

KONDOTEC INC

Annual Report 2017

(Year Ended March 31, 2017)

Aiming for Further Growth

We at KONDOTEC remain committed to providing our products and services through our Group's domestic and international networks. We do so by properly identifying daily changing needs of customers and offering proposals, etc., to assist customers and increase efficiency as we aim to carry out our corporate philosophy of "contributing to creating an affluent society".

We will strive to continue being a company that is needed by customers and aim to achieve further growth.

I thank you for your continued understanding and support.

President and Representative Director

Katsuhiko Kondo

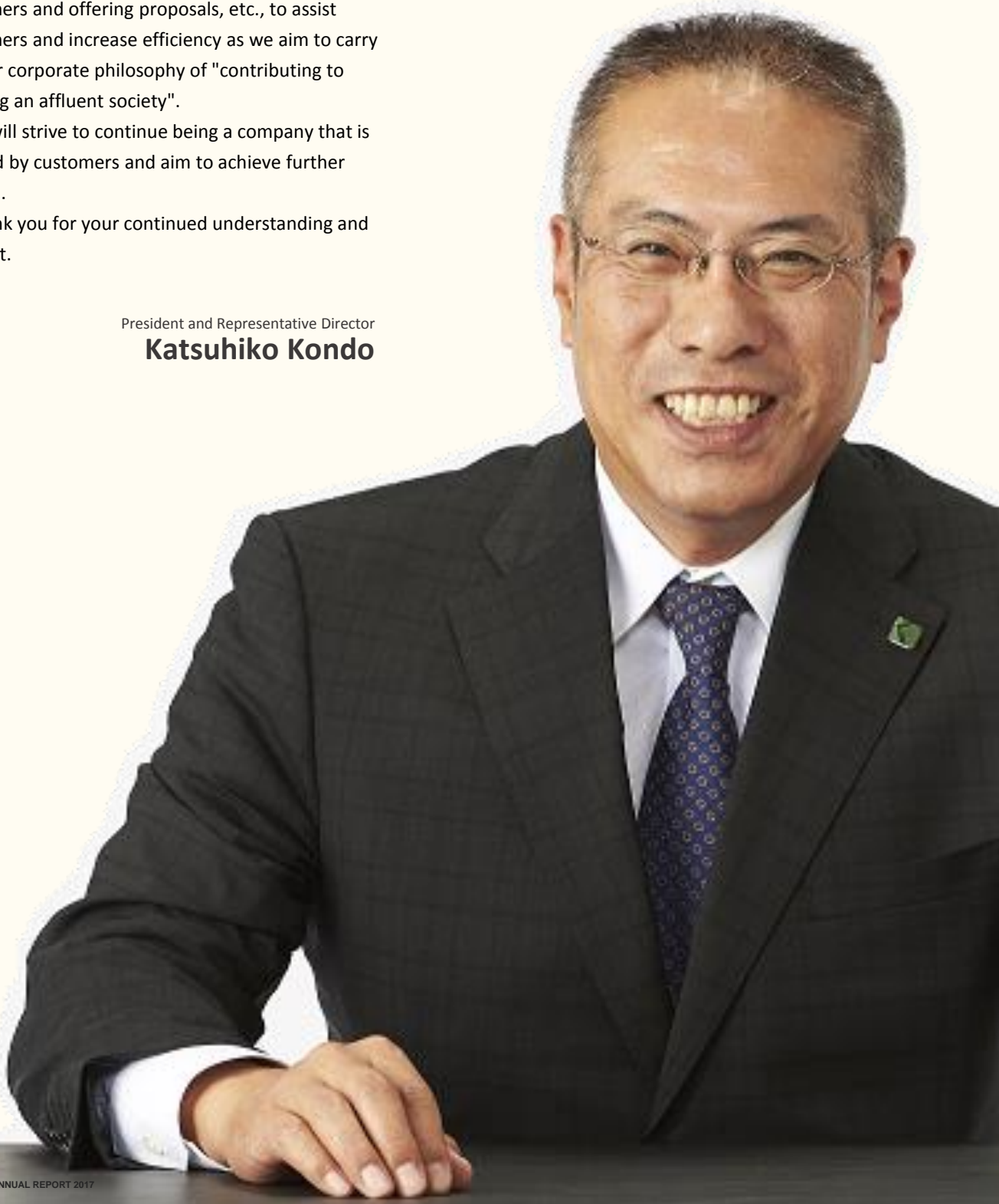


Table of Contents

P. 1	Message from Top Management
P. 3	Consolidated Financial Highlights
P. 5	Consolidated Financial Performance
P. 7	The KONDOTEC Group Digest
P. 11	Growth Strategy
P. 13	Aiming for Further Growth
P. 15	Business Segments



Consolidated Financial Highlights

	2006	2007	2008	2009
Results of Operations				
Net sales	¥30,237	¥31,442	¥33,258	¥27,347
Operating profit	1,980	1,786	1,911	933
Profit attributable to owners of parent	1,119	1,114	1,095	664
Capital investment	1,423	906	132	632
Depreciation	281	411	430	380
Financial Position				
Total assets	¥23,122	¥23,608	¥24,667	¥23,616
Net assets	12,110	12,733	13,991	14,317
Interest-bearing debt	-	-	-	-
Cash Flows				
Cash flows from operating activities	¥693	¥1,405	¥2,196	¥1,109
Cash flows from investing activities	(1,328)	(642)	(391)	(1,437)
Cash flows from financing activities	(457)	(326)	(115)	(336)
Cash and cash equivalents, end of year	1,775	2,208	3,898	3,234
Per Share Information (Yen and U.S. dollars) * ²				
Profit attributable to owners of parent per share	¥44.41	¥44.36	¥42.88	¥25.62
Net assets per share	482.06	506.86	539.73	552.30
Dividend per share	13.00	13.00	13.00	13.00
Financial Indicators				
Operating profit margin (%)	6.5	5.7	5.7	3.4
ROE (%) * ³	9.6	9.0	8.2	4.7
Equity ratio (%) * ⁴	52.4	53.9	56.7	60.6
DOE (%)	2.8	2.6	2.5	2.4
Stock Price Index				
Stock closing price (Yen)	¥500	¥306	¥285	¥308
Price earnings ratio (Times)	11.3	6.9	6.6	12.0

*1 U.S. dollar amounts have been converted at the rate on March 31, 2017.

*2 Figures are presented on assumption that the 2-for-1 share split conducted effective January 1, 2012, took place at the beginning of FY2006.

*3 ROE = Operating profit / (Net assets - Subscription rights to shares - Non-controlling interest)

*4 Equity ratio = (Net assets - Subscription rights to shares - Non-controlling interest) / Total assets

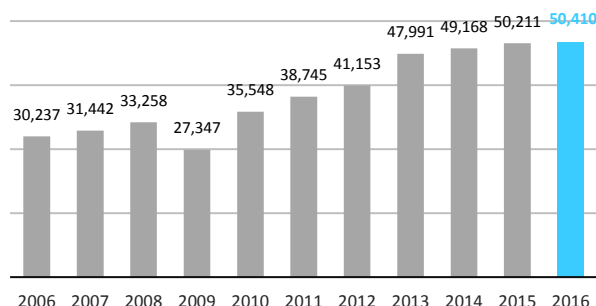
						Million yen	Thousand U.S. dollars *1
2010	2011	2012	2013	2014	2015	FY2016	FY2016
¥35,548	¥38,745	¥41,153	¥47,991	¥49,168	¥50,211	¥50,410	\$449,334
1,275	1,926	2,664	3,271	3,303	3,441	3,516	31,340
834	1,046	1,605	1,992	2,098	2,239	2,497	22,261
240	180	566	679	403	842	695	6,199
457	428	390	418	449	405	438	3,908
¥26,194	¥28,403	¥31,192	¥34,481	¥35,186	¥34,645	¥36,524	\$325,562
14,381	15,097	16,990	18,783	20,231	21,102	22,719	202,511
900	705	808	806	636	508	501	4,472
¥1,219	¥1,454	¥2,077	¥1,887	¥1,818	¥1,945	¥2,737	\$24,401
(320)	(1,511)	(494)	(660)	828	(829)	(646)	(5,761)
(736)	(550)	426	(389)	(699)	(1,092)	(1,032)	(9,199)
3,396	2,790	4,798	5,636	7,626	7,594	8,660	77,193
¥32.19	¥40.36	¥60.77	¥72.13	¥75.91	¥81.01	¥93.29	\$0.83
554.79	582.41	615.12	679.27	730.49	774.18	846.59	7.54
13.00	13.50	14.00	15.50	20.00	22.00	23.00	0.20
3.6	5.0	6.5	6.8	6.7	6.9	7.0	
5.8	7.1	10.0	11.1	10.8	10.9	11.4	
54.9	53.2	54.5	54.4	57.4	60.8	62.1	
2.3	2.4	2.3	2.4	2.8	2.9	2.8	
¥353	¥625	¥606	¥718	¥786	¥834	¥933	
11.0	15.5	10.0	10.0	10.4	10.3	10.0	

