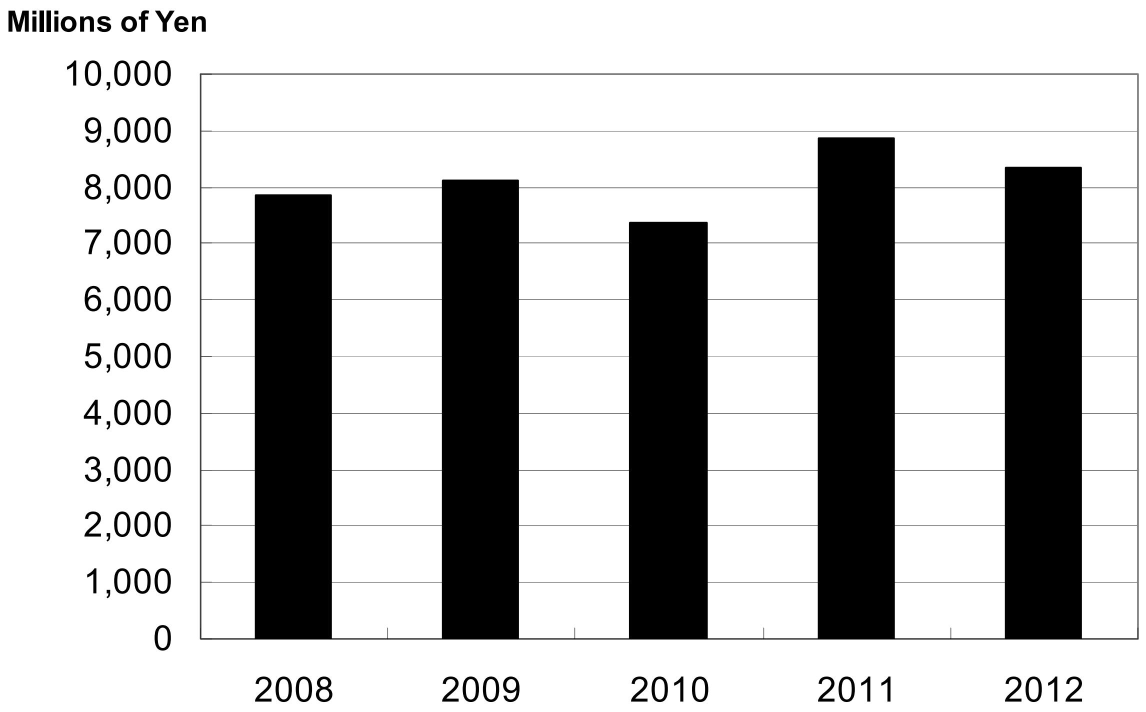
Name	Thousands of shares owned	% of shares outstanding
Masakazu Sakai	890	17.44
Hiroyuki Sakai	858	16.82
Resona Bank	244	4.79
Kaori Sakai	229	4.50
Rie Sakai	229	4.50
Mizuho Bank	227	4.47
Miho Kuboi	226	4.43
Haruna Sakai	226	4.43
Sakai Tatemono Ltd.	166	3.26
Employees' stockholding association	76	1.50
	3,374	66.12

