

The background of the cover is white, featuring several blue geometric shapes. These shapes are trapezoids and parallelograms, some of which are filled with a light blue grid pattern. The shapes are arranged in a way that they appear to be floating or overlapping, creating a modern, architectural feel.

# KONDOTEC

## Annual Report 2015

(Year ended March 31, 2016)



## **We will advance to making the next leap forward.**

Since KONDOTEC was established in 1953, we have provided products toward several different fields over half century in order to contribute to enhancement of infrastructure based on company's philosophy: "We strive to create an affluent society by cultivating our employees who would shape the future, and by conducting corporate activity with innovative and pioneering mind".

We will continue sparing no efforts to contribute society and work together to achieve the medium-term management plan.

We would greatly appreciate it if you could give us further guidance and support in the future.

**Katsuhiko Kondo**

President and Representative Director

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### **Detailed Financial Information**

For detailed financial information for fiscal year 2015, please see the Summary of Financial Report.

URL : <http://www.kondotec.co.jp/en/ir/library/summary.html>

### **Reporting Scope and Other Items**

#### ◆ Reporting Period

April 1, 2015 to March 31, 2016

(Certain sections include activities occurring in or after April 2016.)

#### ◆ Reporting Scope

KONDOTEC INC. and the KONDOTEC Group

#### ◆ Accounting Standards

This report is prepared in accordance with JP GAAP.

# Consolidated Financial Highlights

					Millions of yen	Thousands of U.S. dollars *1
	2011	2012	2013	2014	2015(FY)	2015(FY)
<b>Results of Operations</b>						
Net sales	¥38,745	¥41,153	¥47,991	¥49,168	¥50,211	\$445,612
Operating income	1,926	2,664	3,271	3,303	3,441	30,546
Net income attributable to shareholders	1,046	1,605	1,992	2,098	2,239	19,877
Capital investment	180	566	679	403	842	7,477
Depreciation	428	390	418	449	405	3,595
<b>Financial Position</b>						
Total assets	¥28,403	¥31,192	¥34,481	¥35,186	¥34,645	\$307,468
Net assets	15,097	16,990	18,783	20,231	21,102	187,275
Interest-bearing debt	705	808	806	636	508	4,513
<b>Cash flows</b>						
Cash flows from operating activities	¥1,454	¥2,077	¥1,887	¥1,818	¥1,945	\$17,264
Cash flows from investing activities	(1,511)	(494)	(660)	828	(829)	(7,364)
Cash flows from financing activities	(550)	426	(389)	(699)	(1,092)	(9,697)
Cash and cash equivalents, end of year	2,790	4,798	5,636	7,626	7,594	67,400
<b>Per share information of common stock</b> (yen and U.S. dollars)						
Net income attributable to shareholders	¥40.36	¥60.77	¥72.13	¥75.91	¥81.01	\$0.71
Net assets	582.41	615.12	679.27	730.49	774.18	6.87
Cash dividends	13.50	14.00	15.50	20.00	22.00	0.19
<b>Ratios</b>						
Operating income ratio (%)	5.0	6.5	6.8	6.7	6.9	
Return on equity (%) * 3	7.1	10.0	11.1	10.8	10.9	
Equity ratio (%) * 4	53.2	54.5	54.4	57.4	60.8	
Dividend on equity ratio (%)	2.4	2.3	2.4	2.8	2.9	
<b>Stock Indicators</b>						
Stock closing price, end of the year (yen)	¥625	¥606	¥718	¥786	¥834	
Price earnings ratio (times)	15.5	10.0	10.0	10.4	10.3	

\*1 U.S. dollar amounts have been converted at the rate on March 31, 2016.

\*2 2011's Dividends per share show assumptive numbers that the share splitting 2 for 1 in Jul, 1, 2012 had done beginning of 2011's period.

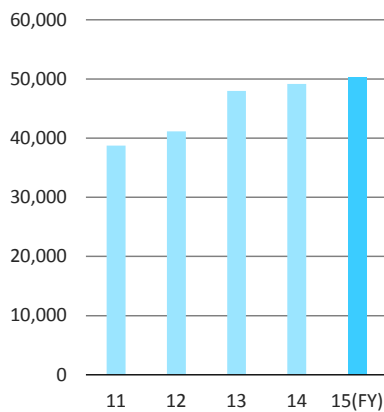
\*3 Return on equity = net income / (net assets - share subscription - minority interests)

\*4 Equity ratio = (net assets - share subscription - minority interests) / total assets

# Consolidated Financial Performance

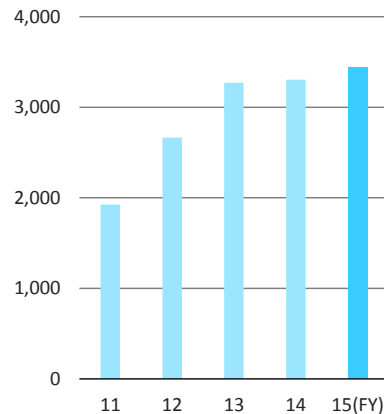
## Net sales

(Millions of yen)



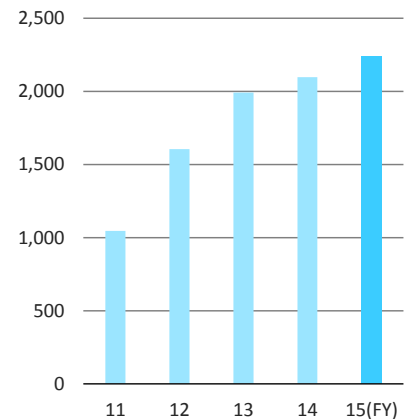
## Operating income

(Millions of yen)



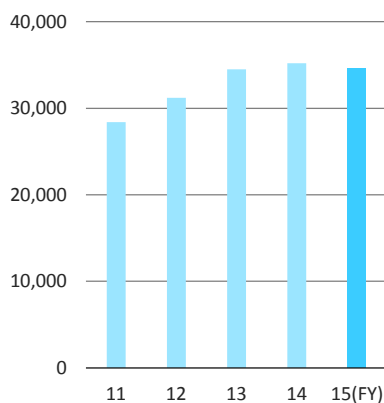
## Net income attributable to shareholders

