

For the Fiscal Year Ended December 31, 2018

Annual Select[®] 2018

KOKEN LTD.

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Corporate Profile

Since our founding in 1943, we have consistently stood by our two company policies of “never follow other companies” and “conduct thorough research.” With the goal of becoming a manufacturer that is second to none in research and development, Koken has pursued research and development with the aim of developing “first-of-their-kind” and “truly useful” products. As a result, we have succeeded in developing a lot of original products in the field of respiratory protective equipment to contribute to improving the health of workers.

Koken started business with dust masks as its core product and has established its position as the top manufacturer in the field of respiratory protective equipment. However, our mission is not to sell masks, but rather to help protect the safety and health of people. Based on this idea, we have developed innovative technologies in the fields of cleanliness, health, and safety, which has allowed us to develop a wide range of products besides masks, such as environment-related equipment and facilities designed to improve work environments and products that apply the technology of strongly acidic electrolyzed water and are totally different from conventional disinfectants. Our mission is to contribute to society based on our own technological innovation.

With the aim of transitioning to a new growth stage, we have adopted the management principles of “nurture people,” “nurture technology,” and “nurture new markets in the fields of cleanliness, health, and safety,” which can also be called Koken’s DNA, and will continually strive to realize our management principles. Please stay tuned for future development of Koken’s new technologies and products in these fields.

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I. President's Message

Greeting

I am Tsutomu Murakawa. I am honored and grateful to have the opportunity to serve as President for KOKEN LTD.

Firstly, I would like to express my heartfelt gratitude for your continued support and patronage to the Company.

Since its foundation, KOKEN LTD. has grown in the safety business domain with a central focus on the development of respirators for industrial use. Having launched the cleanliness business domain with a central focus on the recently developed KOACH, an open clean zone creator, we are now ready to step up to a new growth stage.

Towards the new growth stage, we have set forth the management principles that are supposed to be contained in the Company's DNA: "Nurture people," "Nurture technology" and "Nurture new markets in cleanliness, health and safety business domains."

For the next generation we would like to establish the health business domain as the third main pillar of operations. Then, by making each of three main pillars of business stand on its own two feet, everybody from the management down to each employee in the Company is now striving as one to achieve a stable and strongly growing company in the future.

We look forward to your continued understanding and support in the future.



Announcement of Our Management Stance - Our Goal: Long-Term Sustainable Growth

Based on our Management Principles: (1) Nurture people, (2) Nurture technology and (3) Nurture new markets in cleanliness, health and safety business domains, through which we will contribute to society, we, at the KOKEN Group, aim to achieve long-term sustainable growth.

The current business environment surrounding our Group remains uncertain at home and abroad due to its fast and drastic change.

In this circumstance, while maintaining the unchanging long-term goal to nurture new markets in cleanliness, health, and safety business domains based on our own original technological innovations, we consider that (1) establishing specific targets and an action plan to achieve them every year and implementing them steadily and (2) achieving each year's targets by modifying the action plan quickly and flexibly to respond to ever-changing business environment are the best and surest ways to achieve long-term sustainable growth of our Group.

As mentioned above, to establish the "cleanliness" and the "health" business domains as the second and third pillars of operations, respectively, following the "safety" business, we are now striving to develop our own original products such as an open clean zone creator, an automatic endoscope washer/disinfector, an antivirus mask and a copper-based antimicrobial agent, which have never before existed, and cultivate and expand new markets for them.

With such management stance, rather than aiming for a rapid profit growth and capital efficiency, we will right now focus on nurturing new businesses in the domains of "cleanliness" and "health" businesses as a high priority, which may eventually result in an improved operating margin as well as increased net sales and operating income.

In September 2018, the Advanced Technology Center was completed with the main objectives of increasing management efficiency through integration of research and development divisions located separately in each business office, promoting of collaboration and joint research activities with external institutes and corporations, strengthening research and development, and promoting human resource development. I am sure that this new facility will help further increase the customer's trust and expectation for our Group's

technologies and products and enable us as an R&D hub to further expand the number and scale of cooperation and joint research with various external organizations and corporations that we have been involved in.

The Advanced Technology Center is expected to serve as a source of our Group's growth. We aim to achieve sustainable growth and enhance our corporate value by strengthening our capabilities to nurture technology while utilizing the Center as the research and development base.

We sincerely ask that our shareholders also look forward to our Group's continued growth from a longer-term perspective.

Operating Forecasts for the Next Fiscal Year Ending December 31, 2019

The outlook for the Japanese economy is expected to remain increasingly uncertain and unpredictable for the next fiscal year ending December 31, 2019 against the background of various concerns about changes in Japan and overseas.

Given such circumstances, while strengthening efforts to sell high-value-added product lines including Hi-Luck-series disposable masks and BL series of Breath Response Powered Air-Purifying Respirators (PAPR), the Group will try to generate new demand in the industrial mask market and increase market shares in the mask market for healthcare settings and general consumers in a stable manner.

Supported by the previous installation results of more than 700 customers and 1,100 units on a cumulative basis and high customer reputation, new and repeated orders for KOACH-clean zone creator are expected to increase in the current fiscal year, and we expect orders to increase further.

The followings are forecasts by business segment:

(Mask-related business segment)

In addition to the development of well-fitting masks, the Group will continue to enhance customer awareness by promoting the importance of mask fit in the industrial and healthcare fields in order to promote the market penetration of these masks.

In the industrial field, the Group will further strengthen sales efforts to sell BL series of PAPRs, for which demand is expected to increase based on the encouragement for wearing of such equipment by the Ministry of Health, Labour and Welfare in the 9th Comprehensive Measures to Prevent Hazards Due to Dust.

In the healthcare settings, by emphasizing our products' superior capabilities to prevent infection, the Group will try to increase market shares of Hi-Luck series masks for infection control in public health centers and designated medical institutions across the country.

While, as the recent earthquakes and typhoons have shown, in a recovery and reconstruction work after natural disasters, the importance of well-fitting masks is increasingly recognized, the Group will continue to conduct activities to local governments and organizations across the country to recommend stockpiling of emergency goods and training to know how to wear masks correctly. In May 2018, we concluded an agreement with Fukushima Prefecture to supply particulate respirators and gas masks upon request in the event of a disaster. We will try to supply masks to local communities to ensure the residents' security and peace of mind.

(Other businesses segments including environment-related businesses)

For the sale of KOACH, an open clean zone creator, the Group will continue to enhance customer awareness by emphasizing "Actual Cleanliness (meaning that air is kept clean during operation)." We are drawing attention to the cutting-edge innovation of our various new technologies applied to KOACH for example, by conducting proposal-based sales, which are presented in a way to highlight the heavy facility

maintenance burden of “strict clean management” that operators of conventional clean devices are required to implement and to show these operators how introducing-KOACH will reduce their burden and therefore significantly benefit them. Through such activities, we are promoting its penetration and sales expansion.

For Kagami-Naishi, an automatic endoscope washer/disinfector that can wash and disinfect endoscopes securely with low running cost, the Group will undertake the development of next-generation product and conduct more aggressive marketing activities based on our excellent services that guarantee high levels of customer satisfaction.

II. Summary of Selected Financial Data (Consolidated)

	52nd term Fiscal year ended December 31, 2014	53rd term Fiscal year ended December 31, 2015	54th term Fiscal year ended December 31, 2016	55th term Fiscal year ended December 31, 2017	56th term Fiscal year ended December 31, 2018
Net sales (Thousands of yen)	7,500,731	7,785,973	7,936,710	8,459,868	8,326,657
Ordinary profit (Thousands of yen)	315,342	449,270	554,878	662,262	420,502
Net income attributable to owners of parent (Thousands of yen)	147,816	237,677	388,099	492,485	358,873
Comprehensive income (Thousands of yen)	185,331	232,224	333,671	549,583	370,620
Net assets (Thousands of yen)	8,775,028	8,891,395	9,004,311	9,428,496	9,587,187
Total assets (Thousands of yen)	15,552,696	16,294,705	16,504,547	17,354,879	18,915,638
Net assets per share (Yen)	1,720.40	1,739.64	1,783.40	1,867.80	1,911.51
Net income per share (Yen)	29.22	46.84	77.23	98.19	71.55
Net income per share, fully diluted (Yen)	29.06	—	—	—	—
Equity / Assets (%)	56.1	54.2	54.2	54.0	50.7
ROE (%)	1.70	2.69	4.34	5.38	3.79
Price earnings ratio (Times)	58.62	36.29	20.33	22.66	16.39
Net cash provided by operating activities (Thousands of yen)	687,046	707,584	830,228	919,664	490,150
Net cash used in investing activities (Thousands of yen)	(597,411)	(1,217,915)	(245,647)	(1,123,419)	(2,207,994)
Net cash provided by (used in) financing activities (Thousands of yen)	(238,639)	382,864	(353,433)	(1,951)	1,084,156
Cash and cash equivalents at end of term (Thousands of yen)	1,911,584	1,777,329	1,999,009	1,808,206	1,180,916
Employees	225	265	268	289	286
[Separately, average number of temporary employees] (Persons)	[168]	[176]	[165]	[159]	[166]

- Notes:
1. Consumption taxes, etc. are not included in net sales.
 2. Net income per share, fully diluted is not presented for the 53rd term, the 54th term and the 55th term because there are no potential shares with dilutive effect.
 3. Net income per share, fully diluted is not presented for the 56th term because there are no potential shares.
 4. Effective from the 54th term, the Company introduced "Stock Benefit Trust (BBT)" and "Stock Benefit Trust (J-ESOP)." The shares of the Company remaining in "Stock Benefit Trust (BBT)" and "Stock Benefit Trust (J-ESOP)," which are recorded as treasury stock in shareholders' equity are included in the treasury stock not included in the calculation of the total number of issued and outstanding shares at the end of the term and the average number of shares during the term when calculating net assets per share and net income per share.