Share information

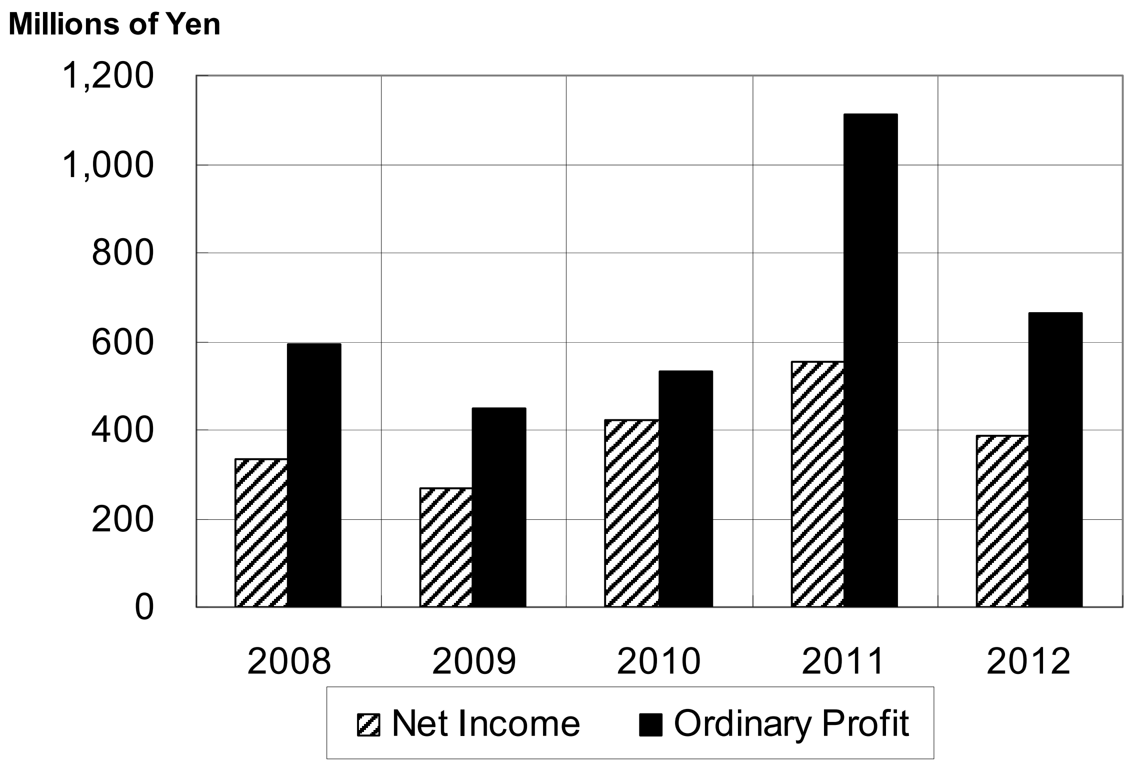
Business year	January 1 to December 31
Ex-rights date	December 31
Date of record for dividends	June 30 and December 31
Annual General Meeting of Shareholders	March
Trading unit	100 shares
Transfer agent	Mitsubishi UFJ Trust & Banking, 1-4-5, Marunouchi, Chiyoda-ku, Tokyo
Publication of record	The Company's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