Consolidated Financial Performance

Net sales

50,410 million yen

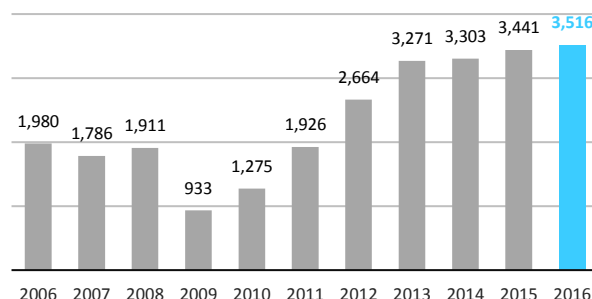
UP 0.4% ↗



Operating profit

3,516 million yen

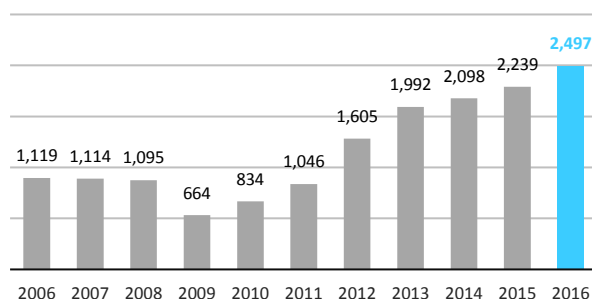
UP 2.2% ↗



Profit attributable to owners of parent

2,497 million yen

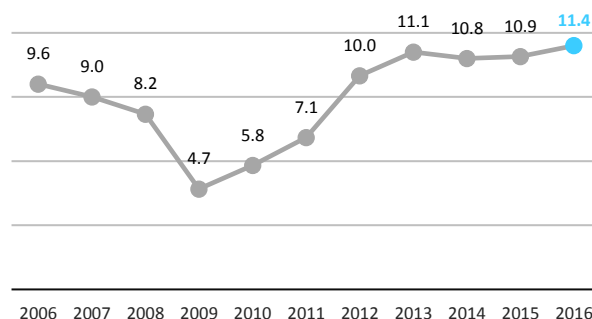
UP 11.5% ↗



Return on Equity (ROE)

11.4%

UP 0.5 point ↗



During the fiscal year ended March 2017, the Japanese economy showed a moderate recovery on the backdrop of improvements in income and employment conditions and upturns in exports and production, although consumer spending did not recover very strongly. The outlook for the future continues to have uncertain elements, such as the feasibility of the new U.S. administration's policies, withdrawal of the United Kingdom from the EU, and the downward risk of emerging economies with China being the first on the list.

In industries related to the KONDOTEC Group, investment in the public sector continued to be strong while housing investment, which was generally flat, turned slightly weak and construction demand remained relatively slow.

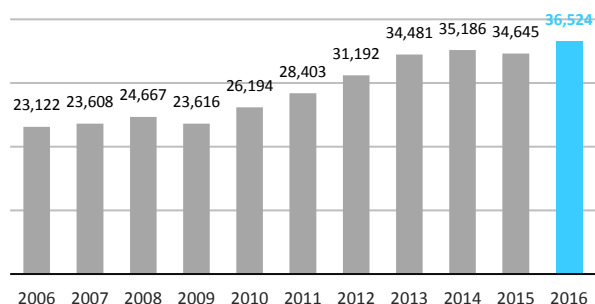
Amidst such circumstances, the Company implemented sales and marketing activities, including expanding sales of proprietary products, acquiring new customers and re-attracting dormant customers. Furthermore, we properly identified the needs of users of industrial materials, structural steel materials and electrical equipment, as well as stepped up our efforts in developing products with high added value and reinforcing product procurement functions. Through these initiatives, we aimed at expanding our businesses with consolidated subsidiaries.

As a result, we achieved higher performance than in the previous year and posted net sales of 50,410 million yen for the year ended March 2017, up 0.4% year on year. In terms of profit, although there was an increase in selling, general and administrative expenses, we made efforts to reduce production costs and the cost of goods purchased. Consequently, operating profit margin increased 1.0 basis point from the previous year's 21.2%, and operating profit rose 2.2% year on year to 3,516 million yen. Ordinary profit was 3,614 million yen, up 2% year on year, and profit attributable to owners of parent came to 2,497 million yen, an increase of 11.5% from a year earlier.

Total assets

36,524 million yen

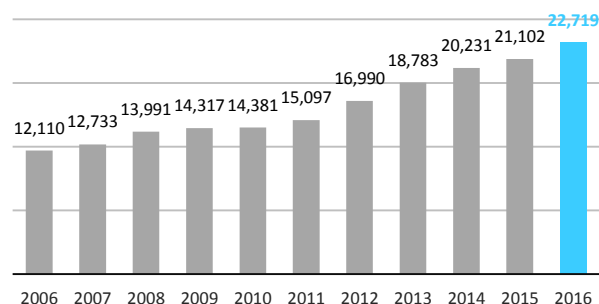
UP 5.4% ↗



Net assets

22,719 million yen

UP 7.7% ↗



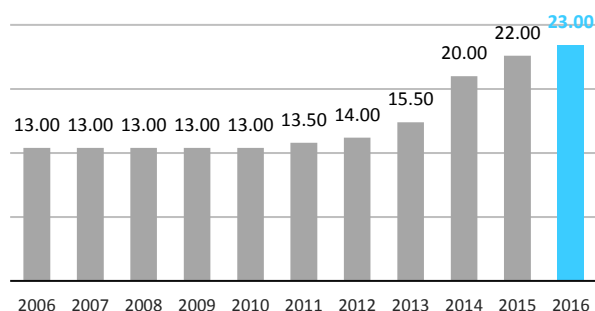
Total assets at the end of the fiscal year was 36,524 million yen, up 1,879 million yen year on year. This was due to a rise in current assets of 1,651 million yen, caused mainly by increases in cash and deposits, accounts receivable, and a rise in non-current assets of 227 million yen mainly from an increase in property, plant and equipment as a result of establishing operating sites, etc.

Net assets increased 1,617 million yen from a year earlier to 22,719 million yen. This was due to a rise in profit attributable to owners of the parent of 2,497 million yen, despite decreases caused by payment of dividends of surplus of 608 million yen, and purchase of 393 million yen in treasury shares.

Dividend per share

23.0 yen

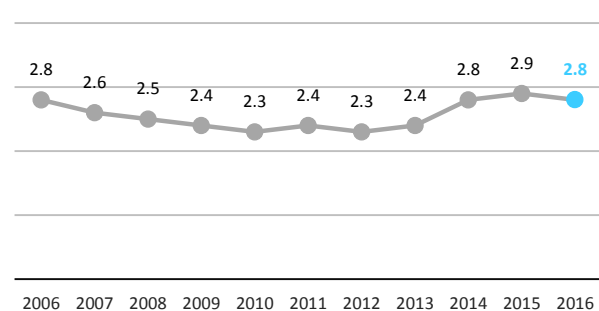
UP 1yen ↗



Dividend on equity ratio (DOE)

2.8 %

DOWN 0.1point ↘



The KONDOTEC Group recognizes that returning profit to shareholders is an important part of its management policy. We will continue to make efforts toward strengthening our financial position and increasing profitability while pursuing strategic investments, including M&A, and active business investments toward growth with a view to improving capital efficiency.

With respect to dividends, our basic policy is to distribute dividends continuously and stably to shareholders with a target of achieving DOE of 2.5% or more while adequately taking into account our consolidated operating results and dividend payout ratio. DOE is composed of two elements – dividend payout ratio, which signifies distribution of profits to shareholders, and ROE, which represents capital efficiency. It is an indicator that contributes to driving the creation of shareholder value, which is a parameter of our management vision for the creation of shareholder value.

Based on this policy, the dividend for the fiscal year ended March 2017 was 23 yen per share, and DOE came to 2.8%.