III. History

May, 1943	Koshinkai Kenkyujo was established.
February, 1952	Koshinkai Kenkyujo was converted to joint stock company.
December, 1963	Company's production and sales divisions spun off as independent operations; KOKEN LTD. was established and Hanno plant was established in Hanno City, Saitama Prefecture.
April, 1967	Hanno Laboratory was established in Hanno City, Saitama Prefecture.
December, 1968	Hoya plant was established in Hoya City (currently Nishitokyo City), Tokyo.
October, 1976	Ashio plant was established in Ashio-machi, Tochigi Prefecture.
January, 1977	Logistics center was established in Ninomiya-machi, Kanagawa Prefecture.
January, 1981	Koken Bosai System was established and sales of occupational safety and health-protection equipment and design and construction of fire-prevention equipment and workplace environment improvement equipment were transferred to this company.
December, 1984	Hoya plant was relocated to Tokorozawa City, Saitama Prefecture, and reestablished as Tokorozawa plant.
June, 1985	Koken completed the merger with Koshinkai Kenkyujo and Ninomiya Production Center.
December, 1986	Company's shares were registered with Japan Securities Dealers Association as OTC-traded stock issue.
July, 1987	Koken completed the merger with Koken Bosai System. Sayama Techno-Yard was established in Sayama City, Saitama Prefecture, and one portion of Hanno Techno-Yard was relocated to Sayama Techno-Yard. (Names of plants and factories were all changed to Techno-Yard.)
July, 1988	Second phase of Sayama Techno-Yard construction was completed, concluding relocation of Hanno Techno-Yard.
August, 1989	New head office building was constructed.
March, 1992	New research wing was constructed for Tokorozawa Laboratory.
December, 1997	Nakai Techno-Yard and Nakai Logistics Center were established in Nakai-machi, Kanagawa Prefecture. Ninomiya Techno-Yard and Ninomiya Logistics Center were integrated into newly established facilities of Nakai Techno-Yard and Nakai Logistics Center.
January, 1999	ISO 9001 certification was obtained by entire company (registered on inspection).
June, 1999	Gunma Techno-Yard was established in Kasakake-cho, Gunma Prefecture.
January, 2002	ISO 14001 certification was obtained by Gunma Techno-Yard (registered on inspection).
June, 2003	ISO 14001 certification was obtained by Nakai Techno-Yard and Nakai Logistics Center (registered on inspection).

December, 2004	Registration for OTC trading with Japan Securities Dealers Association canceled; and shares were listed on the JASDAQ Securities Exchange.
May, 2005	ISO 14001 certification was obtained by Tokorozawa Techno-Yard (registered on inspection).
September, 2009	Saitama Logistics Center was established in Ranzan-machi, Saitama Prefecture. Nakai Logistics Center was integrated into newly established facilities of Saitama Logistics Center.
April, 2010	Company's shares were listed on JASDAQ-OSE integrated market after merger of JASDAQ Securities Exchange into Osaka Securities Exchange.
March, 2011	KOACH showroom was opened.
November, 2011	KOKEN Super Clean Technical Center was opened.
November, 2012	Overseas subsidiary SIAM KOKEN LTD. (currently consolidated subsidiary) was established in Chonburi Province, Thailand.
January, 2013	Ranzan Techno-Yard was established in Ranzan-machi, Saitama Prefecture.
July, 2013	Company's shares were listed on the JASDAQ Standard market following merger of the Osaka Securities Exchange with the Tokyo Stock Exchange.
June, 2015	Business operations were commenced at SIAM KOKEN LTD.
September, 2018	Advanced Technology Center was established in Hanno City, Saitama Prefecture.

IV. Business Overview

Clean Air Solutions

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

Super Clean Zone Creator KOACH

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

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



Push-Pull Ventilation System KOKENLAMINAR

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

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



Air Ventilation System as Contamination Source Control LAMIKOACH

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

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



Health Solutions

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

Copper-Based Lactate Antibacterial Agent IMADEZE®

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

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



Masks for Medical Facilities

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

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



Masks for General Consumers

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

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



Functional Water Production System

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

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



Safety Solutions

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

Industrial Masks

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

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



Equipment for Accident and Disaster Countermeasures

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



Masks for Medical Facilities

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

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



Masks for General Consumers

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

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



Protective Clothes, Ear Plugs, Face Shields, etc.

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



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

(1) Significant accounting policies and estimates

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

(2) Overview of financial condition

(Assets)

Total assets as of December 31, 2018 amounted to 18,915 million yen, an increase of 1,560 million yen (compared with 17,354 million yen as of December 31, 2017). The major factor contributing to the result was an increase in tangible fixed assets of 2,042 million yen.

(Liabilities)

Total liabilities as of December 31, 2018 amounted to 9,328 million yen, an increase of 1,402 million yen (compared with 7,926 million yen as of December 31, 2017). The major factor contributing to the result was an increase in long-term liabilities of 1,417 million yen due partly to an increase in long-term debt.

(Net Assets)

Total net assets as of December 31, 2018 amounted to 9,587 million yen (compared with 9,428 million yen as of December 31, 2017) and shareholders' equity ratio was 50.7% as of December 31, 2018 (compared with 54.0% as of December 31, 2017).

(3) Cash flow position

The balance of cash and cash equivalents (hereinafter referred to as "funds") as of December 31, 2018 was 1,180 million yen, a decrease of 627 million yen compared with December 31, 2017.

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

(Cash flow from operating activities)

Funds provided by operating activities were 490 million yen (919 million yen provided during the previous fiscal year). This was due mainly to net income before taxes and other adjustments of 477 million yen.

(Cash flow from investing activities)

Funds used in investing activities were 2,207 million yen (1,123 million yen used during the previous fiscal year). This was due mainly to payments for acquisition of tangible fixed assets of 2,478 million yen.

(Cash flow from financing activities)

Funds provided in financing activities were 1,084 million yen (1 million yen used during the previous fiscal year). This was due mainly to proceeds from long-term debt of 2,523 million yen, and payments of long-term debt of 1,217 million yen.

VI. Business and Other Risk

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

(1) Research and development

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

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

(2) Legal restrictions

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

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

(3) Quality assurance and quality control

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

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

(4) Disasters and infectious diseases

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

Please note that, as a measure against infectious diseases, we distribute our own anti-infection masks to all employees as well as stockpile the masks in each workplace.

(5) Environmental issues

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

(6) Information security

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

(7) Internal controls

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

(8) Overseas subsidiaries

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

VII. Research and Development

The Company is committed to research and development in its business domains of, “cleanliness, health, and safety.” It aims to develop, with freedom, original technologies and employ these technologies for a multifaceted range of uses. A matrix-based R&D structure has been established that includes project teams for basic research on future technologies and project teams for application development. We have a research and development staff of 77, and our research and development expenses during the fiscal year under review amounted to 635 million yen.

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

◇ Disposable particulate respirator Hi-Luck 330 and Hi-Luck 335

These products were developed as disposable particulate respirators for women who can work safely and comfortably at manufacturing and construction work sites where dust is generated.

< Key features >

- Disposable particulate respirators approved by Japanese National Assay of the Ministry of Health, Labour and Welfare
Approval No.: Model 330 (TM729), Model 335 (TM730)
- Designed with sizes and shapes to snugly fit even small faces (by adoption of Free Fit (FF) Lip).
- Equipped with hook type straps for ease of wear and removal while wearing helmet and without hurting ears after long time of use.
- Straps are adjustable while wearing the mask.
- Two models are available: Model 330, a standard type, and Model 335 that has the exhalation valve for discharging exhalation to prevent excess moisture buildup.

◇ Open clean zone creator KOACH <stainless steel-type product, explosion-proof environment type product>

For the KOACH series that create a clean zone in an open space, new products with specifications of “stainless steel type” and “explosion-proof environment type” were added to the lineup. These new products can be used in work environments which were not accommodated by existing types of products in the-KOACH series.

< Key features of stainless steel-type product >

- Stainless steel is used for the housing to allow for the use in construction and manufacturing sites that are vulnerable to rust and corrosion.
- Three models are available: Table-type KOACH “KOACH T 500-F-SUS” and stand-type KOACH “KOACH 645-F-SUS” and “KOACH C 900-F-SUS.”
- Usable in such fields as the food and pharmaceuticals industries, where equipment surfaces must be cleaned with water and disinfectant.

< Key features of explosion-proof environment type product >

- Comes with a structure whereby electrical systems, such as fans, will be installed outside the explosion-proof environment.
- Three models are available: Stand-type KOACH “KOACH C 900-F-D” and “KOACH C 645-F-D” and table-type KOACH “KOACH T 500-F-D.”
- Usable in an explosion-proof environment where volatile gas is produced, such as semiconductor manufacturing process and precision painting using organic solvents.

VIII. Corporate Governance

(1) Status of corporate governance

Basic approach to corporate governance

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

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

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

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

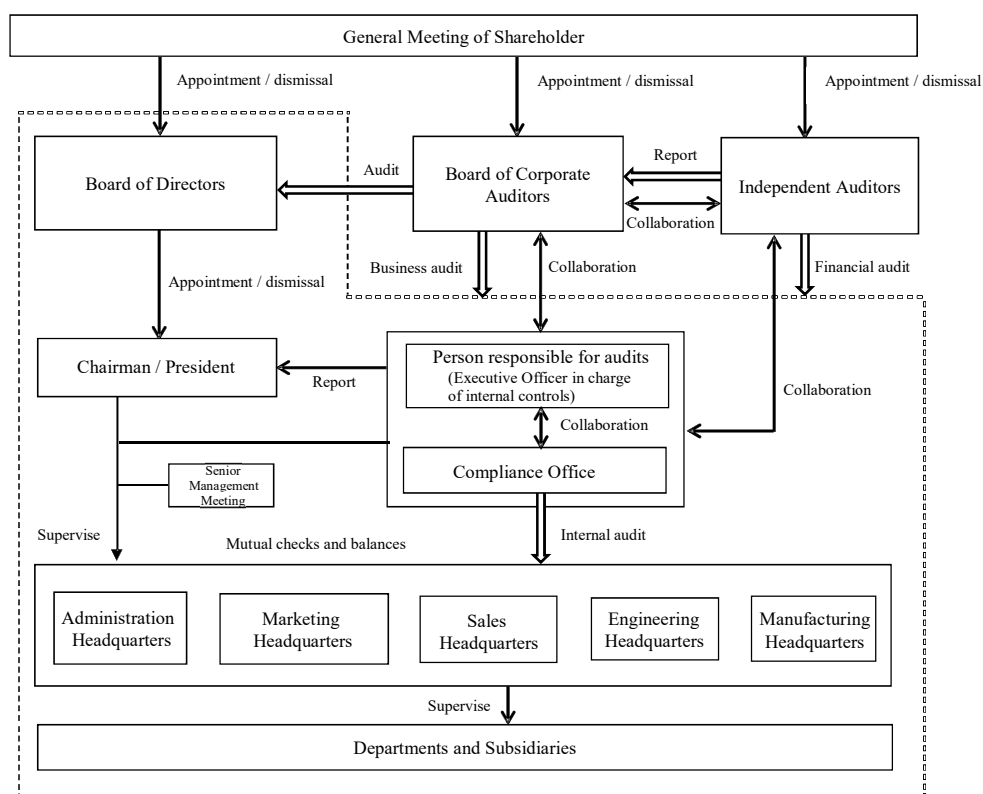
a. Basic description of the Company's organization

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

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

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

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



c. Reasons for adopting the structures

The Company has appointed one outside director and two outside corporate auditors who supervise the execution of duties by directors from an objective point of view outside the Company. In addition, the Company has introduced an executive officer system with the aim of strengthening functions and clarifying executive responsibilities by separating the Company's decision-making and business execution functions.