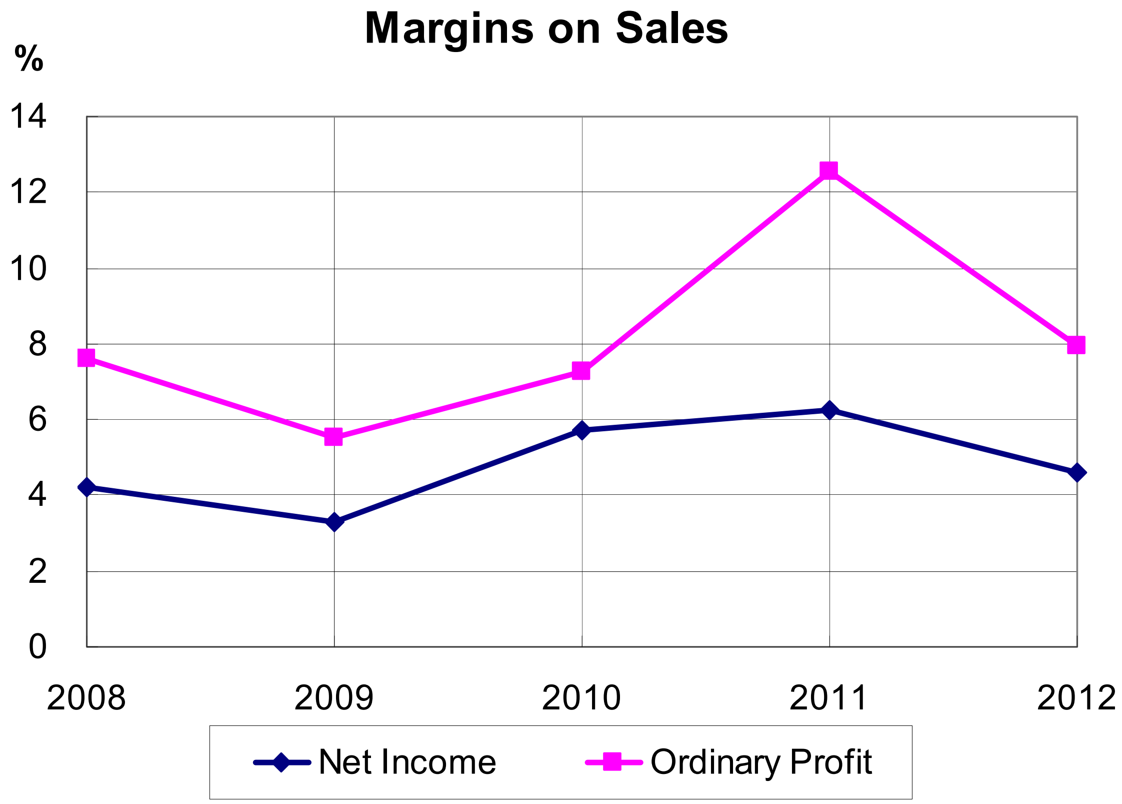
Performance in Graphs

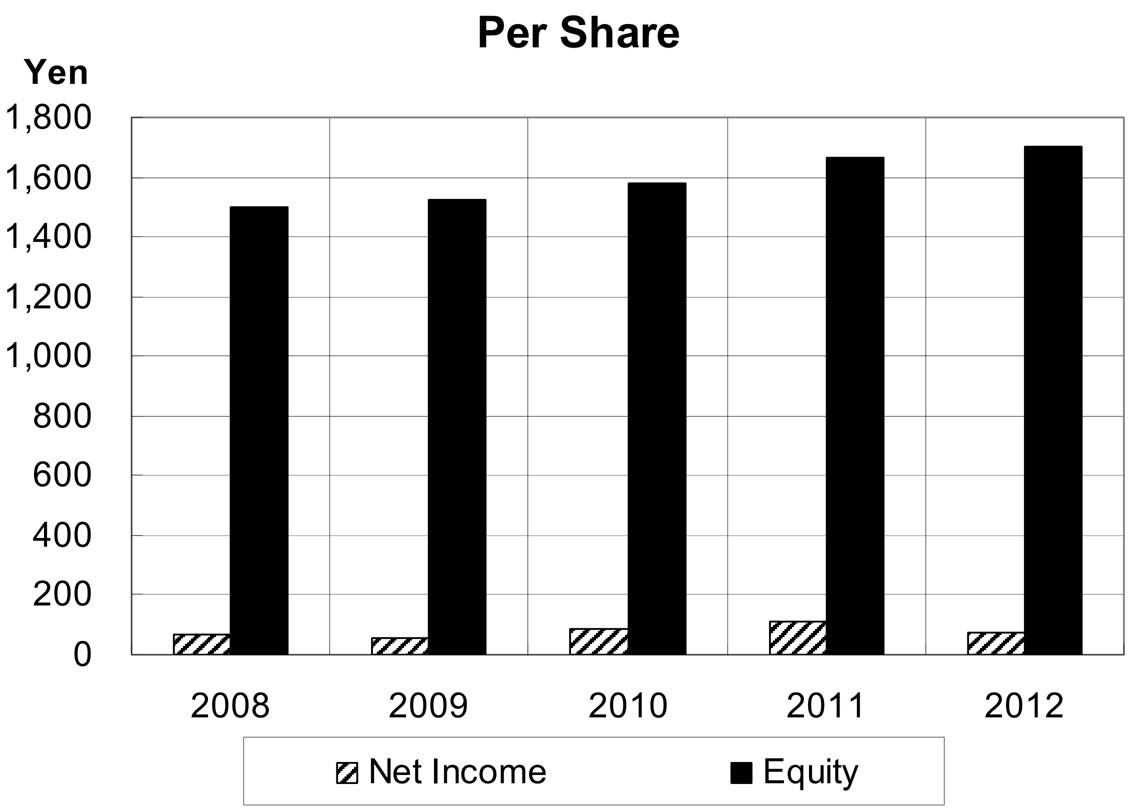
Net Sales

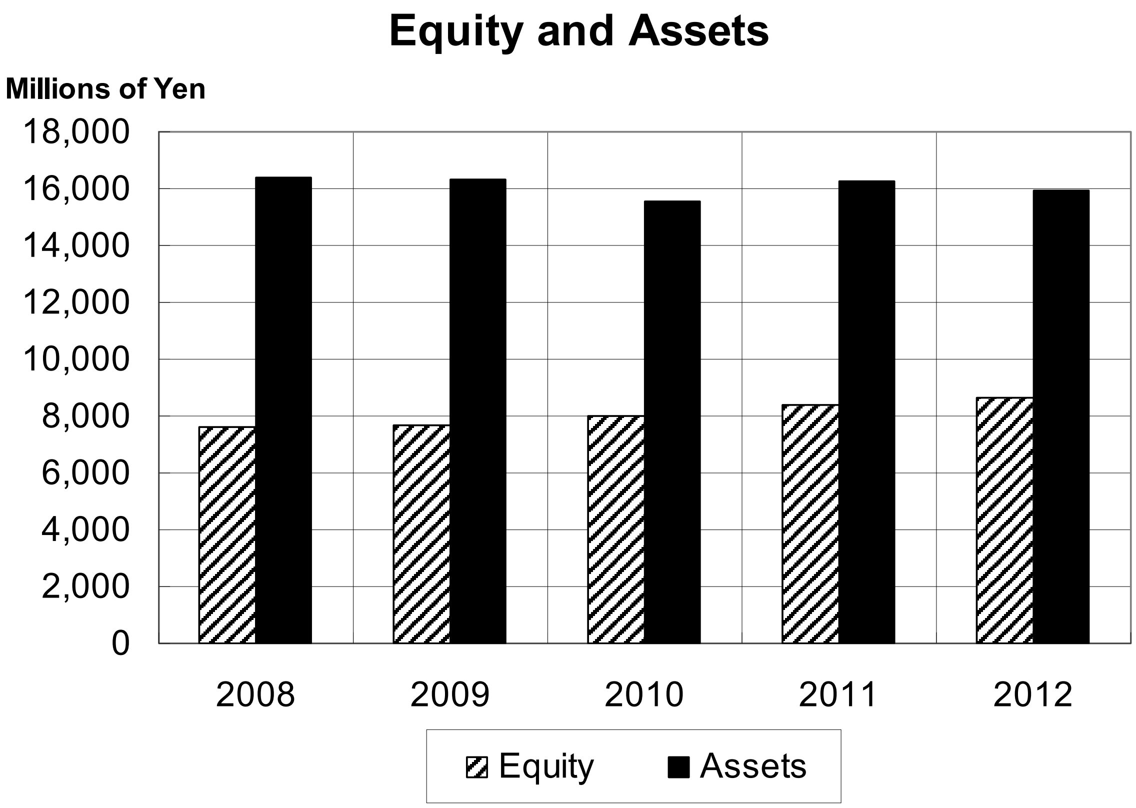


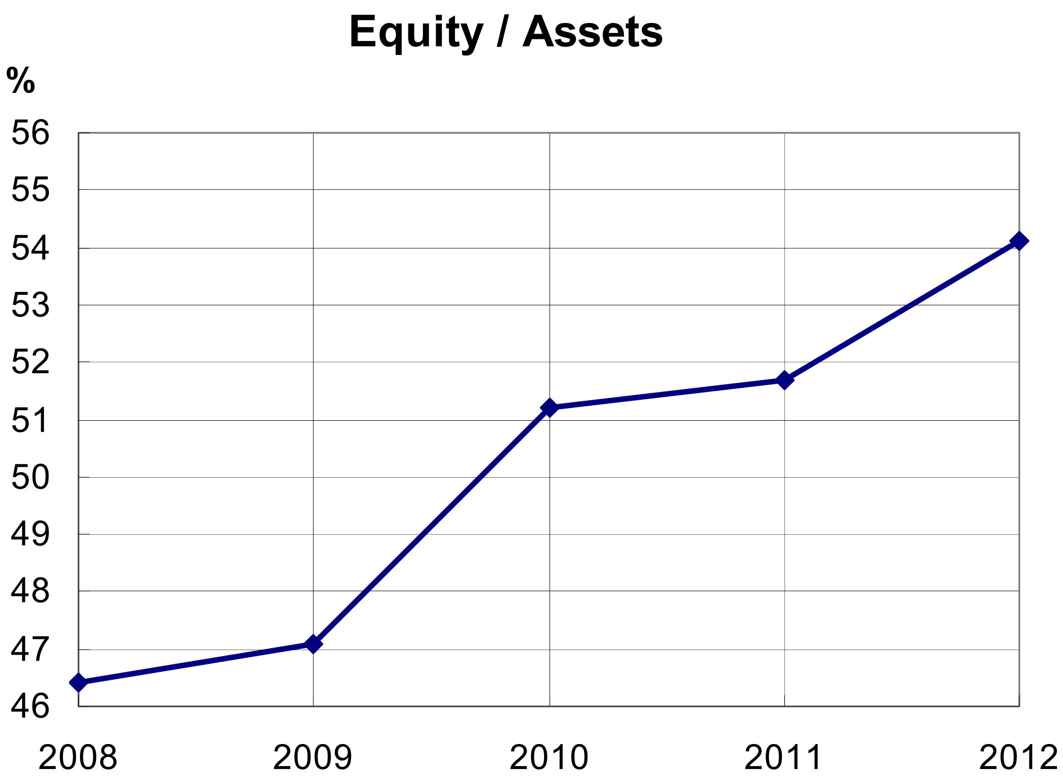
Net Income and Ordinary Profit