(Millions of yen)



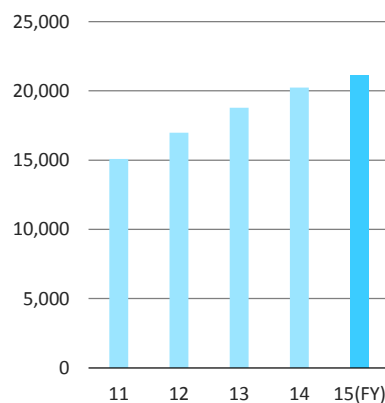
## Total assets

(Millions of yen)



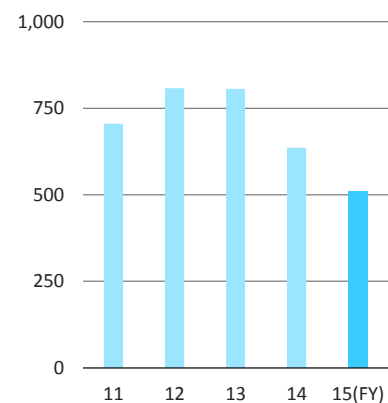
## Net assets

(Millions of yen)



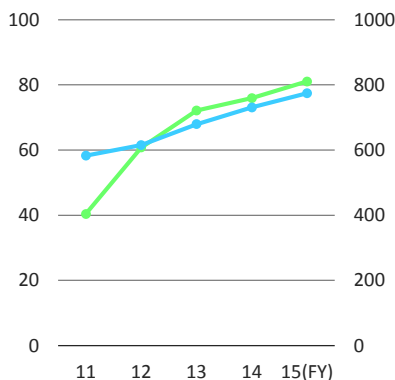
## Interest-bearing debt

(Millions of yen)



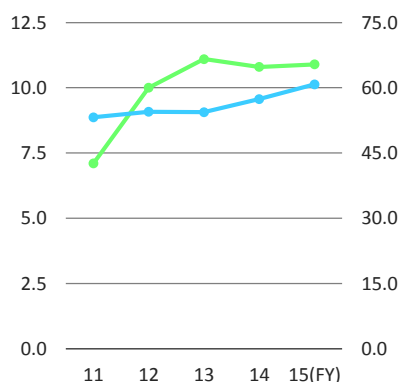
## Per share information of common stock (yen)

- Net income attributable to shareholders (left scale)
- Net assets (right scale)



## Ratios (%)

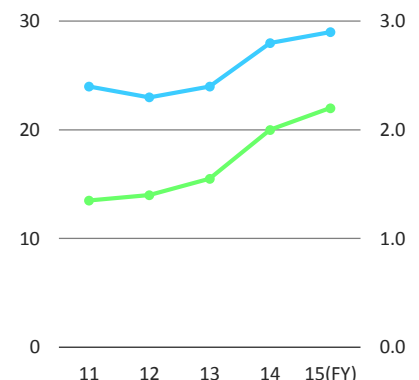
- Return on equity (left scale)
- Equity ratio (right scale)



## Dividend

(yen • %)

- Cash dividends per share (left scale)
- Dividend on equity ratio (right scale)



# KONDOTEC's Progress

Since our company was established in 1953, our company has been continuously growing by reinforcing the management base and making the social contribution through business activities, under the corporate philosophy of “We strive to create an affluent society by cultivating our employees who would shape the future, and by conducting corporate activity with innovative and pioneering mind.”

As of the end of March 2016, Kondotec has 44 sales offices, 4 plants and 3 consolidated subsidiaries.

## 1953

- ▶ Established in Taishou-ku, Osaka city, began production and sales of marine hardware

## 1955

- ▶ Changed the firm name to "Kondo Iron Works Co.,Inc."

## 1956

- ▶ Began production of Shackles



## 1962

- ▶ Began production of Turnbuckles



## 1965

- ▶ Began sales of Wire Ropes



## 1966

- ▶ Opened the Kyushu plant in Nogata city, Fukuoka



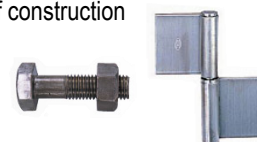
## 1967

- ▶ Began production of Scaffolding Chains



## 1973

- ▶ Began production and sales of construction hardware and screw



## 1974

- ▶ Moved central office to Nishi-ku, Osaka city

## 1985

- ▶ Opened a new business department (currently Business segment of Structural Steel Materials) and began selling directly to steel fabricator

## 1989

- ▶ Changed the firm name to "KONDOTEC INC."



## 1991

- ▶ Opened the Kanto plant in Yuki city, Ibaragi



## 1992

- ▶ Opened the Sapporo plant in Ishikari city, Hokkaido



1953(FY)

1995

- ▶ Listed on the Second Section of the Osaka Securities exchange



1999

- ▶ Listed on the Second Section of Tokyo Stock Exchange

2004

- ▶ Began the use of distribution warehouse for OEM products in Yantai, China

2005

- ▶ Concluded an agency contract with Pewag International GmbH of Austria



2007

- ▶ Opened the Shiga plant in Gamo-gun, Shiga



2010

- ▶ Purchased all of the voting stocks of SANWA DENZAI Co.,Ltd. a wholesaler of electric equipment

三和電材株式会社

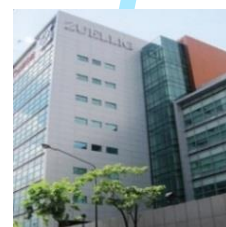


2011

- ▶ Listed on the First Section of Tokyo Stock Exchange and the Osaka Securities Exchange

2014

- ▶ Consolidated KONDOTEC INTERNATIONAL (THAILAND) Co.,Ltd.