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

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

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

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

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

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

e. Status of maintenance of risk management system

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

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

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

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

2) Status of internal audits and auditing by corporate auditors

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

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

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

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

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

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

3) Status of financial audit

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

Engagement Partner: Kenji Oka, Certified Public Accountant

Engagement Partner: Mayu Machida, Certified Public Accountant

Number of assistants involved in auditing work

Certified Public Accountants: 9

Others: 4

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

4) Outside directors and outside corporate auditors

The Company has appointed one outside director (independent officer) and two outside corporate auditors (independent officers) who supervise the execution of duties from an objective point of view outside the Company. In addition, the Company has introduced an executive officer system with the aim of strengthening functions and clarifying executive responsibilities by separating the Company's decision-

making and business execution functions. As a result of these efforts, we have provided a governance structure that functions appropriately in terms of management supervision functions.

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

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

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

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

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

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

5) Description of officers' compensation

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

Officer classification	Total amount of compensation, etc. (Thousands of yen)	Total amount of compensation, etc. by type (Thousands of yen)				Number of officers to be paid (persons)
		Base compensation	Bonuses	Retirement benefits	Provision for directors' stock benefits	
Director (excluding outside director)	218,546	151,650	22,100	41,100	3,696	8
Corporate auditor (excluding outside corporate auditor)	24,200	21,600	—	2,600	—	2
Outside officer	20,650	18,000	650	2,000	—	3
Total	263,396	191,250	22,750	45,700	3,696	13

- (Notes) 1. Bonuses are amounts treated as expenses processed as provision for directors' and corporate auditors' bonuses in the fiscal year under review.
2. Retirement benefits are treated as expenses processed as provision for directors' and corporate auditors' retirement benefits in the fiscal year under review.
3. Provision for directors' stock benefits is a provision for directors' stock benefits for six directors in the fiscal year under review.

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

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

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

No items to report.

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

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

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

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

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

6) Status of shareholding

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

Number of issues: 8

Total amount shown on the balance sheet: 89,855 thousand yen

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

Previous fiscal year

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

Current fiscal year

Issues	Number of shares (shares)	Amount shown on the balance sheet (Thousands of yen)	Holding purpose
Resona Holdings, Inc.	76,835	42,489	For maintaining relationships for trading, etc.
Mizuho Financial Group, Inc.	191,495	34,086	For maintaining relationships for trading, etc.
NIPPON KANRYU INDUSTRY CO., LTD.	15,000	6,795	For maintaining relationships for trading, etc.

c. Investment shares held for the purpose of net investment

No items to report.

d. Investment shares held for purposes that have changed

No items to report.

7) Outline of the content of limited liability agreements

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

8) Number of directors

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

9) Requirements for resolving the election of directors

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

10) Institutions for determining interim dividends

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

11) Acquisition of treasury stock

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

12) Requirements for special resolutions at General Meetings of Shareholders

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

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

- During the fiscal year under review, nine Board of Directors meetings were held to decide important management issues and supervise the status of business execution.
- As a disclosure of corporate information, explanatory information about financial results for the fiscal year ended December 31, 2017 and for the second quarter of the fiscal year ended December 31, 2018, etc. have been posted on the Company’s website.

(2) Description of audit compensation, etc.

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

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

2) Description of other important compensation

No items to report.

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

No items to report.

4) Methods for determining audit compensation

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

IX. Status of Affiliates

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

(Notes) 1. Segment name is noted in the "Main business" column.

2. Falls under specified subsidiaries.

X. Status of Employees

(1) Status of consolidated companies

As of December 31, 2018, the Group (the Company and its consolidated subsidiaries) had 286 (166) employees.

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

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

(2) Status of submitting companies

As of December 31, 2018			
Number of employees (persons)	Average age (age)	Average years of service (years)	Average annual salary (yen)
237 (166)	40.3	15.5	7,115,482

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

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

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

(3) Status of labor unions

There are no labor unions.

XI. Stock Option System

No items to report.

XII. Stock Ownership System for Officers and Employees

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

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

1. Overview of the BBT system

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

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

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

7,830 shares

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

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

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

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

1. Overview of the J-ESOP system

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

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

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

22,870 shares

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

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

XIII. Status of Officers

The status of officers as of March 26, 2019 (the date of the 56th Annual General Meeting of Shareholders) is as follows.

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

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares owned (Thousands of shares)
Representative Director, Chairman		Masakazu Sakai	August 22, 1941	<p>Apr. 1964 Joined Renown Commerce Co., Ltd.</p> <p>Aug. 1967 Joined KOKEN LTD.</p> <p>Sept. 1967 Appointed as Director, General Manager of the Technology Department</p> <p>Jan. 1981 Appointed as Representative Director, President</p> <p>Mar. 2003 Appointed as Representative Director, President, Sakai Kosan Co., Ltd.</p> <p>Mar. 2003 Appointed as Representative Director, President, Sakai Tatemono Ltd. (current position)</p> <p>Mar. 2003 Appointed as Representative Director, Chairman (current position)</p> <p>May 2006 Chairman, Japan Safety Appliances Association</p> <p>Apr. 2015 Appointed as Councilor, Sakai CHS Foundation (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	591
Representative Director, President	In charge of the Engineering Headquarters	Tsutomu Murakawa	January 8, 1966	<p>Apr. 1989 Joined KOKEN LTD.</p> <p>Sept. 1999 Head of the Quality Assurance Office</p> <p>Mar. 2002 Head of the Tokorozawa Techno-Yard</p> <p>Feb. 2007 Head of the Tokorozawa Techno-Yard and Overseas Division Manager</p> <p>Mar. 2008 Executive Officer, Head of the Tokorozawa Techno-Yard and Overseas Division Manager</p> <p>Jan. 2009 Executive Officer, Overseas Division Manager</p> <p>Mar. 2010 Appointed as Managing Director, in charge of the Engineering Headquarters, Overseas Division Manager</p> <p>Jul. 2013 Appointed as Senior Managing Director, in charge of the Engineering Headquarters, Overseas Division Manager</p> <p>Jan. 2014 Senior Managing Director, in charge of the Engineering Headquarters</p> <p>Mar. 2014 Appointed as Representative Director, President, in charge of the Engineering Headquarters (current position)</p> <p>Apr. 2015 Appointed as Director, Sakai CHS Foundation (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	8
Representative Director, Executive Vice President	In charge of the Manufacturing Headquarters	Nobuya Horiguchi	August 28, 1958	<p>Apr. 1982 Joined KOKEN LTD.</p> <p>Mar. 1998 Safety and Health Division Manager</p> <p>Mar. 2008 Executive Officer, Safety and Health Division Manager</p> <p>Mar. 2010 Appointed as Managing Director, in charge of the Manufacturing Headquarters</p> <p>Nov. 2012 Appointed as Representative Director, President, SIAM KOKEN LTD. (current position)</p> <p>Jul. 2013 Appointed as Senior Managing Director, in charge of the Manufacturing Headquarters</p> <p>Mar. 2014 Appointed as Representative Director, Executive Vice President, in charge of the Manufacturing Headquarters (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	16

Title	Job title	Name	Date of birth	Career summary		Term of office	Number of shares owned (Thousands of shares)
Senior Managing Director	In charge of the Marketing Headquarters	Mitsuji Muramatsu	February 21, 1956	Apr. 1978 Apr. 2002 Feb. 2004 Feb. 2006 Mar. 2006 Mar. 2007 Mar. 2007 Mar. 2008 Mar. 2014 Mar. 2015	Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.) Branch Manager of the Hongo Dori Branch, Mizuho Bank, Ltd. General Manager of the Osaka Public Affairs Department, Mizuho Bank, Ltd. Seconded to KOKEN LTD. Administration Headquarters Manager Joined KOKEN LTD. Appointed as Managing Director, Administration Headquarters Manager Managing Director, in charge of the Administration Headquarters Appointed as Senior Managing Director, in charge of the Administration Headquarters and in charge of the Marketing Headquarters Senior Managing Director, in charge of the Marketing Headquarters (current position)	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	15
Senior Managing Director	In charge of the Sales Headquarters	Fumikazu Tanaka	February 22, 1957	Apr. 1981 Oct. 1996 Oct. 2003 Mar. 2008 Apr. 2008 Apr. 2011 Mar. 2012 Mar. 2014	Joined KOKEN LTD. Life Safety Division Manager General Manager of the Western Japan Block Executive Officer, General Manager of the Western Japan Block Executive Officer, General Manager of the Sales Management Department and General Manager of the Eastern Japan 2nd Block Executive Officer, Deputy Sales Headquarters Manager and General Manager of the Sales Management Department Appointed as Managing Director, in charge of the Sales Headquarters Appointed as Senior Managing Director, in charge of the Sales Headquarters (current position)	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	7
Managing Director	In charge of the Administration Headquarters	Hideaki Ibata	December 7, 1962	Apr. 1986 May 2006 Mar. 2010 Jun. 2011 Jun. 2014 Mar. 2015	Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.) Branch Manager of the Ageo Branch, Mizuho Bank, Ltd. General Manager of the Branch Business Department No. 7, Mizuho Bank, Ltd. Branch Manager of the Tokyo-chuo Branch, Mizuho Bank, Ltd. Seconded to KOKEN LTD., Deputy Administration Headquarters Manager Appointed as Managing Director, in charge of the Administration Headquarters (current position)	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	1
Director	Director, Accounting Department	Toshiaki Nagasaka	October 16, 1959	Apr. 1982 Mar. 2000 Mar. 2002 Feb. 2007 Mar. 2008 Nov. 2008 Aug. 2009 Mar. 2014	Joined KOKEN LTD. Head of the Tokorozawa Techno-Yard Head of the Sayama Techno-Yard Head of the Compliance Office Executive Officer, Head of the Compliance Office Executive Officer, Head of the Compliance Office and Head of the Safety & Environment Management Office Executive Officer, General Manager of the Accounting Department Appointed as Director, General Manager of the Accounting Department (current position)	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	8