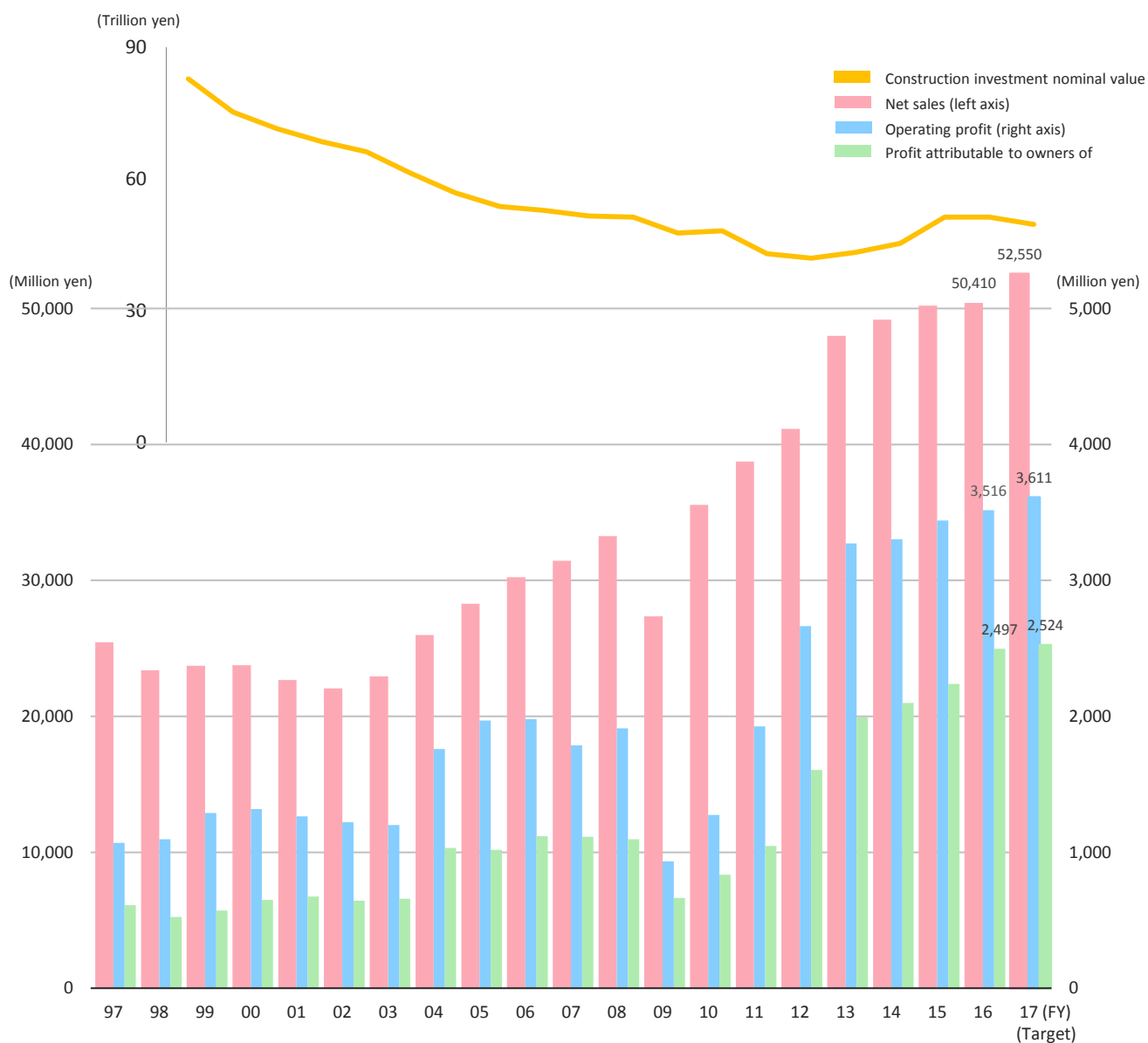
The KONDOTEC Group Digest

We provide our targets for the next fiscal year along with our past operating results.

Information on Operating Results

Net sales increased **7 periods** in a row

Operating profit and profit attributable to owners of the parent increased **5 periods** in a row



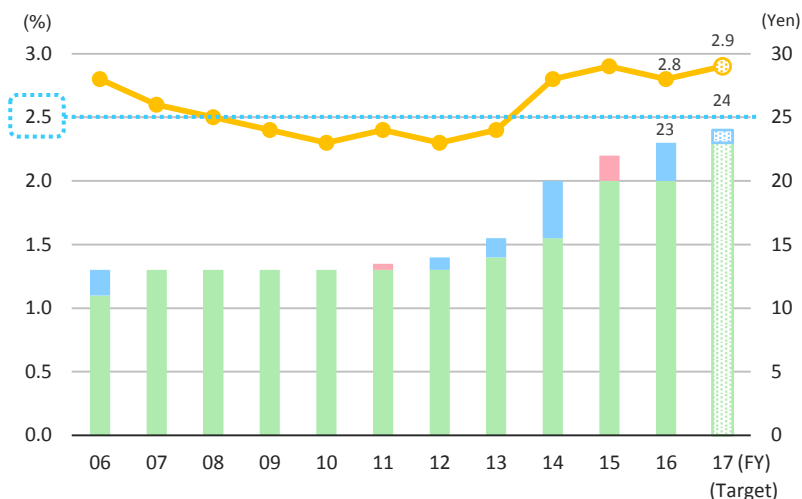
Dividend Information

Target DOE: **2.5%** or above
Dividends increased **6 periods**
in a row since its listing on TSE

Total return ratio:
(FY3/2016: 44.2%, FY3/2017: 41.4%)

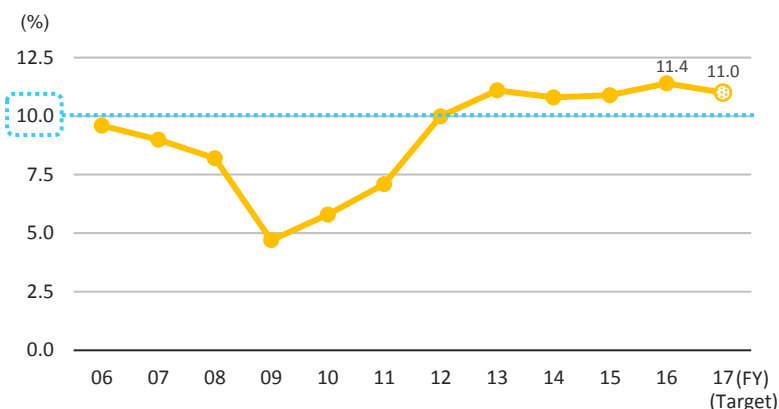
Plan for 2018(FY): 24 yen per share
(Dividend increase of 1 yen)

■ DOE (left axis)
■ Regular dividend (right axis)
■ Increase in regular dividend (right axis)
■ Commemorative dividend (right axis)



Capital Efficiency

ROE target: **10%** or above
Achieved target **5 periods**
in a row



The KONDOTEC Group posted record-high results in the fiscal year ended March 2017 for the second consecutive year.

Looking ahead to the next fiscal year, given concerns over the downward risk associated with economic slowdowns in the U.S. and emerging countries, including China, and the political situation in Europe, we project that uncertain elements will remain.

In the industries related to the Group, we expect that redevelopment work in city areas and construction related to the Tokyo Olympic and Paralympic Games will proceed in earnest. Meanwhile, we anticipate challenges in the operating environment, including a hike in steel material prices and an increase in the cost of purchasing imported products.

Under these circumstances, we will work to increase cost competitiveness to maintain a strong presence in the competition for receiving orders and pricing, expand sales of proprietary products, imported materials and new materials, and cultivate new buyers while reinforcing the strengths of the Group, including our consolidated subsidiaries, as we strive to enhance the corporate value of the entire KONDOTEC Group.