- ▶ Purchased all of the voting stock of CHUOH GIKEN Co.,Ltd. a manufacturer of machine equipment

中央技研株式会社



- ▶ Offered a shareholder special benefit (Rice exchange ticket) once a year

2015(July)

- ▶ Opened the Morioka sales office in Shiwa-gun, Iwate (business segment of Industrial Materials)



2016(Jan.)

- ▶ Opened the Nagano sales office in Nagano city, Nagano (business segment of Structural Steel Materials)



2016(Feb.)

- ▶ Determined acquisition of own shares up to 800 million yen and 1 million shares

2015(FY)

# To Our Shareholders, Investors, and Other Stakeholders

## Review of Fiscal 2015

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Operating Results for Current Term in Japanese economy of this consolidated fiscal year, although there were growths in business earnings and employment conditions, which led to recovery in wages, facility investments and consumer spending remained broadly flat. In addition, the instability of currency exchange rates and stock market and the specter of recession abroad, due to the economic slowdown in China and developing countries keep the economic situation unclear.

In related industries to our field, the housebuilding industry is pretty much recovering. On the other hand, the public works cost have been reduced, which became a factor for the worsened local business confidence.

Under these circumstances, we have vigorously expanded our business (e.g. expanding our own products, gaining new customers and regaining dormant customers) and accomplished development of the value-added products of the procurement system.

In consequence, we have achieved better performance than last year; net sales resulted in 50,211 million yen (increase 2.1% over last year) and net income attributable to shareholders resulted in 2,239 million yen (increase 6.7% over last year).

## Outlook for Fiscal 2016

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We have set net sales target 51,650 million yen (increase 2.9% compared to this term), attributable to shareholders net income target 2,317 million yen (increase 3.5% compared to this term). We also aim to improve ROE to more than 10% and DOE to more than 2.5%. We will make concerted efforts to reach the goal.



President and Representative Director  
**Katsuhiko Kondo**

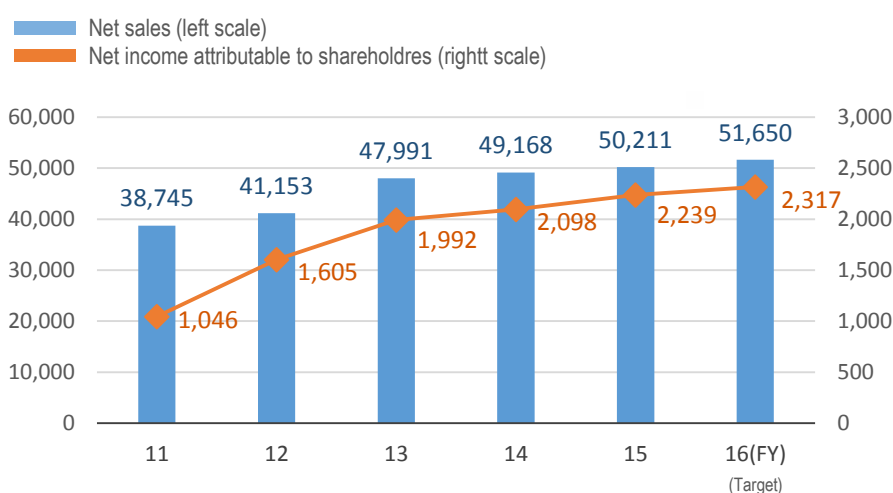


## KONDOTEC's Strengths

KONDOTEC's strength is that we stably increase achievement every term even the surrounding situation changes continuously. It is considered that our long-running promotion activities have helped the stable growth.

We will describe our strength, "variety of customer's industry sectors," "development of new sales fields," "diversity of sales products," and "invention and development of our own products" below.

**Net sales / Net income attributable to shareholders** (Millions of yen)



## Variety of Customer's Industry Sectors

Since our group is engaged in the wholesale industry, mainly in the field of construction business, our products are in demand for different kinds of industry such as building construction, civil engineering, roads, railroads, bridge construction, forestry, marine, environment improvement, etc.

Therefore, even if there is a reduction demand caused by some external reason in a certain industry sector, we have a stable basement of sales in other demanded industry sectors.

**The Customer's Industry Sectors**



## Development of New Sales Fields

We have built a system to open up sales opportunities into the future, by expanding the commercial territory.

### Increasing new sale

Sales person aims for acquiring one or more new clients in a month.

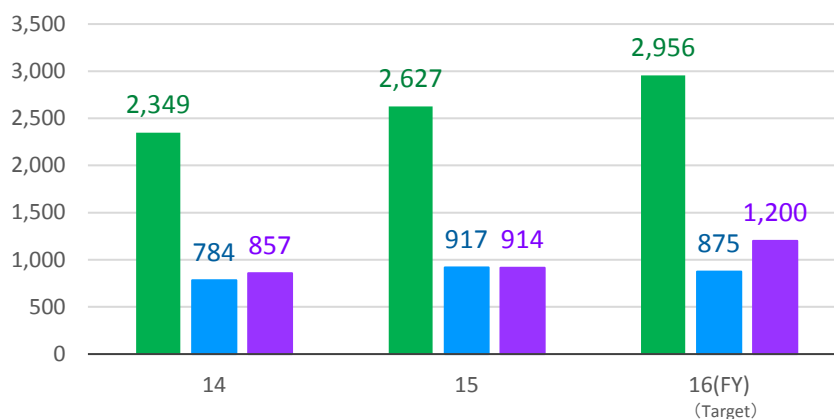
### Tokyo area (Industrial Materials)

We set a specialized sales team to receive orders of integrated purchase in Tokyo sales office.

### Constructing anchor (Structural Steel Materials)

We promote arrangements for constructing anchor in addition to supplying products.

**New sales** (Millions of yen)



## Diversity of Sales Products

We deal about 50,000 kinds of products in whole KONDOTEC group. The number of products we deal has been increasing by trying to meet our client's demand, inventing self-developed products, and dealing more products in expectation for future demands. Since we have own factory, we can correspond a niche demand with the custom-made products.

## Invention and Development of Our Own Products

We regularly hold meetings to invent and develop of our own products together with the sales department and the manufacturing department. We discuss about needs from customers and improvement of our products for further value.