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares owned (Thousands of shares)
Director, Advisor		Hiroyuki Sakai	May 23, 1943	<p>Apr. 1967 Joined KOKEN LTD.</p> <p>Aug. 1970 Assistant Manager of the Sales Department</p> <p>Nov. 1974 Appointed as Director, General Manager of the Systems Department</p> <p>Nov. 1984 Appointment as Representative Director, President, Sakai Tatemono Ltd.</p> <p>Mar. 1986 Appointed as Managing Director</p> <p>Apr. 1990 Managing Director, Sales Headquarters Manager</p> <p>Mar. 1992 Representative Director, Senior Managing Director, Sales Headquarters Manager</p> <p>Mar. 1998 Representative Director, Executive Vice President, Sales Headquarters Manager</p> <p>Mar. 2003 Appointed as Representative Director, President</p> <p>Mar. 2014 Appointed as Director, Advisor (current position)</p> <p>Apr. 2015 Appointment as Director, Sakai CHS Foundation (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	559
Director		Shinobu Sakurai	May 10, 1961	<p>Apr. 2004 Professor, Course of Nursing, Mie University Faculty of Medicine;</p> <p>Sept. 2011 Professor, Course of Nursing Graduate Major, Mie University Graduate School of Medicine</p> <p>Professor Emeritus, Mie University (current position);</p> <p>Professor, Department of Nursing, Juntendo University Faculty of Health Care and Nursing (current position);</p> <p>Professor, Doctor's Course of Nursing, Juntendo University Graduate School of Health Care and Nursing (current position)</p> <p>Apr. 2014 Professor, Department of Health, Juntendo University Faculty of Health and Sports Science</p> <p>Mar. 2017 Appointed as Director (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 27, 2018	—
Standing Corporate Auditor		Toshio Akiyama	April 2, 1949	<p>Apr. 1973 Joined KOKEN LTD.</p> <p>Aug. 1986 Special Procurement Division Manager</p> <p>Mar. 2000 Appointed as Director, Special Procurement Division Manager and Hygienic Equipment Division Manager</p> <p>Apr. 2001 Director, Hygienic Equipment Division Manager</p> <p>Mar. 2003 Director, Sales Headquarters Manager and General Manager of the Sales Management Department</p> <p>Feb. 2006 Director, Sales Headquarters Manager, General Manager of the Sales Management Department and Overseas Division Manager</p> <p>Feb. 2007 Director, Sales Headquarters Manager and General Manager of the Sales Management Department</p> <p>Mar. 2008 Appointed as Managing Director, in charge of the Sales Headquarters</p> <p>Mar. 2012 Managing Director, in charge of internal controls</p> <p>Mar. 2015 Appointed as Standing Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 26, 2019	14
Standing Corporate Auditor		Yoshihiro Ito	July 12, 1949	<p>Jun. 1980 Joined KOKEN LTD.</p> <p>Sept. 1998 General Manager of the Central Japan Block</p> <p>Mar. 2001 Appointed as Director, General Manager of the Central Japan Block</p> <p>Mar. 2008 Executive Officer, General Manager of the Central Japan Block</p> <p>Apr. 2015 Executive Officer, in charge of internal controls</p> <p>Mar. 2017 Appointed as Standing Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 28, 2017	8

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares owned (Thousands of shares)
Corporate Auditor		Teruo Shinato	February 24, 1955	<p>Apr. 1978 Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.)</p> <p>Jan. 1990 Seconded to the Tokyo International Financial Futures Exchange (currently Tokyo Financial Exchange Inc.), Manager of the Planning Section</p> <p>Apr. 1994 Deputy Branch Manager of the Paris Branch, The Fuji Bank, Ltd.</p> <p>Jul. 2000 General Manager of the Sales Department, Mizuho Trust & Banking Co., Ltd.</p> <p>Apr. 2002 General Manager in charge of the General Planning Department, Mizuho Trust & Banking Co., Ltd.</p> <p>Apr. 2003 Professor, Asahi University Faculty of Business Administration</p> <p>Apr. 2006 Professor, Nihon University Graduate School of Social and Cultural Studies</p> <p>Apr. 2012 Professor and Dean, Nihon University Graduate School of Social and Cultural Studies (current position)</p> <p>Mar. 2015 Appointed as Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 26, 2019	0
Corporate Auditor		Nikko Haku	March 7, 1977	<p>Nov. 2002 Passed the Bar Examination</p> <p>Oct. 2004 Registered at the Daini Tokyo Bar Association; Joined Sakura Kyodo Law Offices</p> <p>Jan. 2011 Partner, Sakura Kyodo Law Offices (current position)</p> <p>Mar. 2015 Appointed as Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 26, 2019	—
Total						1,230

(Notes) 1. Director Shinobu Sakurai is an outside director.

2. Corporate Auditor Teruo Shinato and Corporate Auditor Nikko Haku are outside corporate auditors.

3. Director, Advisor Hiroyuki Sakai is the younger brother of Representative Director, Chairman Masakazu Sakai.

XIV. Capital Expenditures

[Overview of capital expenditures, etc.]

A total of 2,546 million yen of capital expenditures (including intangible fixed assets) were made in the Group (the Company and its consolidated subsidiaries) in the fiscal year under review in order to develop highly competitive new products that meet market requirements, and to prepare an efficient mass production system for these new products.

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

Advanced Technology Center buildings, etc.	1,974 million yen
Dies for occupational safety and health protection equipment, etc.	263 million yen
Techno-Yard manufacturing equipment	186 million yen

Disposal of important facilities, etc.

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

XV. Dividend Policy

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

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

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

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

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

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)
March 26, 2019 Resolution at the Annual General Meeting of Shareholders	126	25

XVI. Status of Business

[Overview of business performance, etc.]

Business performance

The Japanese economy in the fiscal year under review (January to December 2018) continued on a gradual recovery trend generally, against a backdrop of an increase in capital expenditures and improvements of income and employment environments supported by strong corporate earnings, although the domestic economy slowed temporarily due to the impact of natural disasters. On the other hand, concerns about the outlook heightened further as the uncertainty surrounding trade issues resulting from trade friction had a major negative impact on the global economy and the financial and capital markets.

Amid this business environment, the Group implemented priority measures set out for each of the “cleanliness, health, and safety” markets. During the fiscal year under review, we factored decreases in orders from the public sector (protective masks, and so forth, for the Self-Defense Forces) and demand for air pollution masks for China into the initial plan but projected that revenue growth would be achieved by focusing on expanding sales of dust masks and gas masks for industrial use, the BL series of Breath Response Powered Air-Purifying Respirators (PAPR) and open clean zone creator KOACH, and made efforts accordingly. However, sales of masks for China dropped to nearly zero and sales of KOACH underachieved the initial target. As a result, net sales were 8,326 million yen (a decrease of 1.6% over the previous fiscal year), which fell below both the results for the previous fiscal year and the initial plan targets.

Amid increasing costs due to growing raw material and other costs, combined with recording of expenses related to the Advanced Technology Center completed in September last year, operating income was 466 million yen (a decrease of 35.7% over the previous fiscal year), ordinary profit was 420 million yen (a decrease of 36.5% over the previous fiscal year), and net income attributable to owners of parent was 358 million yen (a decrease of 27.1% over the previous fiscal year). However, the Group-wide efforts were made to optimize procurement, improve production efficiency and streamline other operations in general. As a result, each level of profit exceeded the initial plan targets.

Business performance by segment is as follows.

(Mask-related business segment)

Capital investment, employment and production were on an increasing trend generally, albeit softening in the second half of the fiscal year under review, for domestic manufacturing industry, which is the major customer for this business segment, and we took advantage of it to sell more dust masks, gas masks, and the BL-series of Breath Response Powered Air-Purifying Respirators (PAPR). Sales of the Hi-Luck series disposable masks remained strong for both industrial and medical use, except for air pollution masks for China.

As a result, total net sales for this business segment were 7,164 million yen (a decrease of 5.5% over the previous fiscal year).

(Other businesses segments, including environment-related businesses)

For the open clean zone creator KOACH, we collaborated with agencies and dealers in sales activities to promote “Actual Cleanliness (cleanliness during actual work),” which resulted in an increase in unit sales by a little more than 30% compared with the previous fiscal year. In addition, due to a higher sales mix of the large cleanroom-type system Floor KOACH and the addition of sales of stainless steel-type and explosion-proof environment type systems, which are high-value-added products introduced to the market in the second quarter, net sales increased by 40% compared with the previous fiscal year. As a result, total net sales for the business segments reached a record 1,162 million yen (an increase of 32.8% over the previous fiscal year).

XVII. Segment Information

a. Production performance

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

Segment name	Current fiscal year (January 1, 2018 through December 31, 2018)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	8,801,855	96.2
Other businesses (Thousands of yen)	1,147,583	132.2
Total (Thousands of yen)	9,949,438	99.3

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

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

b. Orders received

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

c. Sales performance

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

Segment name	Current fiscal year (January 1, 2018 through December 31, 2018)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	7,164,217	94.5
Other businesses (Thousands of yen)	1,162,439	132.8
Total (Thousands of yen)	8,326,657	98.4

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

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

Transaction partner	Previous fiscal year		Current fiscal year	
	Amount (Thousands of yen)	Ratio (%)	Amount (Thousands of yen)	Ratio (%)
MIDORI ANZEN YOUHIN CO., LTD.	1,437,978	17.0	1,373,870	16.5

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

XVIII. Issues to be Addressed

To further improve its corporate value and realize sustainable development and growth, the Group has been making continued efforts on the following issues in line with its three management principles of “(1) nurture people,” “(2) nurture technology,” and “(3) nurture new markets in the fields of cleanliness, health, and safety.”