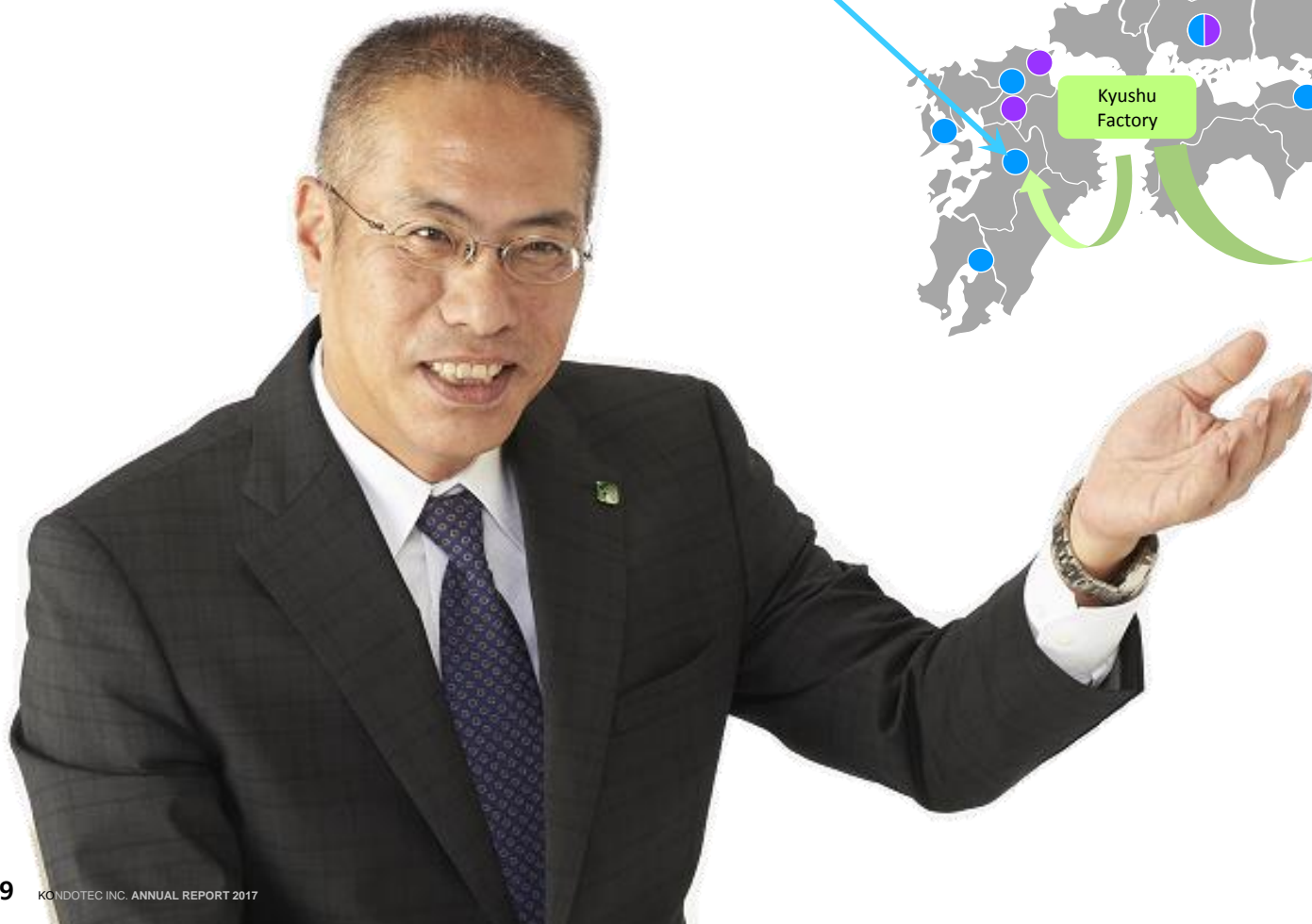
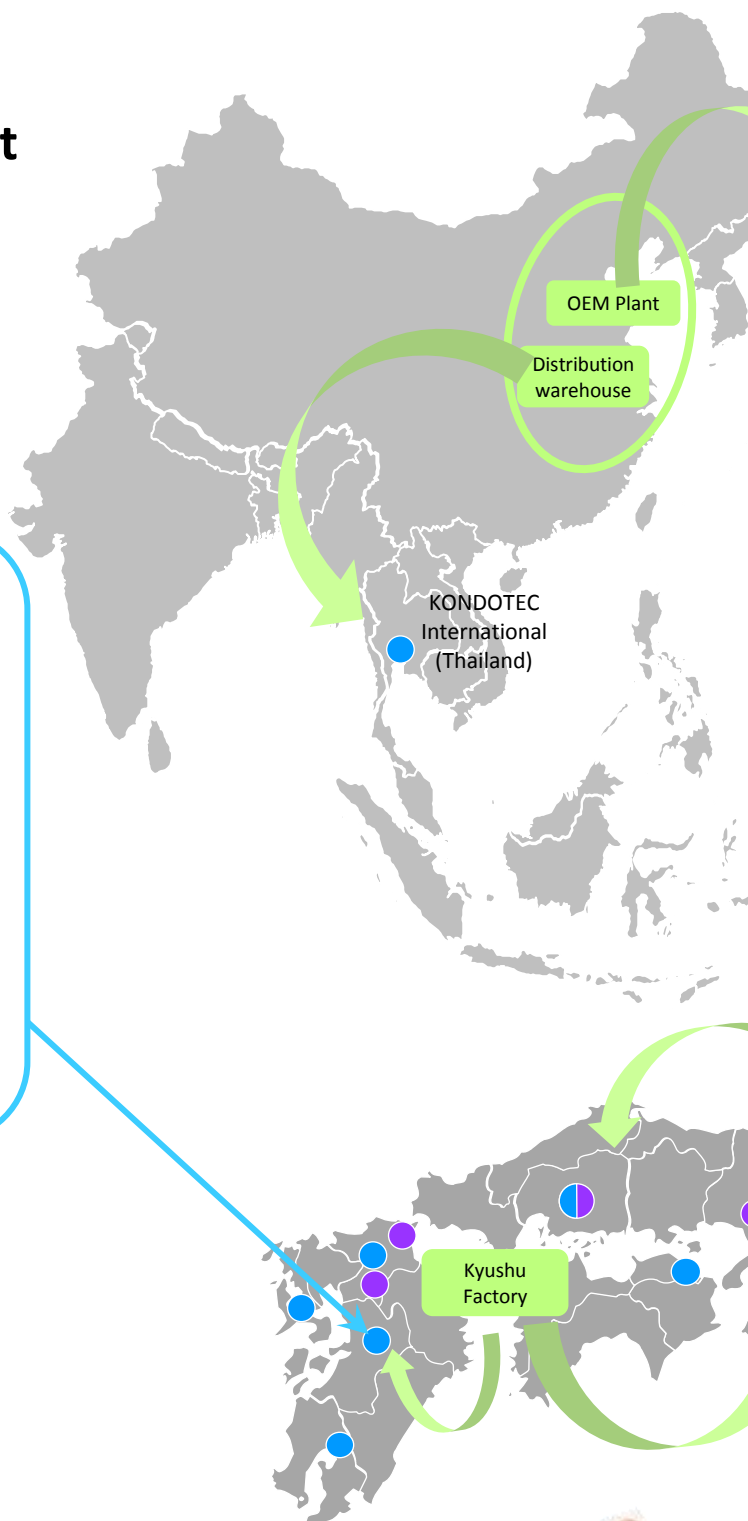
The KONDOTEC Group Digest

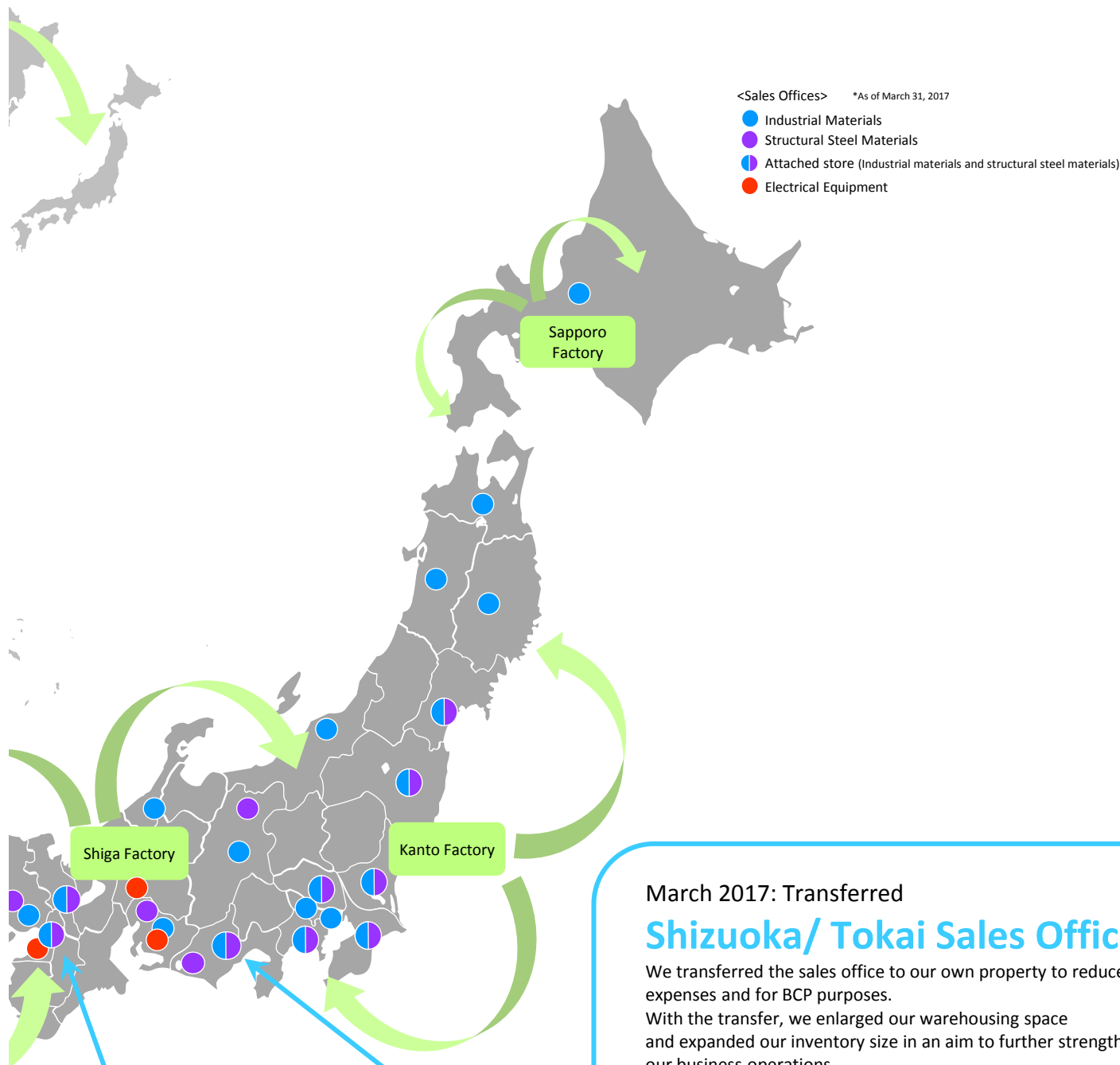
The Group values locally-oriented sales and marketing approaches and has always promoted the opening of new sites.