"Konbase-eco" is one of our unique products, which helps to enhance operation efficiency and strength of groundwork, and to reduce construction cost. Recently we concluded the agreement with a Taiwanese lifting equipment maker, YOKE INDUSTRIAL CORP., to be an exclusive dealership of "Yellow Point series". Thanks to its wider range of products, we can provide swivel eye bolts which allow us safe lifting in any direction and safe lifting from unequal points, where existing of JIS eye bolts may cause a danger of bending over and loosening of bolt due to the gravity and lifting loads.

<Konbase-eco>  
(Anchor Frame)



<Yellow Point series>

**YOKE**



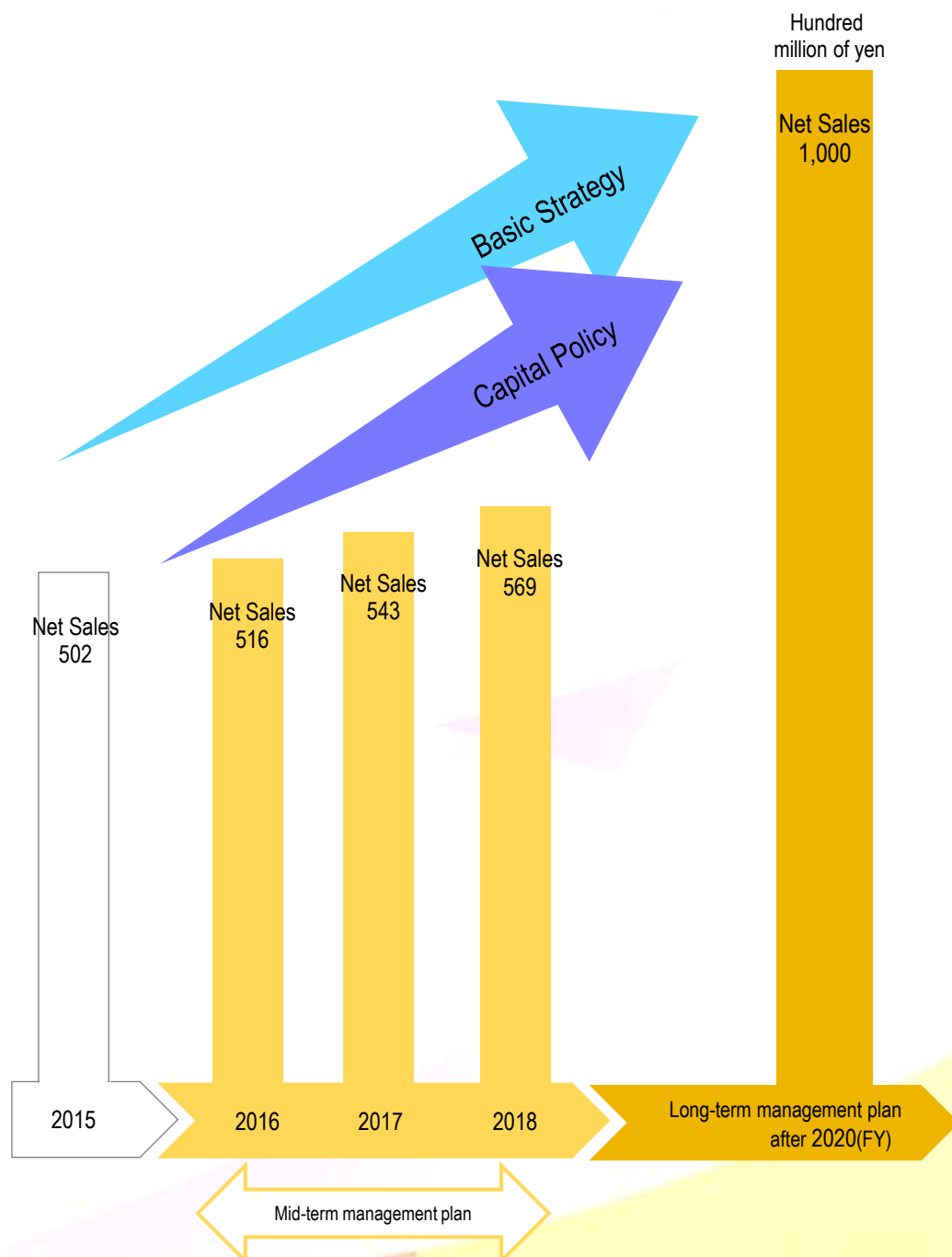
## For Further Growing

We have described above the basic activities to expand our business stably. These activities are not independent but are related, creating synergy on expanding our business. We will keep these activities for further growing of our company.

Speaking of our future plan based on the present sales system, we have announced “mid-term management plan (fiscal 2016-2018)” in May 2016. We have formulated the plan by examining the result and the issue every year, following the PDCA cycle to meet changes of business environment.

Since our sales goal of 50 billion yen in the whole group has been accomplished, we set the goal of sales amount 100 billion yen for further development as a “long-term management plan (after fiscal 2020).” To execute the plan, we have announced “basic strategy” and “capital policy.”

We are going to realize both “mid-term management plan” and “long-term management plan” under the policy of “basic strategy” and “capital strategy” in the whole group.



## Basic Strategy

### 1 Expanding order chance in present business sector

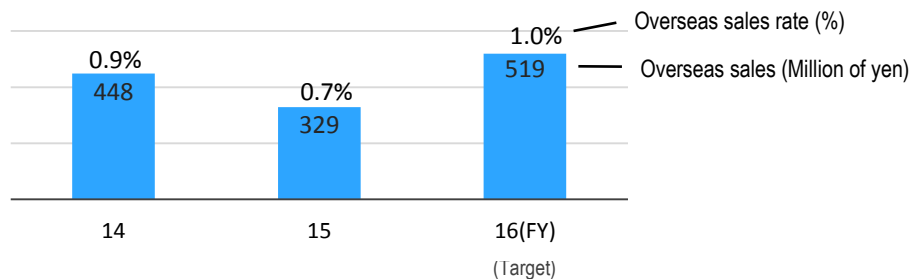
We will take more orders by satisfying customer's needs, by producing better products and purchasing more products, and by increasing sales force with efficiency of staff assignment.