(1) Nurture people

We believe that a business has a corporate value only when it can strike a balance between the sense of purpose of employees and the existence of a business. In other words, when the dignity of hired employees is recognized in the company’s business activities, they feel a sense of happiness and fulfillment. Based on this belief the Group has established and operated for over 20 years our original HR policy called “HOPES (High-ideal, Open-minded Personal affairs by various Evaluation System).”

“HOPES” is a human resource system that accepts diversity, and evaluates and manages each and every employee independently from three perspectives: professional skill, ability to attain business performance, and management ability. The system provides opportunities for advancement for employees regardless of age, gender, or the number of years of services, constantly putting motivated employees in positions suitable for them. For business development and expansion, having the right people in the right places is critical and making continual efforts to educate employees for that purpose poses an everlasting issue. The Group has been promoting human resource development systematically by implementing internal training programs to improve employees’ professional knowledge and skills.

We are aware that the Group currently has fewer female employees who are willing to play a managerial role, and we have been working to remedy the situation by operating a human resource system that evaluates employees from the three perspectives set out in the aforementioned “HOPES” Koken total human resource system and facilitates promotion. As a result, out of all female employees, 45% have become qualified managerial personnel whose titles are senior staff member or higher and 42% have become a certified professional known as a Meister, the ratios of which have become higher than those of male employees. We aim for a company where women, including managerial personnel, will be able to further play active roles to the fullest.

(2) Nurture technology

Our philosophy of research and development, which has been carried down since the founding of the Group, is based on the concepts of “never follow other companies” and “conduct thorough research.” With the aim of thoroughly infusing this philosophy into each and every one of our technical developers, we have created and have been operating mechanisms that are original to the Group. Such mechanisms include establishing a matrix-based R&D structure, adopting a Meister system for enhancing technical expertise, and holding monthly research presentations, which are attended by all technical developers and directors. As a result, we have gone on to produce many products that were the only ones or the best ones of their type, and thus, at the end of December 2018, we hold a combined total of 167 domestic and 120 foreign intellectual properties including patents, designs, trademarks, and prior use rights.

As a corporate group that pursues growth as technology-driven companies, we always give top priority to intellectual properties from business and corporate strategic points of view. Accordingly, we have set up the IP strategy Meetings and the Invention Review Committee in the company and developed and established regulations regarding decisions on the patent application policy, as well as evaluation of employees’ inventions and intellectual properties. In addition, we constantly explore the utilization of patented technologies held from their development stage.

We currently have 20 domestic patents pending and 61 international patents pending. We will continue to work toward increasing the quality and volume of intellectual property, and implement strategic initiatives toward commercialization of new technologies.

KOKEN LTD.’s Advanced Technology Center was completed as initially scheduled in September 2018. This facility was constructed with the main objectives of increasing management efficiency through integration of research and development divisions located separately in each business office, promotion of collaboration and joint research activities with external institutes and corporations, strengthening research and development, and

promoting human resource development.

The Group will utilize the facility as the research and development base to enhance its capabilities to nurture technology toward achieving sustainable growth and improvement of corporate value.

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

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

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

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

At the initial stage of marketing, sales activities to promote “Super Cleanliness” resulted in anticipatory introductions of KOACH to certain sectors including research laboratories and facilities that particularly welcomed the product specifications.

At the sites of these introductory cases for KOACH, we have empirically proved the effectiveness of “Actual Cleanliness (cleanliness during actual work)” that KOACH can provide, leading to its higher reputation, and this has enabled us to steadily expand the area and market of application for KOACH.

Maintaining cleanliness in a conventional clean room requires “strict cleanliness management” to adhere to the principles of “not to bring contaminants into a clean room,” “not to generate contaminants,” and “not to cause accumulation of contaminants,” which incurs a large burden. On the other hand, KOACH through the adoption of proprietary technology to create a clean zone, allows for “immediate discharge of contaminants brought into a clean room,” “immediate discharge of contaminants generated,” and “preventing contaminants from building up by maintaining continuous air flow.” As a result, KOACH makes cleanliness management simple and low-impact. KOACH is a clean zone device which has overturned the very concept of the clean room, and its demand is growing based on the high reputation of its features.

The Group will continue to raise awareness of “Actual Cleanliness.” We believe we can contribute significantly to dramatic progress of science and technology and the manufacturing industry in Japan by drawing attention to innovativeness of a variety of new technologies applied to KOACH, for example, by means of conducting proposal-based sales, which are presented in a way to highlight the heavy facility maintenance burden of “strict clean management” that operators of conventional clean devices are required to implement and to show these operators how introducing KOACH will reduce their burden and therefore significantly benefit them.

<Health> Accelerate product development and develop new business

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

With regard to the automatic endoscope washer/disinfector Kagami-Naishi that reliably washes and disinfects at a low running cost, we will undertake development of next-generation model systems and aggressive sales activities based on the provision of services with high customer satisfaction.

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

<Safety> Promote further dissemination of masks

While the manufacturing industry is the major consumer of masks, which are the core products of this segment, employment in the industry has been on a gradual decline in recent years. Meanwhile, there are growing trends for tightening regulations on hazardous substances and ensuring and requiring the use of respiratory protective equipment. For instance, the 9th Comprehensive Measures to Prevent Hazards Due to Dust, released by the Ministry of Health, Labour and Welfare last year, encourages the use of Powered Air-Purifying Respirators

(PAPR). In line with this trend, demand is expected to grow for high-performance and high-value-added products, including Powered Air-Purifying Respirators.

As more women are entering the workforce, there has been an increasing number of female workers in manufacturing, construction and civil engineering work sites where masks for industrial use are required. The Group saw the necessity for masks for working women in these sites that can be used safely and comfortably, and has started their development. We have already completed its productization and will shortly start marketing the product.

The Group will make efforts to develop and promote the penetration of high-performance and high-value-added products, such as the BL series of Breath Response Powered Air-Purifying Respirators and the Hi-Luck series disposable masks, for which demand growth is expected, to ensure safe and comfortable work environments for workers including female workers. Through these efforts, the Group will strive for further improvement of the safe and secure images of Koken brand that we have nurtured.

The Group has developed and supplied two generations of protective masks for use as military equipment, which are Type 4 (1985-1999) and Type 00 (2000-2018), to the Self-Defense Forces. We received an order to develop a next-generation protective mask, and we have supplied prototype masks with various innovative technologies, such as our proprietary technology, the Breath Synchronized Air Flow System. As a result, the specification for Type 18 Personal Protective Mask, a next-generation protective mask with new technologies, such as the “Breath Synchronized Air Flow System” was approved, and we have recently been awarded a contract to supply the Type 18 Protective Mask. This will mark a supply contract spanning three consecutive generations of protective masks from Type 4, Type 00, and to Type 18.

Amid increasing awareness of the importance of wearing well-fitting masks for recovery and reconstruction efforts in the aftermath of natural disasters such as recent earthquakes and typhoons, the Group has continuously been conducting activities to advocate to municipalities across the country to stockpile masks for countermeasures against emergencies and implement training on how to wear masks.

As we signed an agreement regarding procurement of disaster relief supplies with Fukushima Prefecture in May 2018, we will continue making efforts to develop and supply masks that will contribute to the safety and security of people, both in public and private sectors.

XIX. Financial Instruments

1. Matters concerning the status of financial instruments

(1) Policy with regard to financial instruments

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

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

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

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

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

Short-term loans payable, current portion of long-term debt, long-term debt, and lease obligations related to finance lease transactions are mainly for the purpose of financing working capital and capital expenditures, and thus are exposed to liquidity risk. However, we manage liquidity risk by maintaining liquidity on hand at a certain level. Furthermore, since loans are exposed to interest rate fluctuation risk, we consider the use of derivative transactions (interest rate swaps), and implement them when necessary, as hedging instruments. For foreign currency-denominated receivables and obligations and forecasted transactions denominated in foreign currencies, which are based on transactions with subsidiaries and are also exposed to foreign exchange fluctuation risk, we consider the use of derivative transactions (foreign exchange contracts), and implement them when necessary, as hedging instruments of such transactions.

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

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

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

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

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

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

(Thousands of yen)

Classification	Previous fiscal year (December 31, 2017)	Current fiscal year (December 31, 2018)
Unlisted stocks	3,246	3,246

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

XX. Fixed Assets

1. Status of major facilities

(1) Submitting company

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

The Advanced Technology Center serves as the Company's research facility.

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

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

As of December 31, 2018

Business office name (location)	Segment name	Description of facility	Book value						Number of employees (persons)
			Buildings and structures (Thousands of yen)	Machinery, equipment and vehicles (Thousands of yen)	Land (Thousands of yen) (Area m ²)	Lease assets (Thousands of yen)	Others (Thousands of yen)	Total (Thousands of yen)	
Head office (Chiyoda-ku, Tokyo)	Mask-related business and other businesses	Company management work	177,653	86	1,636,000 (283.91 m ²)	15,544	5,711	1,834,996	87
Sayama Techno- Yard (Sayama City, Saitama Prefecture)		Production facility	242,341	107,898	792,433 (11,430.44 m ²)	6,664	5,298	1,154,637	17
Gunma Techno-Yard (Midori City, Gunma Prefecture)		Production facility	308,089	130,259	405,140 (9,256.83 m ²)	39,911	29,930	913,331	15
Tokorozawa Techno-Yard (Tokorozawa City, Saitama Prefecture)		Production facility	49,777	5,109	177,214 (1,915.55 m ²)	3,047	4,284	239,434	11
Nakai Techno-Yard (Nakai-machi, Kanagawa Prefecture)		Production facility	75,404	154,855	325,449 (1,434.94 m ²)	71	1,668	557,448	10
Ranzan Techno- Yard (Ranzan-machi, Saitama Prefecture)		Production facility	30,311	44,320	–	–	1,677	76,310	4
Advanced Technology Center (Hanno City, Saitama Prefecture)		Research facility	2,434,312	2,574	1,170,335 (46,778.06 m ²)	235,369	46,511	3,889,104	35
Saitama Logistics Center (Ranzan-machi, Saitama Prefecture)		Logistics facility	84,297	132	1,242,116 (21,336.07 m ²)	71	894	1,327,511	5

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

2. Since the Ranzan Techno-Yard is located on the same site as the Saitama Logistics Center, all the land of that site is shown under the Saitama Logistics Center.