Here are our operating site activities in the year ended March 2017.

April 2016 Opening of Kumamoto Sales Office

Opened the Kumamoto Sales Office to reinforce our sales and marketing capability in the Kumamoto region, and to establish a structure for promptly accommodating user needs.





March 2017: Transferred

Shizuoka/ Tokai Sales Office

We transferred the sales office to our own property to reduce expenses and for BCP purposes.

With the transfer, we enlarged our warehousing space and expanded our inventory size in an aim to further strengthen our business operations.



October 2016: Newly established

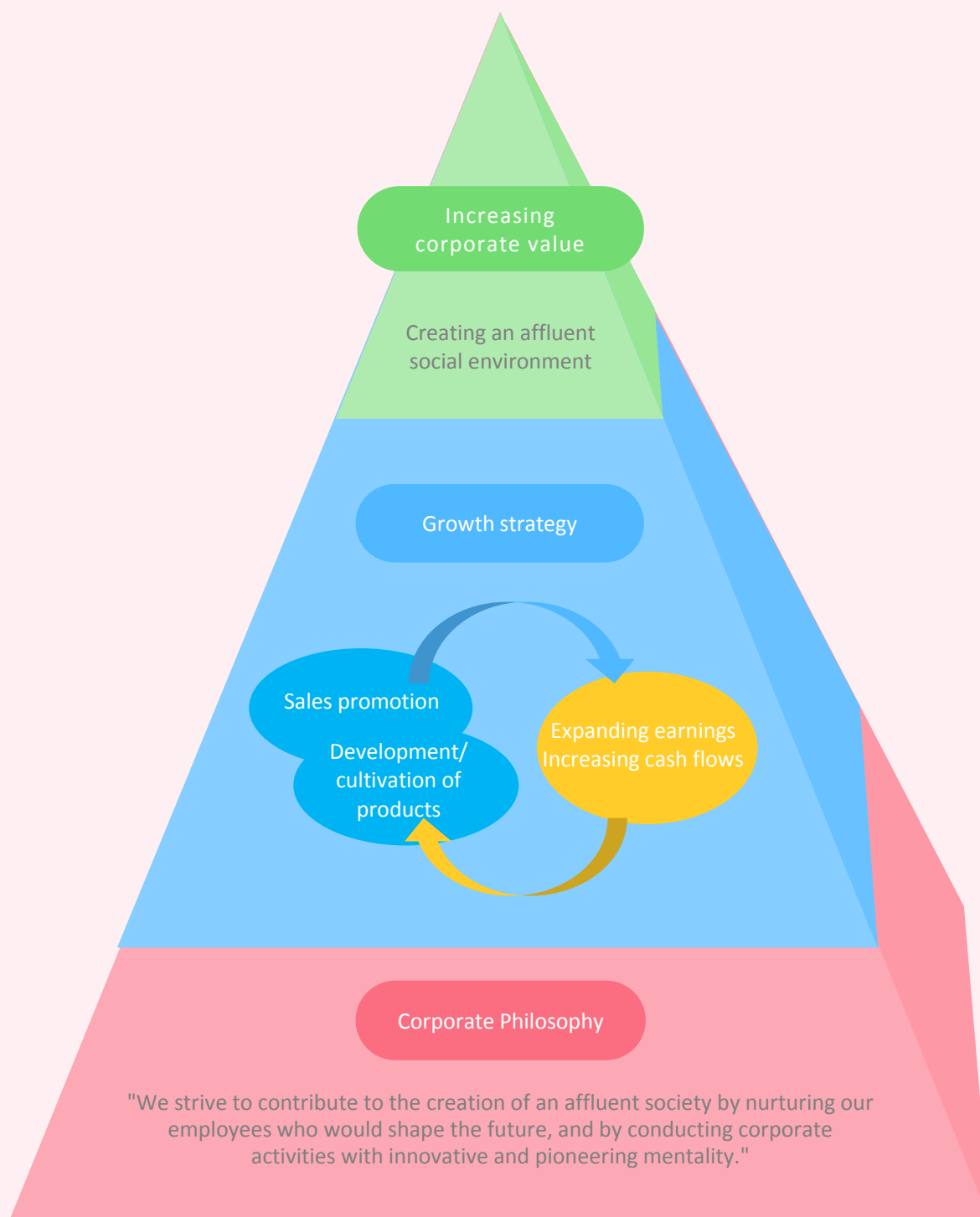
Business Strategy Department

We launched a specialized department for the purpose of constructing a stable earnings base that is not impacted by economic trends in an aim to achieve sustainable growth and increase corporate value through further expanding existing businesses, advancing business deployment in peripheral fields other than the construction materials segment, and strengthening the Group's competitiveness and culture as a corporate entity.

Growth Strategy

Ever since its founding in 1953, the KONDOTEC Group has continued to grow while actively contributing to society through reinforcing its management platform and pursuing business activities based on its corporate philosophy. Amid changes in conditions of the external environment from year to year, we pursue active sales & marketing activities in accordance with our growth strategy to improve operating performance stably each period and focus on creating added value so as to contribute to the creation of an increasingly affluent social environment.

Here is a description of our key sales & marketing activities, which are sales promotion activities and development & cultivation of products.



Sales promotion activities

The KONDOTEC Group continues to mainly pursue the following sales promotion activities as part of its sales and marketing approach, with a view to widening the scope of sales activities and building a framework for further opening up opportunities to receive orders, not only in the current fiscal year under review but also in the coming years.

Cultivation of new customers

Sales staff targets to capture one new customer every month in an effort to increase the number of buyers.

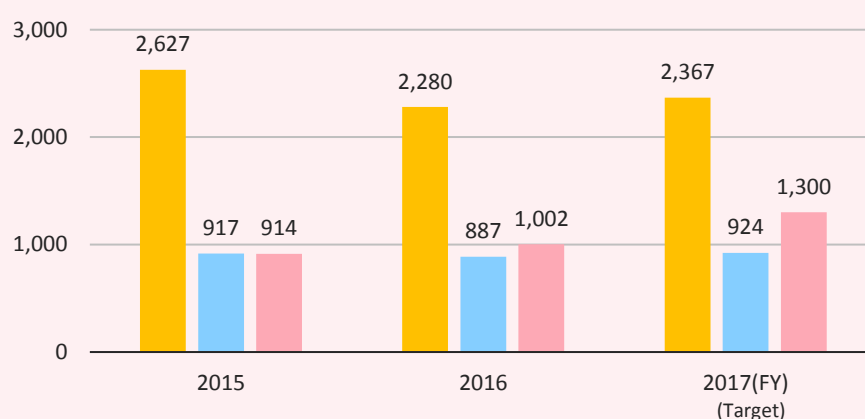
Sales & marketing in Tokyo Metropolis (Industrial Materials business)

Specialized sales staff are assigned to respond to concentrated purchasing in an effort to obtain orders.

Anchor construction

Cultivate new sales areas by taking orders not only for delivering products but also for anchor construction.

Changes in New Customers and Net Sales (Million yen)

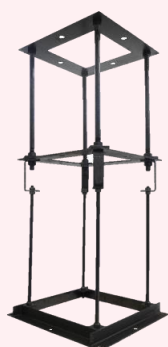


Development & Cultivation of Products

Our sales and manufacturing divisions jointly hold new product committee meetings on a periodical basis to brainstorm and promote development of new products. We hold discussions regarding requests from customers and proposals for improvement as part of our initiatives to develop, cultivate and deliver products offering greater added value.