<Typical examples: business conference for sales expanding, approach to potential customers, specialized sales teams for Tokyo area / for constructing anchor, committee for developing new products>

### 2 Entering into foreign market

We believe that expanding our business to overseas will bring more revenue, where we estimate high market growth would be. In August 2014, we have acquired the ownership of a local corporation in Thailand and started to expand our business area to ASEAN countries. We will rise the proportion of overseas sales by extending market and assigning more personnel overseas.

[Overseas sales]



### 3 Acquisition and Capital tie-up

We define that acquisition and capital tie-up are important strategy to reinforce the business foundation. We consistently analyze and discuss the growth potential with the awareness of capital cost.

[Our target field for M&A]

#### Field of Business

target field : expansion of our business field except for construction

#### Suppliers

target field : deepening and widening our purchase channel

#### Overseas Bases

target field : expanding our branch overseas

#### Selling Style

target field : establishing new selling style such as retailing, catalog shipper and Internet retailer

## 4 Developing product technology

We provide worthwhile products by taking advantage of creative technical know-how in the field of development, manufacturing and quality management, cultivated over the years, and technology fusion of the whole group. In order to deal with customers' particular needs, we also enhance production efficiency in small but various lots.

<Typical examples: committee for developing new products, competition of new idea for efficient production>

## 5 Effective use of human resources

We have a philosophy that human resources are the important foundation of our business. According to the philosophy, we develop the human resources to work globally to expand our business overseas.

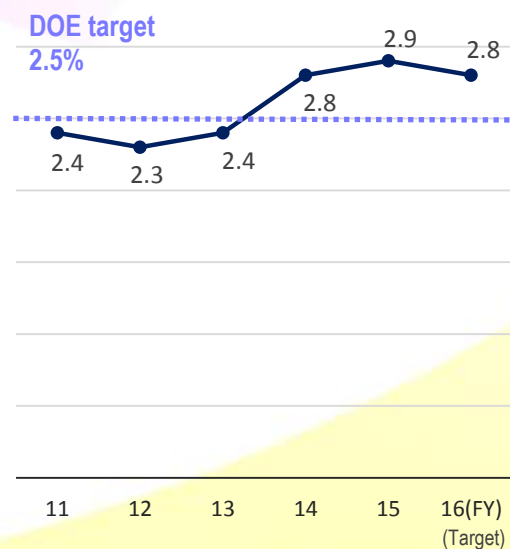
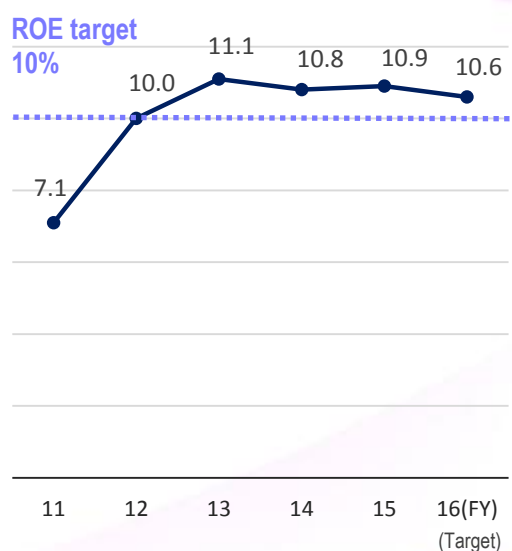
<Typical examples: training course for managers, technical training, hiring foreign students>

## Capital Policy

We set "Target of capital efficiency" and "Target of shareholder returns" as capital policies. "Target of capital efficiency" aims for creating the corporate value in a process of the business expansion by using ROE index to show investment efficiency. "Target of shareholder returns" aims for providing consistent shareholder returns by using DOE index to consider both consolidated results and consolidated dividend payout ratio.

1 Target of capital efficiency : ROE 10% or more

2 Target of shareholder returns : DOE 2.5% or more



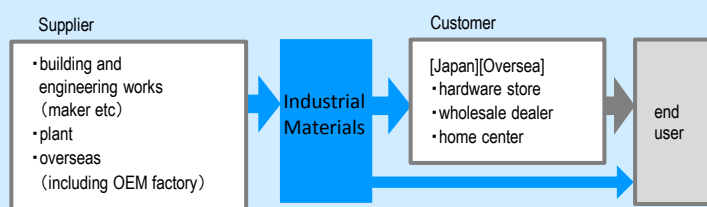
# KONDOtec Group Business Summary

We have three segments: Industrial Materials, Structural Steel Materials, and Electrical Equipment.

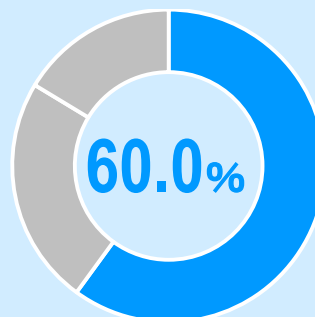
Our group provides various items both as a manufacturer and as a business firm.

## Industrial Materials

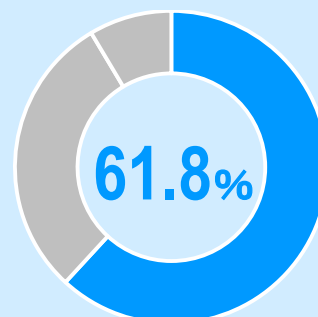
We provide civil engineering and construction materials, and machine equipment for hardware stores. Our subsidiary companies, KONDOtec INTERNATIONAL (THAILAND) Co., Ltd and CHUOH GIKEN Co., Ltd are involved in this field.