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

(2) Overseas subsidiaries

As of December 31, 2018

Company name	Business office name (location)	Segment name	Description of facility	Book value						Number of employees (persons)
				Buildings and structures (Thousands of yen)	Machinery, equipment and vehicles (Thousands of yen)	Land (Thousands of yen) (Area m ²)	Lease assets (Thousands of yen)	Others (Thousands of yen)	Total (Thousands of yen)	
SIAM KOKEN LTD.	Chonburi Province, Thailand	Mask-related business	Production facility	200,395	141,656	76,385 (13,430.40 m ²)	—	9,803	428,239	49

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

2. Plans for the new establishment and disposal of facilities

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

As of the end of the fiscal year under review, there are no plans for newly establishing or disposing of important facilities.

XXI. Loans

[Schedule of loans, etc.]

Classification	Balance at beginning of current term (Thousands of yen)	Balance at end of current term (Thousands of yen)	Average interest rate (%)	Repayment deadline
Short-term loans payable	1,400,000	1,400,000	0.49	—
Current portion of long-term debt	1,060,175	1,192,000	0.59	—
Current portion of lease obligations	53,816	97,448	—	—
Long-term debt (excluding those to be repaid within one year)	3,442,825	4,616,500	0.55	2020 through 2028
Lease obligations (excluding those to be repaid within one year)	46,568	227,061	—	2020 through 2024
Total	6,003,384	7,533,010	—	—

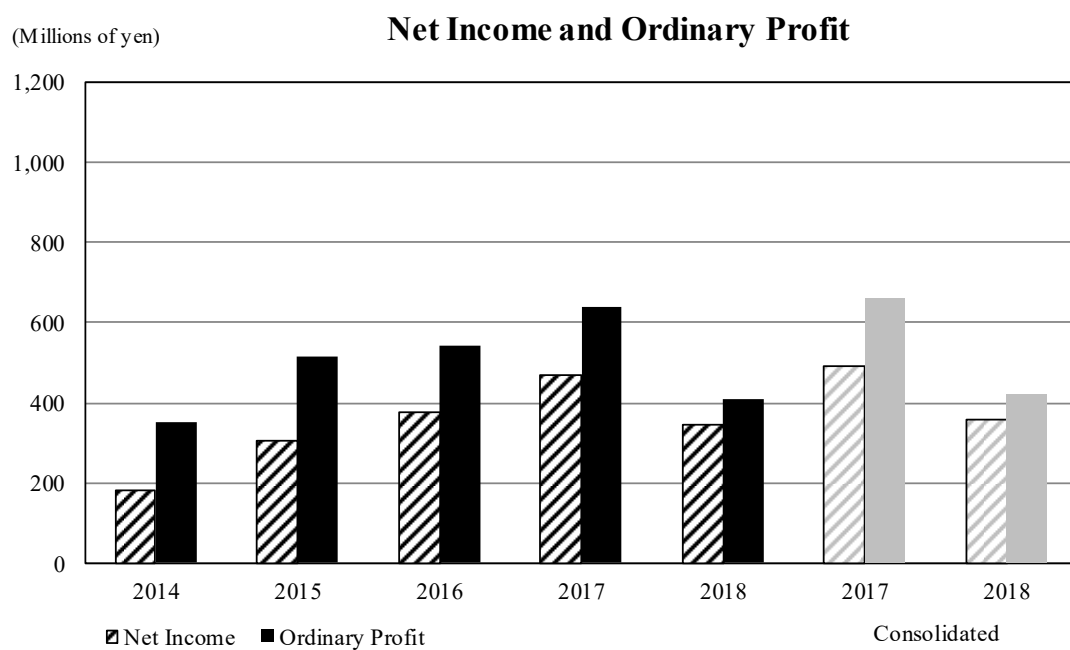
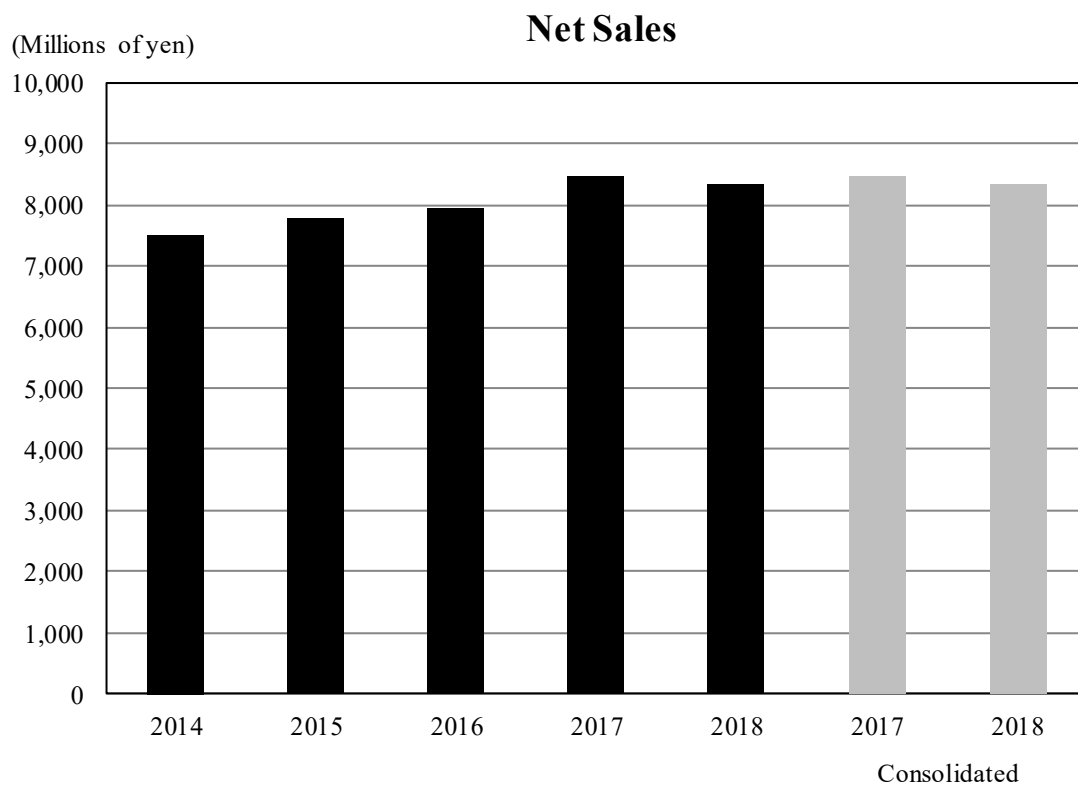
- (Notes) 1. The weighted average interest rate on the year-end balance of loans is stated for the average interest rate.
2. The average interest rate is omitted for lease obligations because the lease obligations recorded in the consolidated balance is the amount before deducting the interest equivalent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

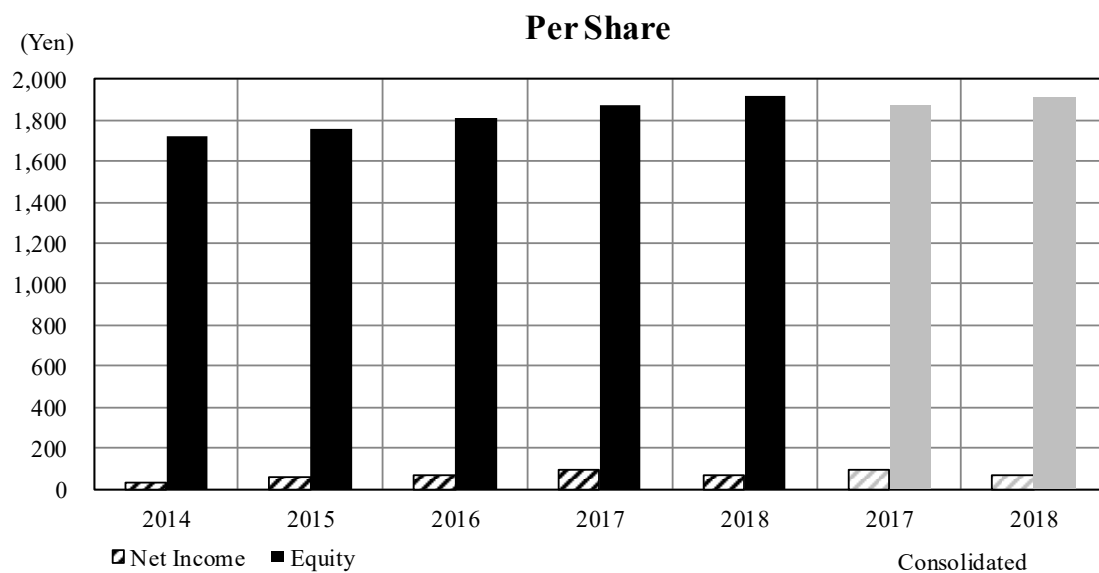
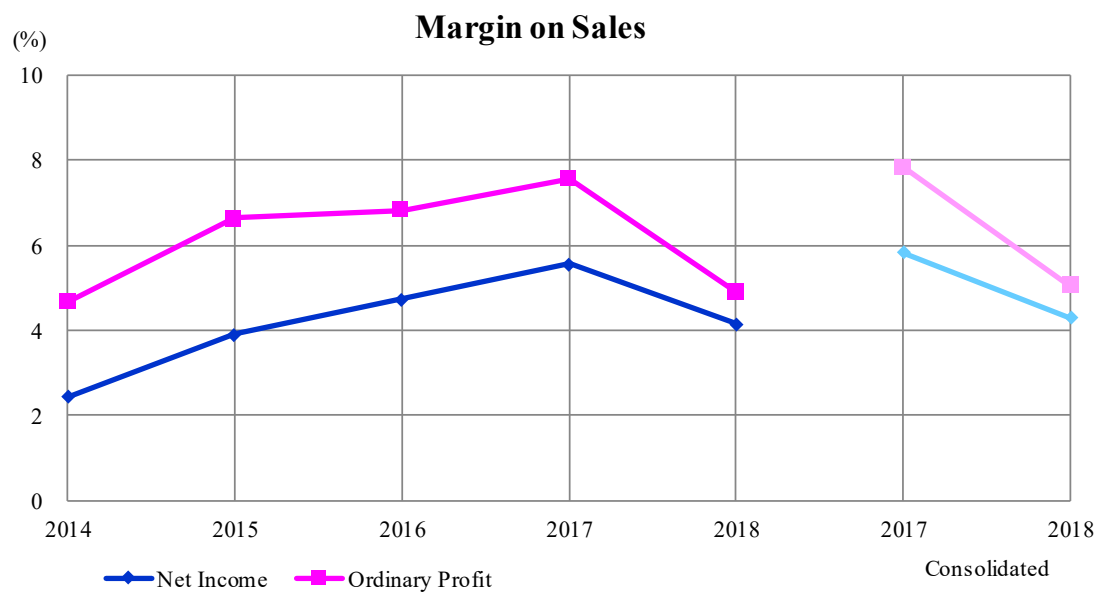
	More than one year to two years (Thousands of yen)	More than two years to three years (Thousands of yen)	More than three years to four years (Thousands of yen)	More than four years to five years (Thousands of yen)	More than five years (Thousands of yen)
Long-term debt	1,632,000	742,000	523,500	360,000	1,359,000
Lease obligations	67,277	52,955	49,727	41,139	15,960