Recent examples of our development efforts include the development of Konbase-Eco, an anchor frame that offers features to improve working efficiency, enhance foundation strength, and reduce costs more than conventional frames. We also succeeded in the development of Kondo bolts for furring strips. These bolts come in a set of two parts instead of conventional five parts to reinforce the fastening strength but reduce encroaching on the mating material. In addition, we entered into an exclusive agency agreement in Japan with a Taiwanese lifting equipment manufacturer, YOKE INDUSTRIAL CORP., for their Yellow Point series, which has allowed us to distribute swivel eye bolts that enable safe lateral lifting or lifting from unequal points for which the conventional JIS eye bolts cannot be used.

<Konbase-Eco>
(Anchor frame)

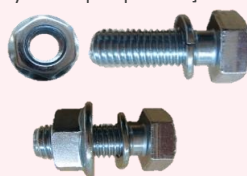


<Kondo bolts for furring strips>
(Bolt & nut)

[Conventional product]



[Newly developed product]



<Yellow Point series>
(Lifting instrument)



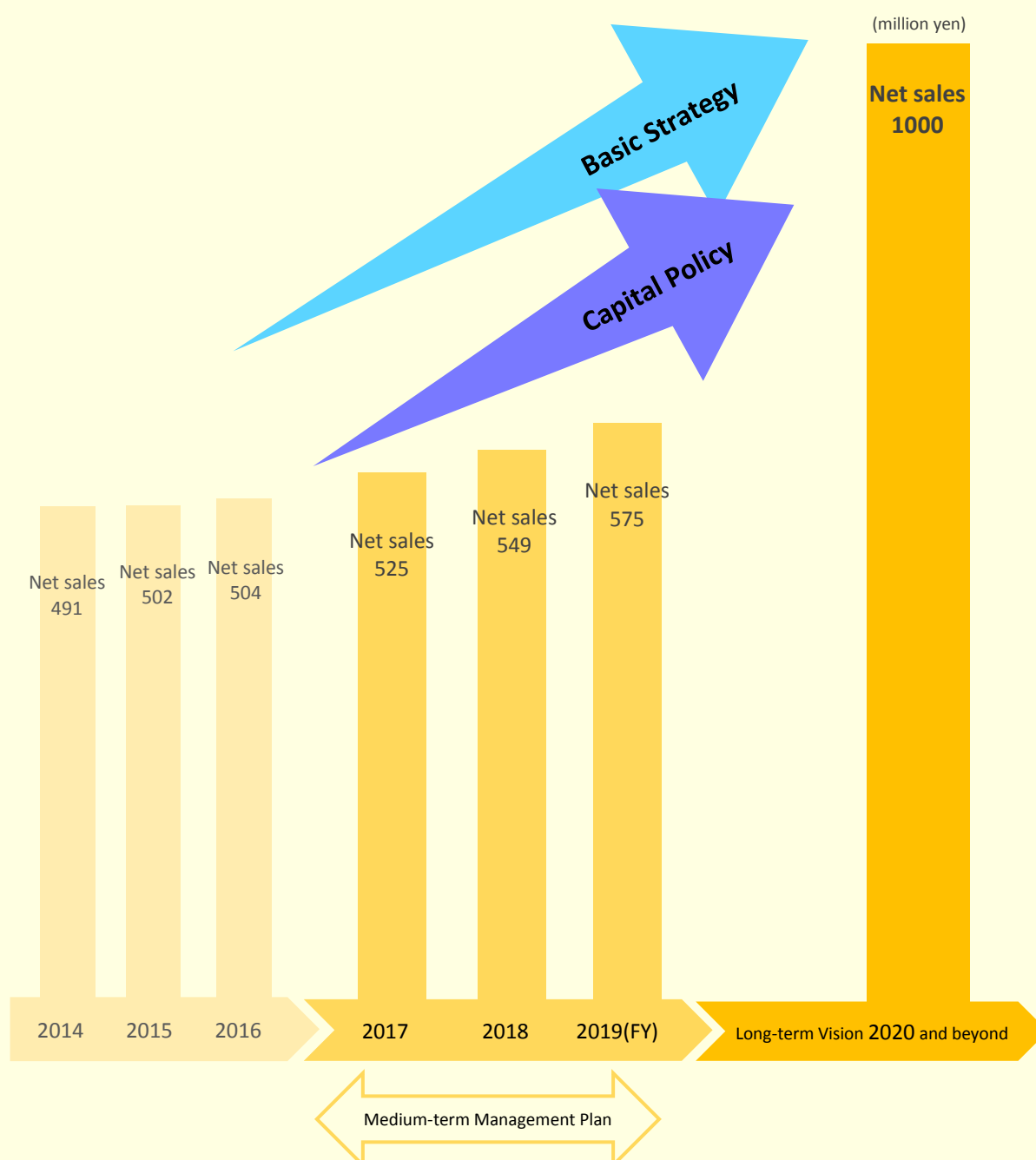
Aiming for Further Growth

Our sales promotion activities described have comprehensively served as the platform for the KONDOTEC Group to stably strengthen operating performance. These sales promotion activities are not composed of independent activities, rather they are mutually related activities that bring about synergistic effects. Given that promoting these activities leads to achieving further growth, we will continue to recognize them as important initiatives to pursue.

Our targets going forward based on the current sales structure were released in our Medium-term Management Plan (FY2017 to FY2019) in May 2017. This plan was formulated using the rolling method to respond to changes in the operating environment, while verifying the results and issues each year.

With respect to our Long-term Vision that looks ahead to FY2020 and beyond, we will target net sales of 1000 million yen in an aim to further leap forward after having managed to post net sales of 500 million yen for the entire Group. We have announced our Basic Strategy & Capital Policy to pursue as we strive toward meeting our target.

The Basic Strategy & Capital Policy serves as the guideline for the entire Group to manage business activities with the aim of realizing the Medium-term Management Plan and the Long-term Vision.



Basic Strategy

1 Expanding orders in existing businesses

We will work to increase orders from customers by properly identifying their needs in existing business segments, developing products that offer high added value, further strengthening our product procurement functions, and effectively allocating employees to reinforce our sales capability.

2 Increasing presence in foreign markets

Recognizing that pursuing business activities in overseas markets where growth is expected will lead to enhancing our profitability, we turned a local affiliate in Thailand into a subsidiary in August 2014, and since have been taking steps to expand our business coverage in ASEAN countries by leveraging our operating site in Thailand. Going forward, we will further strengthen our sales & marketing capabilities by widening our sales network and reinforcing manpower with a view to increasing the ratio of net sales from our overseas business.

3 Corporate acquisitions and capital/business tie-ups

We view that pursuing corporate acquisitions and capital/business tie-ups is an important strategy to strengthen our business platform. We actively review potential acquisition and tie-up cases by analyzing and discussing the growth potential of the relevant business, while taking capital cost into consideration whenever the opportunity arises.

4 Reinforcement of product technologies

In areas of development, manufacturing and quality, we will work to provide products offering high added value by leveraging our original know-how nurtured through years of experience and combining technologies in the entire Group. At the same time, we will enhance production efficiency in a high-mix, low-volume production structure so that we may accommodate even special needs of our customers while continuing to improve our overall productivity.

5 Effective Use of Human Resources

It is our recognition that human resources build the key foundation of our business. Accordingly, we will continue to focus on development of human resources, allocating manpower to overseas businesses, etc., and fostering and reinforcing employees who can perform in global businesses.

Capital Policy

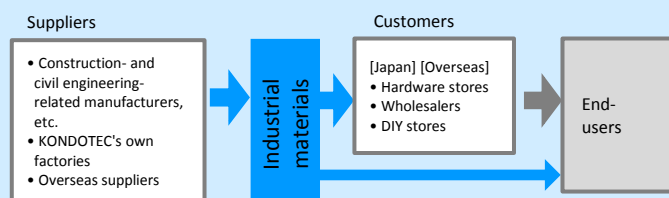
Our capital policy stands on two key components; capital efficiency target and shareholder return target. We set the capital efficiency target by using ROE, an index that reflects the efficiency of capital investment in pursuit of business expansion, in an aim to promote creation of corporate value. Meanwhile, the shareholder return target is set to determine dividends by means of DOE, an index that takes into account both consolidated operating results and the dividend payout ratio, with the aim of distributing dividends to shareholders continuously and stably.

1 Capital efficiency target: ROE of 10% or above

2 Shareholder return target: DOE of 2.5% or above

Industrial Materials

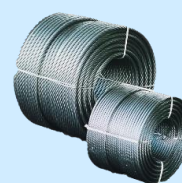
With the retail hardware business at the core, we manufacture, procure, and sell civil engineering and construction materials, machinery and equipment. Subsidiaries KONDOTEC INTERNATIONAL (THAILAND) Co., Ltd. and CHUOGIKEN INC. are included.