Percentage of Total Net Sales

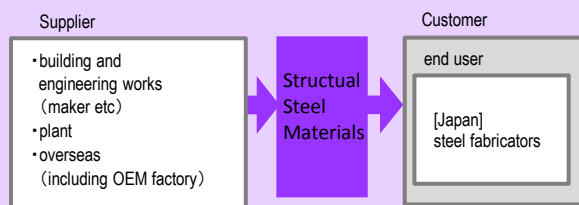


Percentage of Total Operating Income

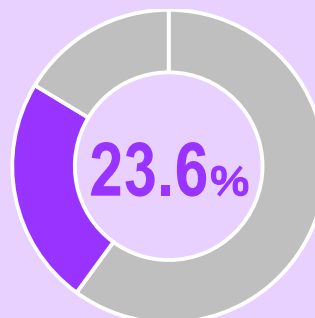


## Structural Steel Materials

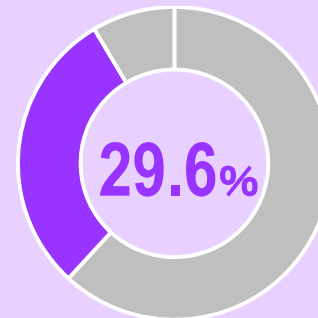
We provide structural steel materials for steel fabricators directly.



Percentage of Total Net Sales

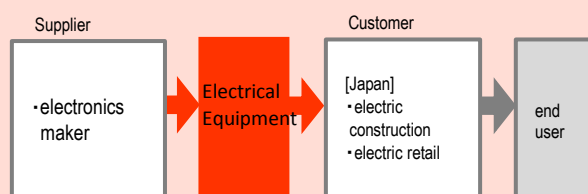


Percentage of Total Operating Income

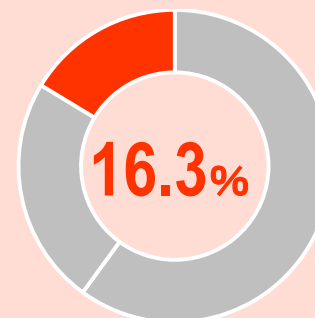


## Electrical Equipment

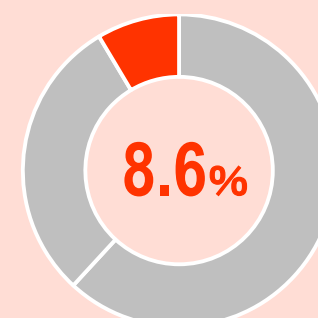
Our subsidiary company SANWA DENZAI Co., Ltd is mainly engaged in this field. We provide electrical equipment for electrical engineering firms and electronics retail stores.