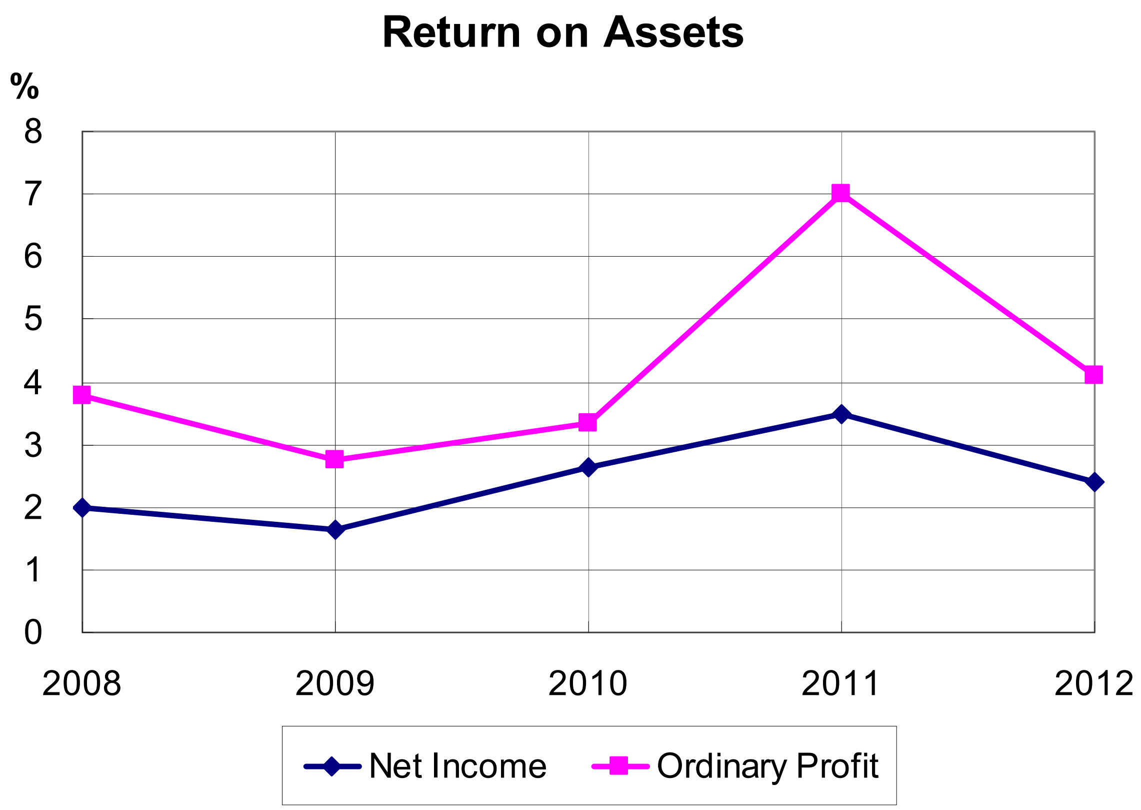


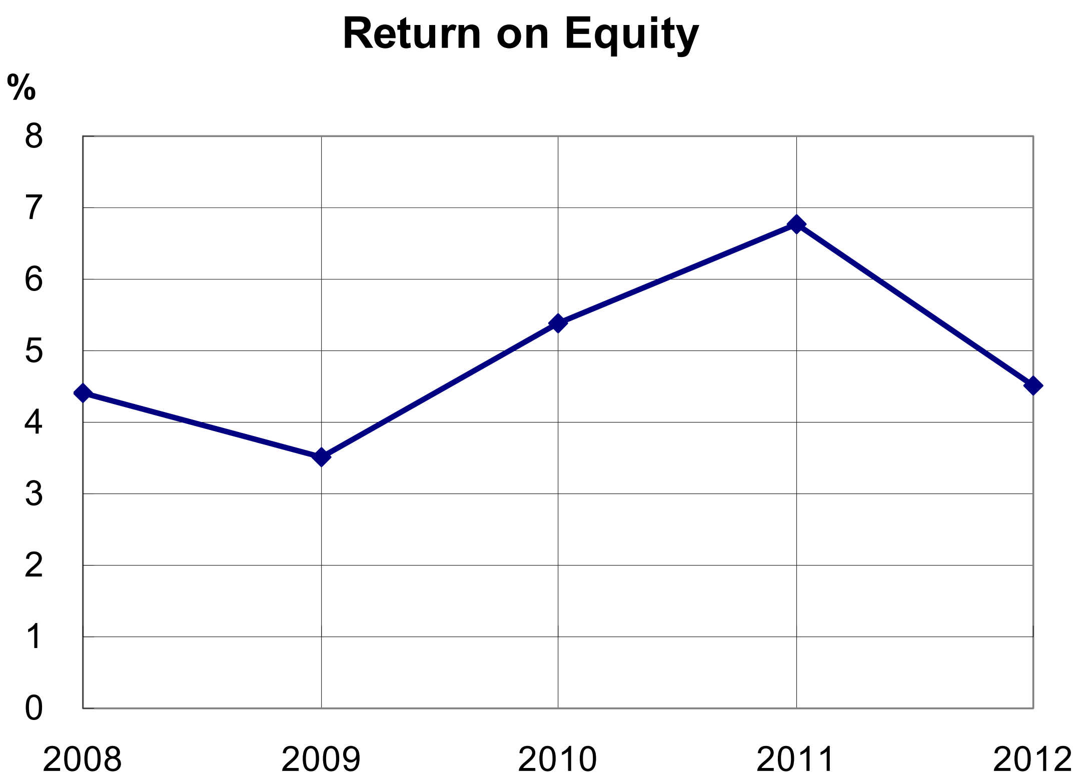

Margins on Sales
%
14
12
10
8
6
4
2
0
2008
2009
2010
2011
2012
Net Income
Ordinary Profit


Per Share
Yen
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
2008
2009
2010
2011
2012
Net Income
Equity


Equity and Assets
Millions of Yen
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
2008
2009
2010
2011
2012
Equity
Assets


Equity / Assets
%
56
55
54
53
52
51
50
49
48
47
46
2008
2009
2010
2011
2012


Return on Assets
%
8
7
6
5
4
3
2
1
0
2008
2009
2010
2011
2012
Net Income
Ordinary Profit


Return on Equity
%
8
7
6
5
4
3
2
1
0
2008
2009
2010
2011
2012

Contact

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