<Major Products>



Sandbags



Ropes



Hauling equipment



Turn buckle



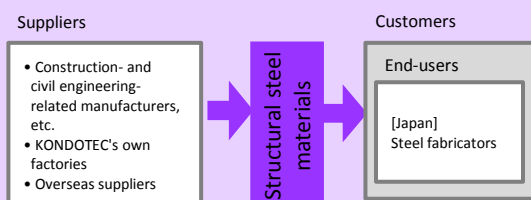
Frame materials



Construction site equipment

Structural Steel Materials

We manufacture, procure, and sell construction-related materials for steel fabricators nationwide.



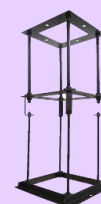
<Major Products>



KON brace (JIS brace)



Self-standing KON-piece



Konbase-Eco



Anchor bolt



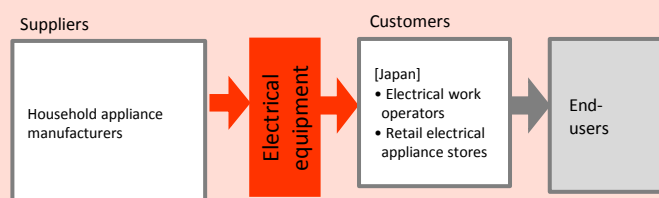
Ceramic tab



Welding materials

Electrical Equipment

This business is handled by a consolidated subsidiary, Sanwa Denzai Co., Ltd. We procure and distribute electrical equipment to electrical work operators engaged in construction of houses, buildings, facilities, factories, and to retail household appliance stores.



<Major Products>



Solar power generation system



Lighting instruments



Wires and cables



Sanitary earthen-ware

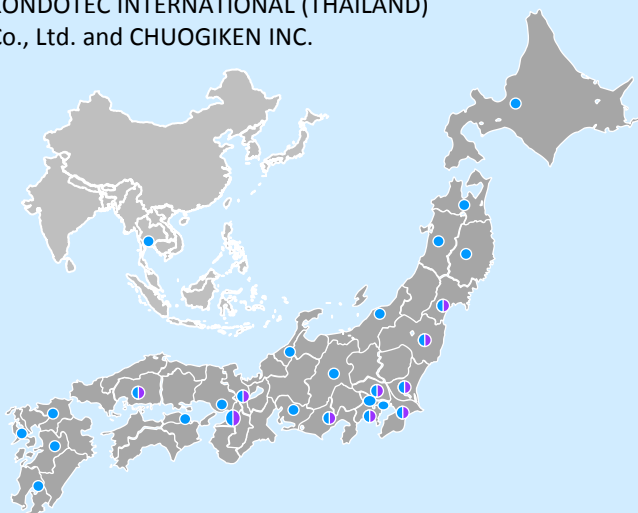


air-conditioning systems

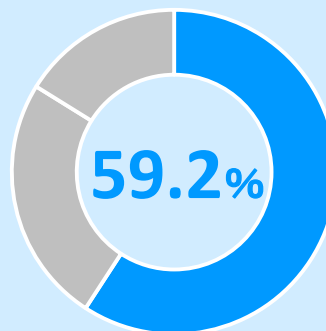


Wiring devices

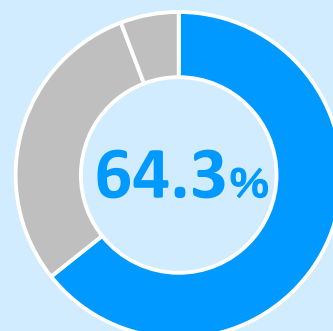
KONDOTEC INC. 29 sales locations
(Subsidiaries)
KONDOTEC INTERNATIONAL (THAILAND)
Co., Ltd. and CHUOGIKEN INC.



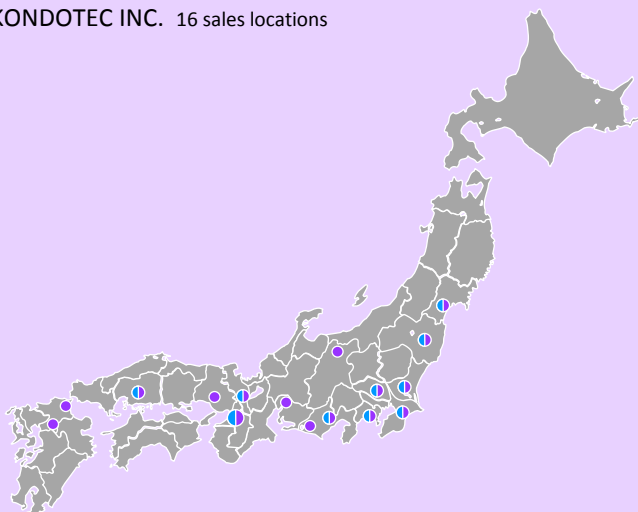
Percentage of
Total Sales



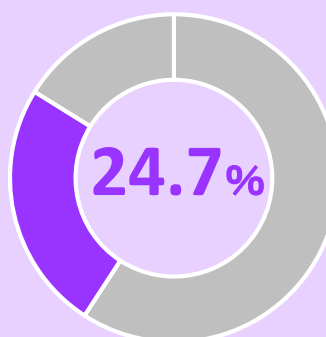
Percentage of
Total Operating Profit



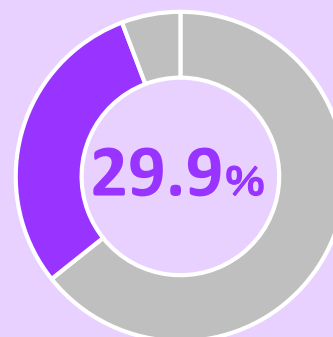
KONDOTEC INC. 16 sales locations



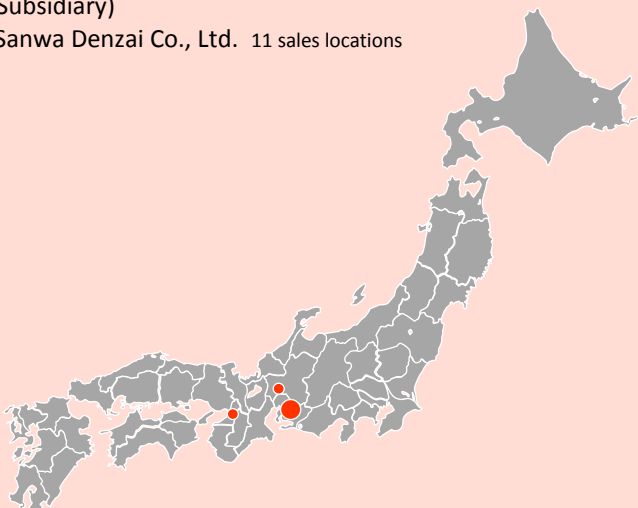
Percentage of
Total Sales



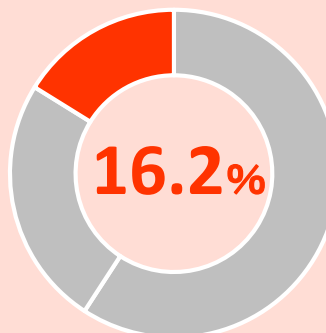
Percentage of
Total Operating Profit



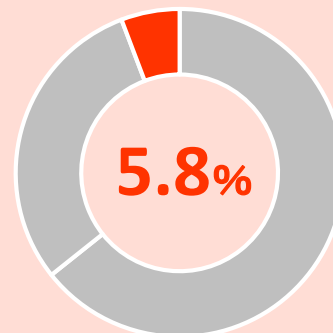
(Subsidiary)
Sanwa Denzai Co., Ltd. 11 sales locations



Percentage of
Total Sales



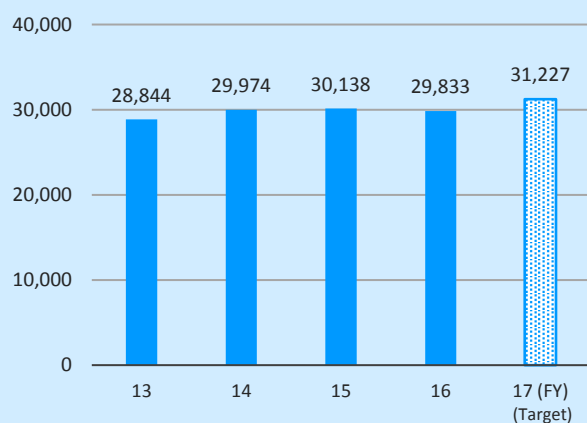
Percentage of
Total Operating Profit



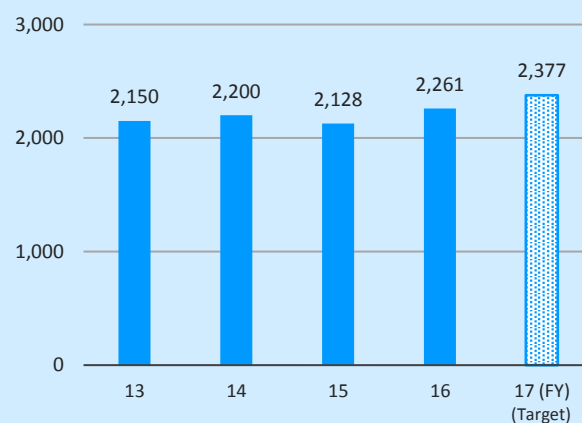
* Percentage of total sales and percentage of total operating profit are based on results of the year ended March 31, 2017.