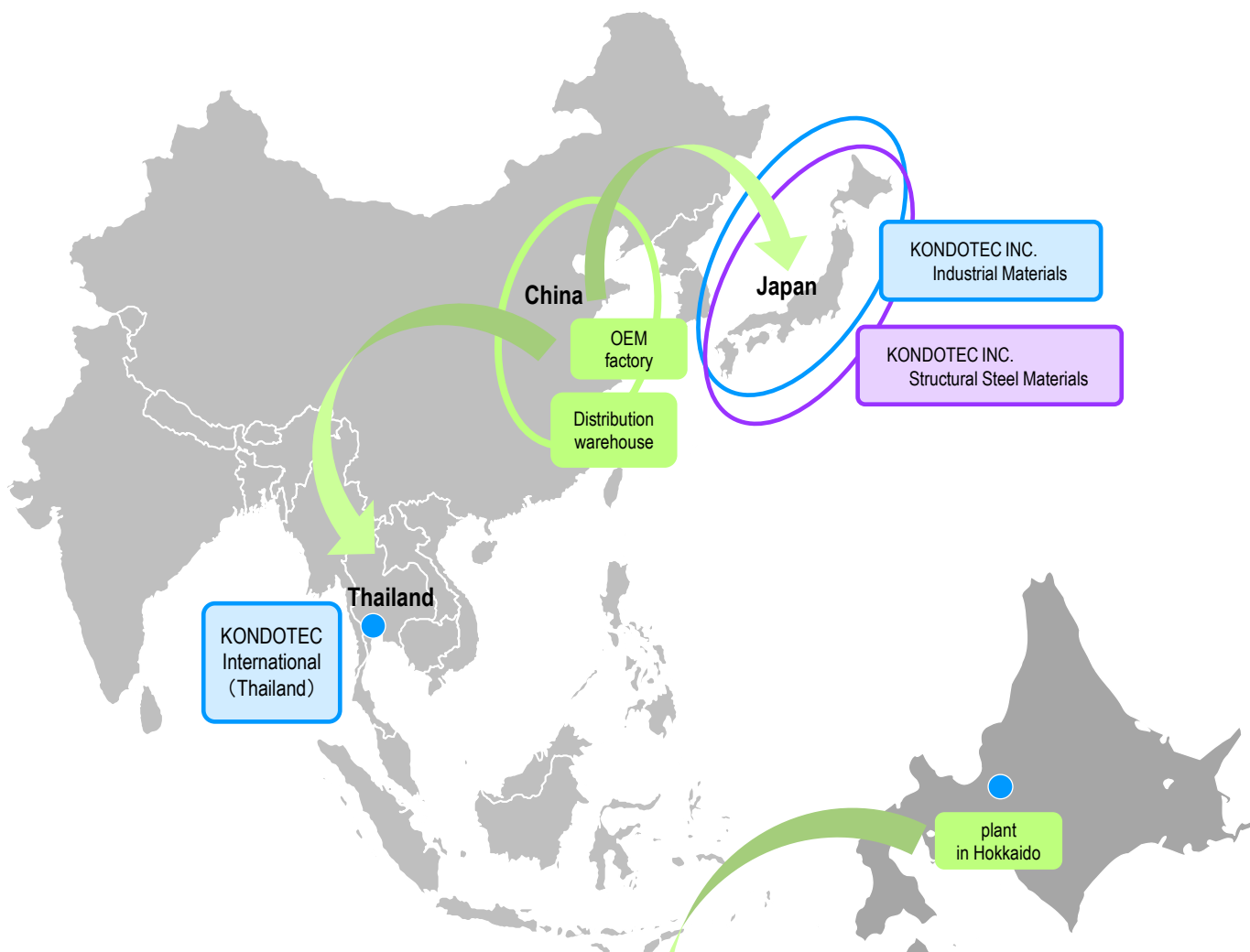
Percentage of Total Net Sales



Percentage of Total Operating Income



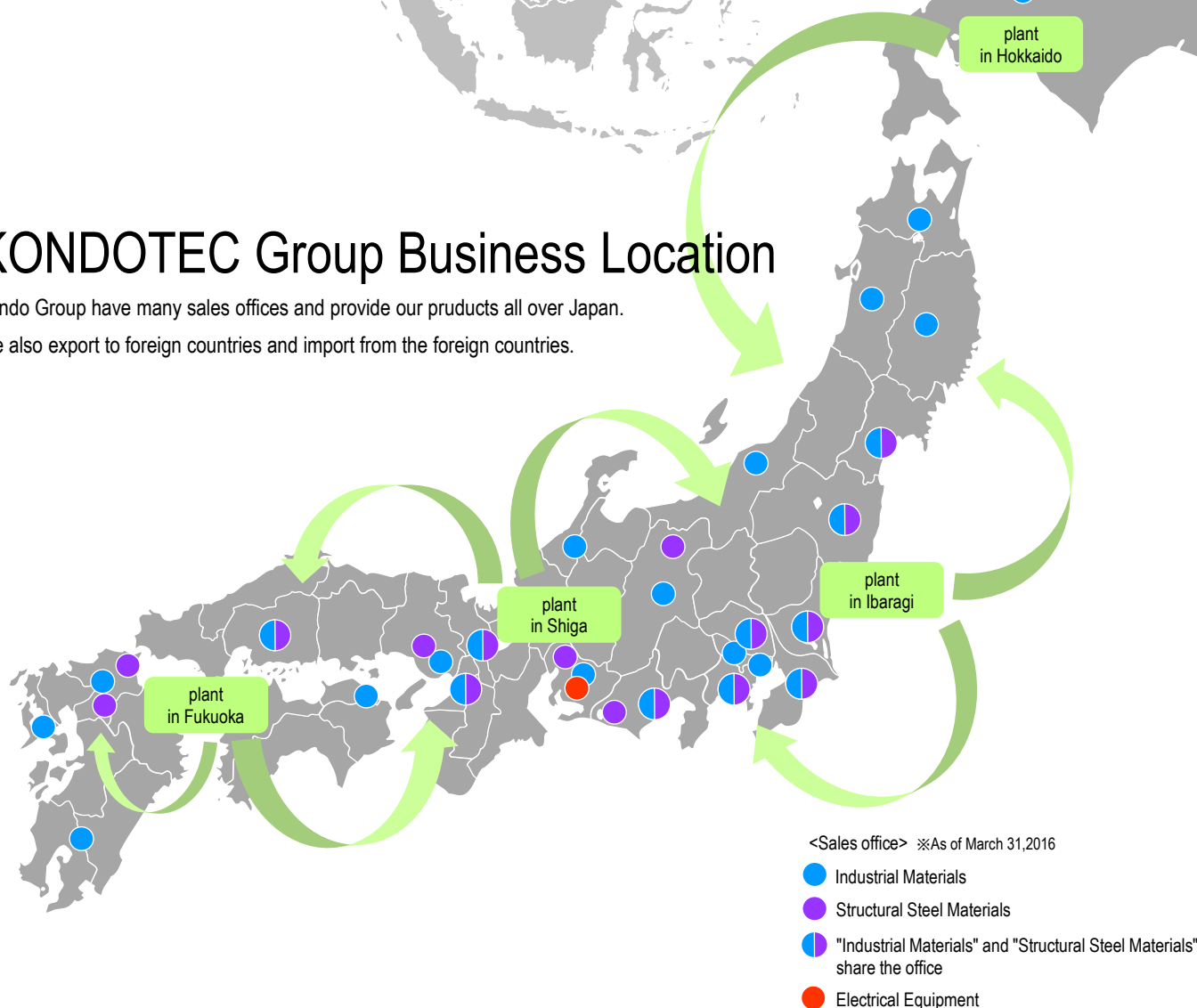
※ "Percentage of Total Net Sales" and "Percentage of Total Operating Income" are based on FY2015



## KONDOtec Group Business Location

Kondo Group have many sales offices and provide our products all over Japan.

We also export to foreign countries and import from the foreign countries.





# Industrial Materials

## Products



Environment conservation material



Rope



Lifting equipment



Shackle



TurnBuckle



Bolt and Nut



Hauling equipment



Chain



Frame material



Scaffolding material



Construction material



Ship's equipment

## Fiscal 2015 Review

There were steady demands for decontamination works, warehouse constructions, redevelopment projects in urban area and express highway improvements. Regarding engineering works, there was a decrease in the number of the public works. In local regions which are heavily dependent on public works, the decrease affected the failure of public works tenderly. Besides small-sized and medium-sized construction works remained stagnant longer than we anticipated.

In these situations, net sales achieved 30,138 million yen (increase 0.5% over last year) and operating income reported 2,128 million yen (decrease 3.3% over last year).

## Future Initiatives

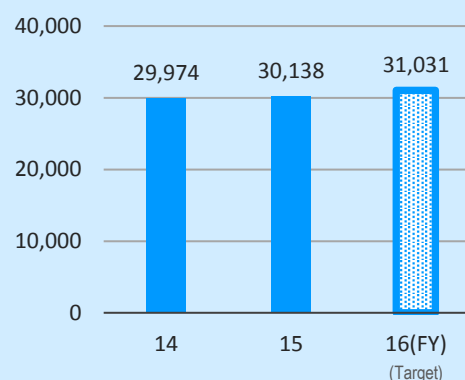
As construction demands for Tokyo 2020 Olympic and Paralympic Games are growing, it is expected that private investing for construction equipment and facilities are going to increase consistently. By developing new customers and approaching dormant customers through our community-based sales activities with larger selection of competitive products, we will work on growing the sales.