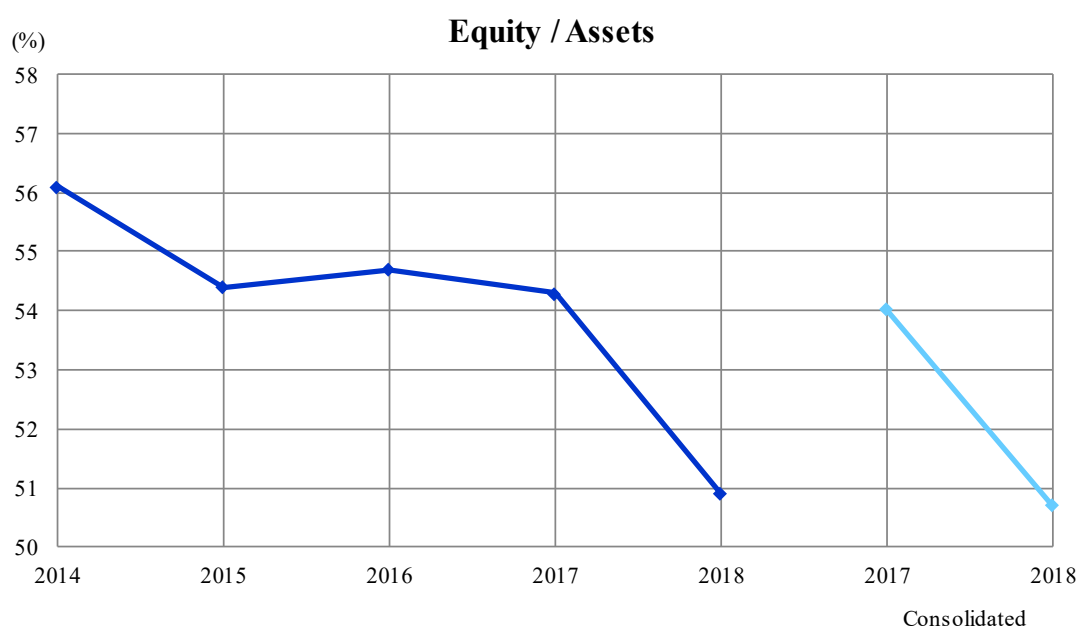
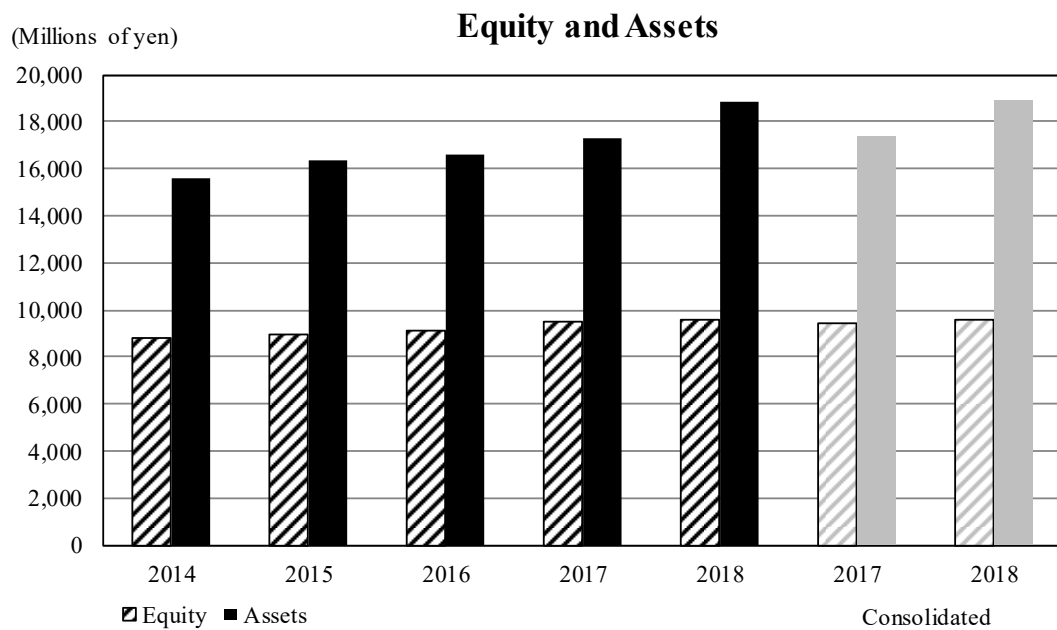
[Schedule of asset retirement obligations]

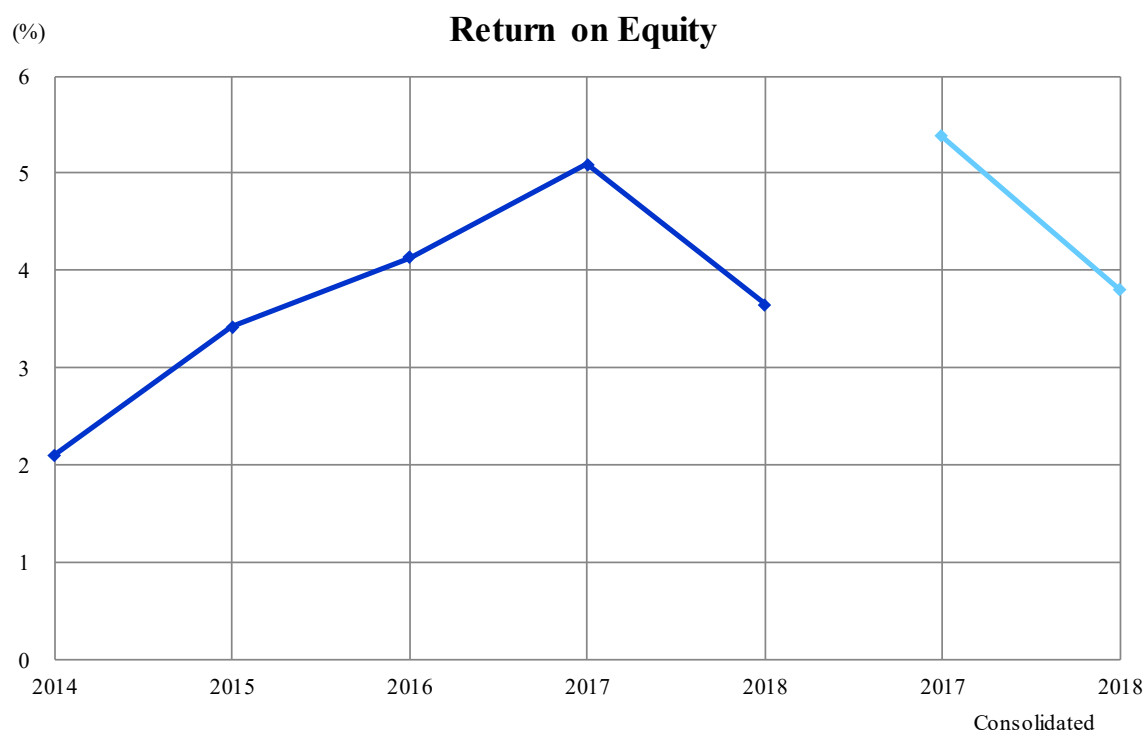
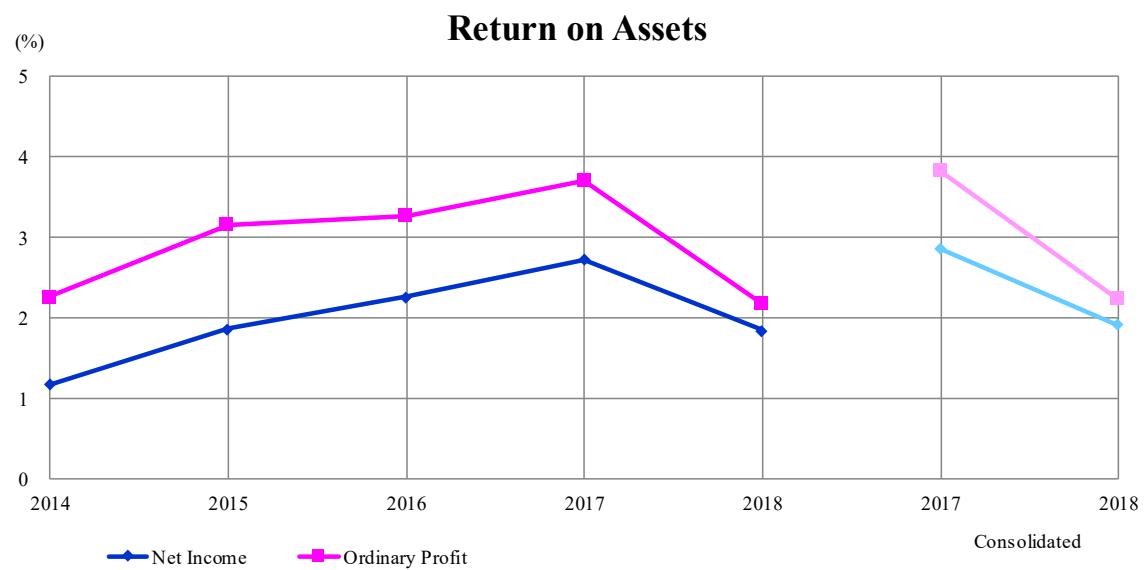
Since the amount of asset retirement obligations at the beginning and the end of the fiscal year under review was 1/100 or less of the total of liabilities and net assets at the beginning and the end of the fiscal year under review, said obligations are omitted in accordance with the provisions of Article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