Industrial Materials

Net sales (Million yen)

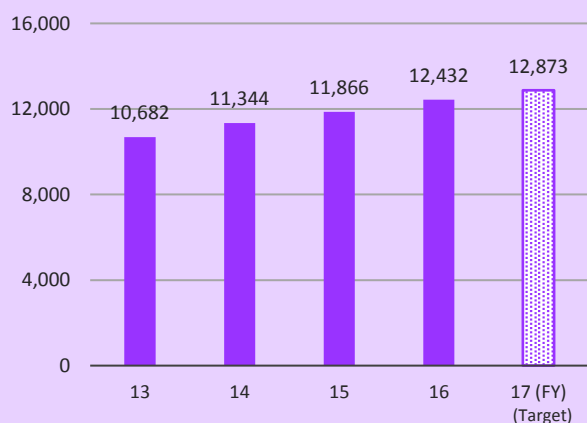


Operating profit (Million yen)

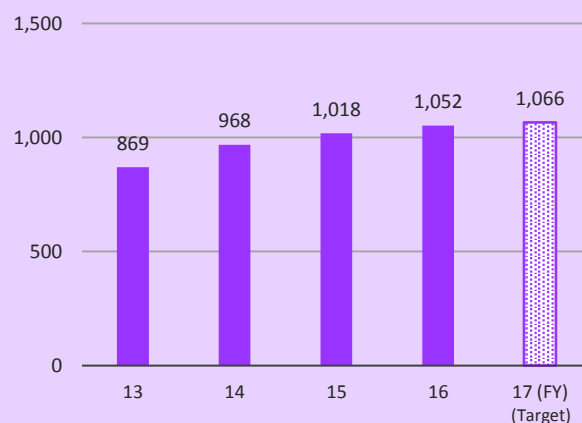


Structural Steel Materials

Net sales (Million yen)

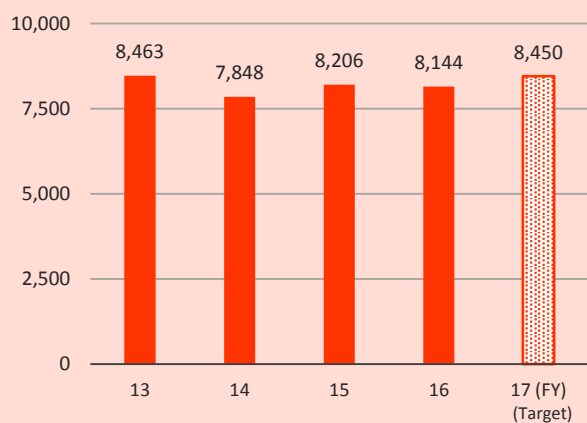


Operating profit (Million yen)

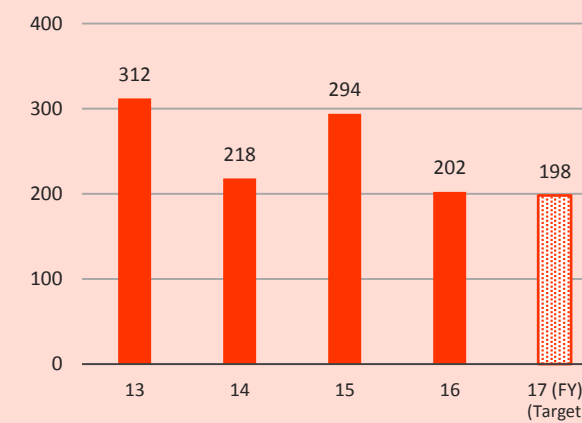


Electrical Equipment

Net sales (Million yen)



Operating profit (Million yen)



Overview of Year Ended March 2017

Public investments moved at a moderate pace and we were actively involved in construction projects in regional areas. Sales of construction site equipment and hauling equipment were strong thanks to strong corporate capital investments. Meanwhile, demand for products used in temporary yards associated with the decontamination work, and for frames for solar power generation, were not as high as the year before when such demand contributed to incremental revenues. As a result, net sales came to 29,833 million yen, down 1% from a year earlier.

In terms of profit, gross margin on imported products improved and operating profit increased 6.3% year on year to 2,261 million yen.

Initiatives Going Forward

Construction work for the 2020 Tokyo Olympic and Paralympic Games have started and the demand associated with the event is expected to spread from the Tokyo Metropolitan area to all over the country, boosting demand for construction of infrastructure and facilities. To capture the growing demand, we will take steps to attract new and dormant customers, and build up our product lineups with competitive items to increase sales.

In order to achieve further growth going forward, we will increase orders from customers by strengthening our direct sales and marketing activities to users, and expand our distribution network also to other business fields such as agriculture, forestry, and e-commerce.

Through these initiatives, we will aim to achieve our targets for the fiscal year ending March 31, 2018, which are net sales of 31,227 million yen and an operating profit of 2,377 million yen.

Overview of Year Ended March 2017

Demand for steel frames, although appearing somewhat weak in the first quarter, turned out to be favorably stable for private construction projects driven by construction of hotels in anticipation for growth in inbound demand, and by construction of logistics facilities due to the rise in e-commerce. In addition, orders for structural steel materials remained comparatively strong. As a result, net sales increased 4.8% year on year to 12,432 million yen.

In terms of profit, as a result of efforts to reduce manufacturing costs, operating profit increased 3.4% from the year before to 1,052 million yen.

Initiatives Going Forward

In expectation that the demand for structural steel frames will increase year on year due to growing capital investments, such as construction relating to the 2020 Tokyo Olympic and Paralympic Games, large-scale distribution warehouses and hotels for tourists, the KONDOTEC Group will attract new customers while working to regain dormant customers and boost sales of products in an aim to expand net sales.

Key initiatives to take toward achieving further growth are to increase orders related to construction projects by strengthening sales and marketing activities to large fabricators and steel trading companies, and to widen our distribution network by emphasizing the attractive features of anchor bolts to assist with the shortage of manpower in the construction industry.

Through these initiatives, we will aim to achieve our targets for the fiscal year ending March 31, 2018, which are net sales of 12,873 million yen and an operating profit of 1,066 million yen.

Overview of Year Ended March 2017

Demand for our products was strong in connection with renovations and new construction of commercial facilities and condominiums. In addition, thanks to the favorable demand for LED lighting replacement in factories and commercial facilities, sales rose year on year in the latter half of the fiscal year. As a result, net sales were 8,144 million yen, down 0.8% year on year.

In terms of profit, operating profit came to 202 million yen, down 31.1% from a year earlier. This was attributable in part to continuing competition with other firms in the same business over acquiring orders, causing the gross margin ratio to decline 0.1 percentage point. In addition, there was a rise in personnel expenses under selling, general and administrative expenses as a result of enhancing our manpower to reinforcing business activities relating to direct distribution, control devices, and housing facilities.

Initiatives Going Forward

Given the projection that housing construction will decline in the long term due to a decreasing birth rate and population, we will make efforts to expand the range of products handled, including products for housing-related facilities and systems, and broaden the area for conducting sales activities in an aim to make sure to bring in orders and increase net sales.

To achieve incremental growth going forward, we will further strengthen our construction operation, which was newly organized in the fiscal year ended March 2017, and expand orders by directly selling to housing manufacturers and end-users.

Through pursuing these initiatives, we will aim to achieve our targets for the fiscal year ending March 2018, which are net sales of 8,450 million yen and an operating profit of 198 million yen.

Detailed information on financial results

For details of financial results for the year ended March 31, 2017,
please refer to the Securities Report.

URL : http://www.kondotec.co.jp/ir/library/asset_securities.html

Reporting coverage period

- ◆ Reporting period
April 1, 2016 through March 31, 2017
(Activities in April 2017 and thereafter are included in part.)
 - ◆ Entities covered
KONDOTEC INC. and its group companies
 - ◆ Accounting standard
Japanese GAAP
-

KONDOTEC INC.

2-2-90 Sakaigawa, Nishi-ku, Osaka

550-0024 Japan

Telephone : 06-6582-8441

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