What we are going to deal with for our further growth is to strengthen the relationships with our suppliers through exhibitions and workshops and to widen our sales channel by increasing the proportion of direct selling to users.

Dealing with these issues, we pursue to accomplish net sales to 31,031 million yen and operating income to 2,150 million yen in fiscal 2016.

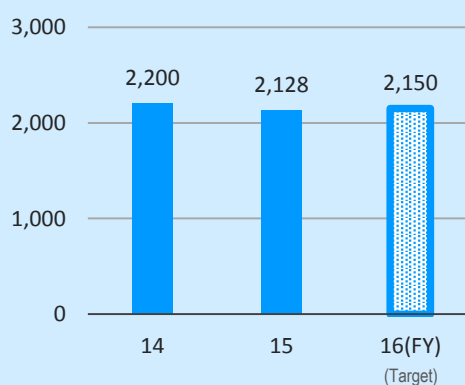
## Net sales

(Millions of yen)



## Operating Income

(Millions of yen)





# Structural Steel Materials

## Products



## Fiscal 2015 Review

Large-scale constructions of low-rise buildings, such as distribution warehouse and commercial complex, were seen on a nationwide basis in 2015. Corresponding to demand of steel buildings, factory utilization of steel-frame processors was boosted to higher level.

As a result of the increasing sales of steel-frame components, anchor bolts and high strength bolts, net sales were 11,866 million yen (increase 4.6% over last year) and the operating income achieved 1,018 million yen (increase 5.1% over last year).

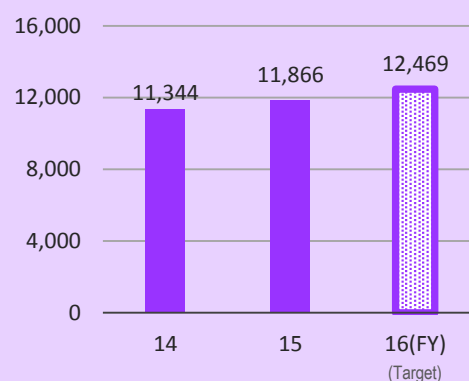
## Future Initiatives

It is anticipated that there would be high demand for constructions aimed at Tokyo 2020 Olympic and Paralympic Games and new or repair constructions of logistics centers as the previous year. By meeting the current demands, we will acquire more customers and re-approach to dormant customers, expand our products and secure construction orders of anchor bolts.

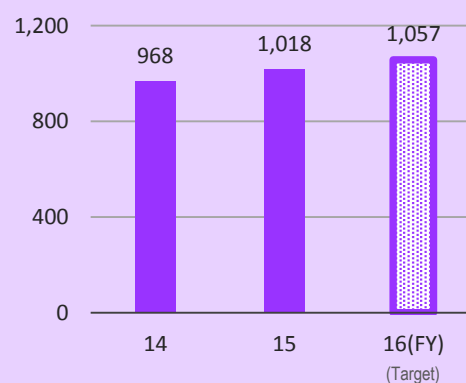
One of the agendas to work on is to strengthen our sales activities towards steel trading firms which accept huge project orders of higher demand. Another is to promote our construction service of anchor bolts, not only to fabricators but also to general contractors and trading companies in order to solve a labor shortage.

With these strategies, net sales target for 2016 is 12,469 million yen and operating income target is 1,057 million yen.

**Net sales**  
(Million of yen)



**Operating Income**  
(Millions of yen)



# Electrical Equipment

## Products



Solar power generation system



Lighting tool



Wire • Cable



Piping material



Airconditioning facility



Heavy electrical machinery



Distribution board



Control device



Telecommunication device



Wiring device



Electric drill



Fire alarm equipment

## Fiscal 2015 Review

Private construction works and facility investments seemed to come out of a slump in fiscal 2015. Solar power related products, LED lights and energy-saving air conditioners were sold well. The result was net sales 8,206 million yen (increase 4.6% over last year).

Although there were some competitions with rival companies for accepting orders, the margin percentage was raised by 0.5 points, and operating income achieved 294 million yen (increased 35.2% over last year).

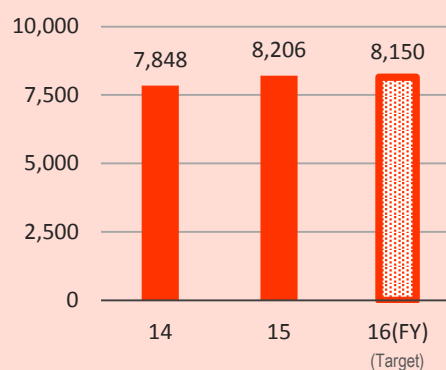
## Future Initiatives

It is anticipated that the number of housing constructions is going to decline for a while, due to the falling birth rate and population. Investing in solar power facilities is also decreasing. In order to overcome the challenging situation, we will expand our line of major products, strengthen ties with our suppliers and cultivate new customers.

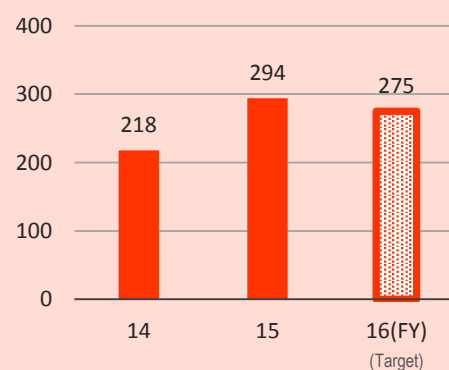
Foremost tasks are to reinforce the direct sales to users by systematizing our constructional function and to explore new business opportunities by developing new products selection in housing equipment such as sanitary materials and plumbing products.

With these efforts, we set net sales target 8,150 million yen and operating income target 275 million yen in fiscal 2016.

**Net sales**  
(Millions of yen)



**Operating Income**  
(Millions of yen)



# KONDOTEC INC.

〒550-0024

2-90, Sakaigawa 2-chome,

Nishi-ku, Osaka-shi, Osaka 550-0024, Japan

Telephone : 81 (6) 6582-8441

Website : <http://www.kondotec.co.jp/index.html>