XXII. Summary of Selected Financial Data (Graphs)









XXIII. Consolidated Financial Statements

(1) Consolidated financial statements

1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2017	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	1,808,206	1,180,916
Notes and accounts receivable - trade	2,412,829	2,594,657
Electronically recorded monetary claims - operating	1,012,324	923,978
Merchandise and finished goods	787,793	660,350
Work in process	288,091	304,822
Raw materials and supplies	516,320	538,583
Deferred tax assets	212,787	171,224
Others	121,787	292,399
Allowance for doubtful accounts	(4,000)	(4,000)
Total current assets	7,156,140	6,662,933
Fixed assets		
Tangible fixed assets		
Buildings and structures	4,251,847	6,717,954
Accumulated depreciation	(2,960,672)	(3,088,862)
Buildings and structures, net	1,291,174	3,629,092
Machinery, equipment and vehicles	4,438,799	4,601,063
Accumulated depreciation	(3,828,572)	(4,012,615)
Machinery, equipment and vehicles, net	610,226	588,448
Land	5,839,548	5,955,890
Lease assets	166,918	419,377
Accumulated depreciation	(91,411)	(125,209)
Lease assets, net	75,507	294,168
Construction in progress	1,003,534	384,408
Others	2,277,262	2,241,717
Accumulated depreciation	(2,167,270)	(2,121,584)
Others, net	109,991	120,133
Total tangible fixed assets	8,929,983	10,972,141
Intangible fixed assets		
Lease assets	17,588	6,512
Others	42,902	52,701
Total intangible fixed assets	60,491	59,214
Investments and other assets		
Investments in securities	103,820	89,855
Deferred tax assets	187,378	209,171
Directors' retirement benefit insurance premiums	837,598	839,623
Others	85,466	88,699
Allowance for doubtful accounts	(6,000)	(6,000)
Total investments and other assets	1,208,264	1,221,349
Total fixed assets	10,198,739	12,252,704
Total assets	17,354,879	18,915,638

(Thousands of yen)

	As of December 31, 2017	As of December 31, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	243,794	196,301
Short-term loans payable	1,400,000	1,400,000
Current portion of long-term debt	1,060,175	1,192,000
Accounts payable - other	158,230	216,605
Accrued expenses	201,420	182,841
Lease obligations	53,816	97,448
Income taxes payable	102,477	82,397
Provision for bonuses	287,000	205,000
Provision for directors' and corporate auditors' bonuses	33,200	22,750
Others	243,166	172,560
Total current liabilities	3,783,280	3,767,905
Long-term liabilities		
Long-term debt	3,442,825	4,616,500
Provision for directors' and corporate auditors' retirement benefits	564,300	610,000
Provision for stock benefits	28,896	39,604
Provision for directors' stock benefits	10,165	13,862
Asset retirement obligations	14,773	14,549
Lease obligations	46,568	227,061
Others	35,573	38,967
Total long-term liabilities	4,143,102	5,560,544
Total liabilities	7,926,382	9,328,450
Net assets		
Shareholders' equity		
Common stock	674,265	674,265
Capital surplus	527,963	527,963
Retained earnings	8,254,153	8,461,641
Treasury stock	(134,039)	(134,039)
Total shareholders' equity	9,322,343	9,529,831
Other comprehensive income		
Valuation difference on available-for-sale securities	34,598	23,209
Deferred gains or losses on hedges	(22,746)	(24,783)
Foreign currency translation adjustment	33,757	58,929
Total other comprehensive income	45,609	57,356
Share acquisition rights	60,544	—
Total net assets	9,428,496	9,587,187
Total liabilities and net assets	17,354,879	18,915,638

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

(Thousands of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Net sales	8,459,868	8,326,657
Cost of goods sold	4,393,903	4,441,824
Gross profit on sales	4,065,964	3,884,832
Selling, general and administrative expenses	3,340,119	3,418,075
Operating income	725,845	466,756
Nonoperating income		
Interest income	123	154
Dividend income	3,170	3,269
Commissions received	10,424	9,606
Temporary assigned personnel payments received	4,087	4,098
Foreign exchange gains	2,100	618
Insurance income	—	3,506
Others	5,020	4,866
Total nonoperating income	24,927	26,119
Nonoperating expenses		
Interest expenses	39,996	42,376
Sales discounts	9,108	8,412
Commission fee	22,000	—
Others	17,405	21,584
Total nonoperating expenses	88,510	72,374
Ordinary profit	662,262	420,502
Extraordinary income		
Gain on reversal of share acquisition rights	—	60,544
Total extraordinary income	—	60,544
Extraordinary losses		
Loss on retirement of fixed assets	66	3,927
Total extraordinary losses	66	3,927
Net income before taxes and other adjustments	662,195	477,118
Corporate, inhabitant and enterprise taxes	176,000	95,000
Deferred taxes	(6,290)	23,244
Total income taxes	169,709	118,244
Net income	492,485	358,873
Net income attributable to owners of parent	492,485	358,873

Consolidated statement of comprehensive income

(Thousands of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Net income	492,485	358,873
Other comprehensive income		
Valuation difference on available-for-sale securities	6,442	(11,388)
Deferred gains or losses on hedges	(22,746)	(2,036)
Foreign currency translation adjustment	73,401	25,171
Total other comprehensive income	57,097	11,746
Comprehensive income	549,583	370,620
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	549,583	370,620
Comprehensive income attributable to non-controlling interests	—	—

3) Consolidated statement of changes in net assets

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

(Thousands of yen)

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

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

Fiscal year ended December 31, 2018 (January 1, 2018 through December 31, 2018)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current term	674,265	527,963	8,254,153	(134,039)	9,322,343
Changes in items during the term					
Dividends from retained earnings			(151,385)		(151,385)
Net income attributable to owners of parent			358,873		358,873
Other changes in non-shareholders' equity items during the term (net)					—
Total changes during the term	—	—	207,488	—	207,488
Balance at end of current term	674,265	527,963	8,461,641	(134,039)	9,529,831

	Other comprehensive income				Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total other comprehensive income		
Balance at beginning of current term	34,598	(22,746)	33,757	45,609	60,544	9,428,496
Changes in items during the term						
Dividends from retained earnings						(151,385)
Net income attributable to owners of parent						358,873
Other changes in non-shareholders' equity items during the term (net)	(11,388)	(2,036)	25,171	11,746	(60,544)	(48,797)
Total changes during the term	(11,388)	(2,036)	25,171	11,746	(60,544)	158,690
Balance at end of current term	23,209	(24,783)	58,929	57,356	—	9,587,187

4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Cash flows from operating activities		
Net income before taxes and other adjustments	662,195	477,118
Depreciation	425,378	460,813
Increase (decrease) in allowance for doubtful accounts	2,000	—
Increase (decrease) in provision for directors' and corporate auditors' retirement benefits	25,300	45,700
Increase (decrease) in provision for bonuses	52,000	(82,000)
Increase (decrease) in provision for directors' and corporate auditors' bonuses	5,800	(10,450)
Increase (decrease) in provision for stock benefits	11,941	10,708
Increase (decrease) in provision for directors' stock benefits	4,415	3,696
Interest income	(123)	(154)
Dividend income	(3,170)	(3,269)
Interest expenses	39,996	42,376
Gain on reversal of share acquisition rights	—	(60,544)
Decrease (increase) in notes and accounts receivable	(32,355)	(93,482)
Decrease (increase) in inventory	(146,167)	93,074
Increase (decrease) in notes and accounts payable	38,334	(47,794)
Others	105,847	(203,097)
Subtotal	1,191,393	632,697
Interest and dividend income	3,294	3,423
Interest expenses	(39,894)	(42,157)
Income taxes and others	(235,128)	(103,813)
Net cash provided by operating activities	919,664	490,150
Cash flows from investing activities		
Payments for acquisition of tangible fixed assets	(1,167,569)	(2,478,659)
Proceeds from sale of tangible fixed assets	60,036	283,405
Others	(15,887)	(12,740)
Net cash used in investing activities	(1,123,419)	(2,207,994)
Cash flows from financing activities		
Proceeds from long-term debt	1,417,000	2,523,000
Payments of long-term debt	(1,240,500)	(1,217,500)
Dividends	(126,145)	(150,850)
Others	(52,305)	(70,492)
Net cash provided by (used in) financing activities	(1,951)	1,084,156
Effect of exchange rate fluctuations on cash and cash equivalents	14,903	6,397
Increase (decrease) in cash and cash equivalents	(190,802)	(627,290)
Cash and cash equivalents at beginning of term	1,999,009	1,808,206
Cash and cash equivalents at end of term	1,808,206	1,180,916

XXIV. Corporate Data

Basic Information (As of December 31, 2018)

Trade name:	KOKEN LTD.
Established:	May 1943
Listed market:	JASDAQ Standard market of Tokyo Stock Exchange (Securities Code: 7963)
Listed:	December 2004
Fiscal year:	From January 1 to December 31
Capital stock:	674 million yen
Number of employees:	286 persons (Consolidated)
Head office:	7, Yonbancho, Chiyoda-ku, Tokyo
Telephone:	+81-3-5276-1911
Consolidated subsidiaries:	SIAM KOKEN LTD.

Directors and Corporate Auditors (As of March 26, 2019)

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

* Outside Director ** Outside Corporate Auditor

Stock Status (As of December 31, 2018)

Total number of authorized shares:	20,000,000 shares
Total number of issued shares:	5,104,003 shares
Number of shareholders:	2,647

Major shareholders (Top 10)

Name	Number of shares held (Thousands)	Shareholding ratio (%)
Masakazu Sakai	591	11.71
Hiroyuki Sakai	559	11.09
Sakai CHS Foundation	500	9.91
Resona Bank, Limited	244	4.84
Kaori Sakai	229	4.55
Rie Sakai	229	4.55
Mizuho Bank, Ltd. (Standing proxy: Trust & Custody Services Bank, Ltd.)	227	4.52
Miho Kuboi	226	4.48
Haruna Sakai	226	4.48
Sakai Tatemono Ltd.	166	3.29