

KONDOTEC REPORT

(Year Ended March 31, 2017)

TOP MESSAGE

Recently, we often hear news reports on damage inflicted by earthquakes and abnormal weather conditions. In this present age, pursuing a sustainable society is a challenge. The KONDOTEC Group has been making efforts each and every day since its establishment in 1953 to carry out its responsibilities as a corporation based on the corporate philosophy - "We strive to contribute to the creation of an affluent society by nurturing our employees, who would shape the future, and by conducting corporate activities with innovative and pioneering way."

This report is designed to put together the various reporting matters the Company discloses and was prepared by referencing the International Integrated Reporting Framework with a view to providing information in order to have more stakeholders gain a better understanding of our Group.

As we strive to continue serving behind the scenes, accommodating diverse customer needs, we would greatly appreciate your continued understanding and support.



President and Representative Director

Katsuhiko Kondo

Forward

Ever since its establishment, the KONDOTEC Group has been committed to carrying out its business activities in line with the times by updating the lineup of products and merchandise handled while constantly responding to the changing times. Given this history, we have once again organized the outcome of our management and business activities and put together and released our first Integrated Report as a tool to have more stakeholders gain a better understanding of the KONDOTEC Group.

The Integrated Report was prepared by a team of female project members, all from the General

Affairs Division, which is a unit responsible for IR and CSR, and the Sales Headquarters. The report provides our approaches in the three key areas of environment, society, and governance with our conventional management and business activities in mind, and with a view to further increasing the corporate value of the Company by focusing particularly on ESG investment, which has been attracting attention over the past few years.

Tomoya Ando,
Senior Executive Director and General
Manager, Management Headquarters



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WE ARE KONDOTEC

Profile of KONDOTEC

Company Overview

KONDOTEC INC. is a manufacturer and wholesale company that maintains in-house factories and handles approximately 50,000 or more products and merchandise.

Ever since its establishment, KONDOTEC has been providing a wide range of basic materials that support infrastructures essential for social activities by responding to the needs of customers and expanding products and merchandise handled. By so doing, we have been supporting the establishment of an affluent society.

Company name	KONDOTEC INC.
Group companies	Sanwa Denzai Co., Ltd. KONDOTEC INTERNATIONAL (THAILAND) CO.,LTD. CHUOH GIKEN Co., Ltd.
Established	January 1953
President and Representative Director	Katsuhiko Kondo
Head office	2-2-90 Sakaigawa, Nishi-ku, Osaka 550-0024 Japan Tokyo Headquarters: 1-9-3 Minami Suna, Koto-ku, Tokyo * The Company established Tokyo Headquarters on July 1, 2013 and operates on a two-headquarters system.
Number of Employees	623 Consolidated:767 (As of March 31, 2017)
Capital stock	2,666 million yen (As of March 31, 2017)
Listed stock market	Tokyo Stock Exchange (First Section)
Business areas	<ul style="list-style-type: none"> □ Manufacturing, procurement and sale of industrial materials primarily in the retail hardware business □ Manufacturing, procurement and sale of structural steel materials mainly for steel fabricators □ Procurement and sale of electrical equipment for electrical work operators and electrical appliance stores
Major items handled	<ul style="list-style-type: none"> □ Products (in-house manufactured products/OEM products) Turn buckles, braces, scaffolding chains, screws, anchor bolts, construction materials, machinery and equipment, etc. □ Merchandise (products procured from domestic and foreign suppliers/OEM products) Hardware, chains, wire ropes, screws, construction materials, lighting equipment, panel boards, air-conditioning equipment, eco items, etc.
Network	KONDOTEC INC. 46 operating sites Sanwa Denzai Co., Ltd. 15 operating sites KONDOTEC INTERNATIONAL (THAILAND) CO.,LTD. CHUOH GIKEN Co., Ltd. (As of March 31, 2017)
Factories	Four factories in Japan

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History

Since its establishment, the KONDOTEC has continued to grow through reinforcing its management platform and pursuing business activities based on its corporate philosophy.

[Corporate Philosophy]

We strive to contribute to the creation of an affluent society by nurturing our employees, who would shape the future, and by conducting corporate activities with innovative and pioneering way.



1953

- Established Kondo Shoten Co., Ltd. in Izuo, Taisho-ku, Osaka.
Began manufacturing and sale of hardware for vessels.

1955

- Changed the company name to KONDO IRON WORKS CO., LTD.

1956

- Began production of shackles.



1962

- Began production of turn buckles.



1965

- Began sale of wire ropes.



1966

- Opened Kyushu Factory.



1967

- Began production of scaffolding chains.

1973

- Began manufacturing and sale of hardware and screws for civil engineering and construction use.



1974

- Relocated the head office to Sakaigawa, Nishi-ku, Osaka.



1985

- Established the New Business Division (currently Structural Steel Sales Division).

1989

- Changed the company name to KONDOTEC INC.



1991

- Opened Kanto Factory.



1992

- Opened Sapporo Factory.



Changes in Net Sales

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1995

- Listed on the Second Section of the Osaka Stock Exchange.



1999

- Listed on the Second Section of the Tokyo Stock Exchange.

2004

- Implemented Yantai Distribution Warehouse based on a contract concluded with a Chinese logistics trading company.

2005

- Entered into an agency contract with pewag in Austria.

pewag



2007

- Opened Shiga Factory.



2010

- Acquired shares of Sanwa Denzai Co., Ltd., which engages in the electrical equipment business, to make the company a consolidated subsidiary.

三和電材株式会社



2011

- Designated as the First Section stock by the Tokyo Stock Exchange and the Osaka Stock Exchange.

2014

- Turned KONDOTEC INTERNATIONAL (THAILAND) CO., LTD. into a consolidated subsidiary by capital increase and substantially making the company a fully-owned subsidiary.

- Acquired shares of CHUOH GIKEN Co., Ltd., which engages in the business of design and manufacture of machinery and devices, to make the company a consolidated subsidiary.

中央技研株式会社



- Introduced the shareholder incentive plan. (Offering rice certificates once a year based on the number of shares held)

July-2015

- Opened Morioka Office (Industrial Materials).



January-2016

- Opened Nagano Office (Structural Steel Materials).



February-2016

- Decided on the acquisition of treasury shares up to 800 million yen in acquisition price and 1 million in the number of shares to acquire.

April-2016

- Opened Kumamoto Office (Industrial Materials).



2017

Strengths

One feature of the KONDOTEC Group is its stable growth in business performance amid changes in the external environment. This stable growth is supported by the sales promotion activities that the Group has been focusing on over many years. Underlying factors are **“diversity of customers’ business areas”** and **“diversity of products and**

merchandise”.

In order to continue maintaining these strengths and achieve sustainable growth, we formulated growth strategies and have been taking steps accordingly.

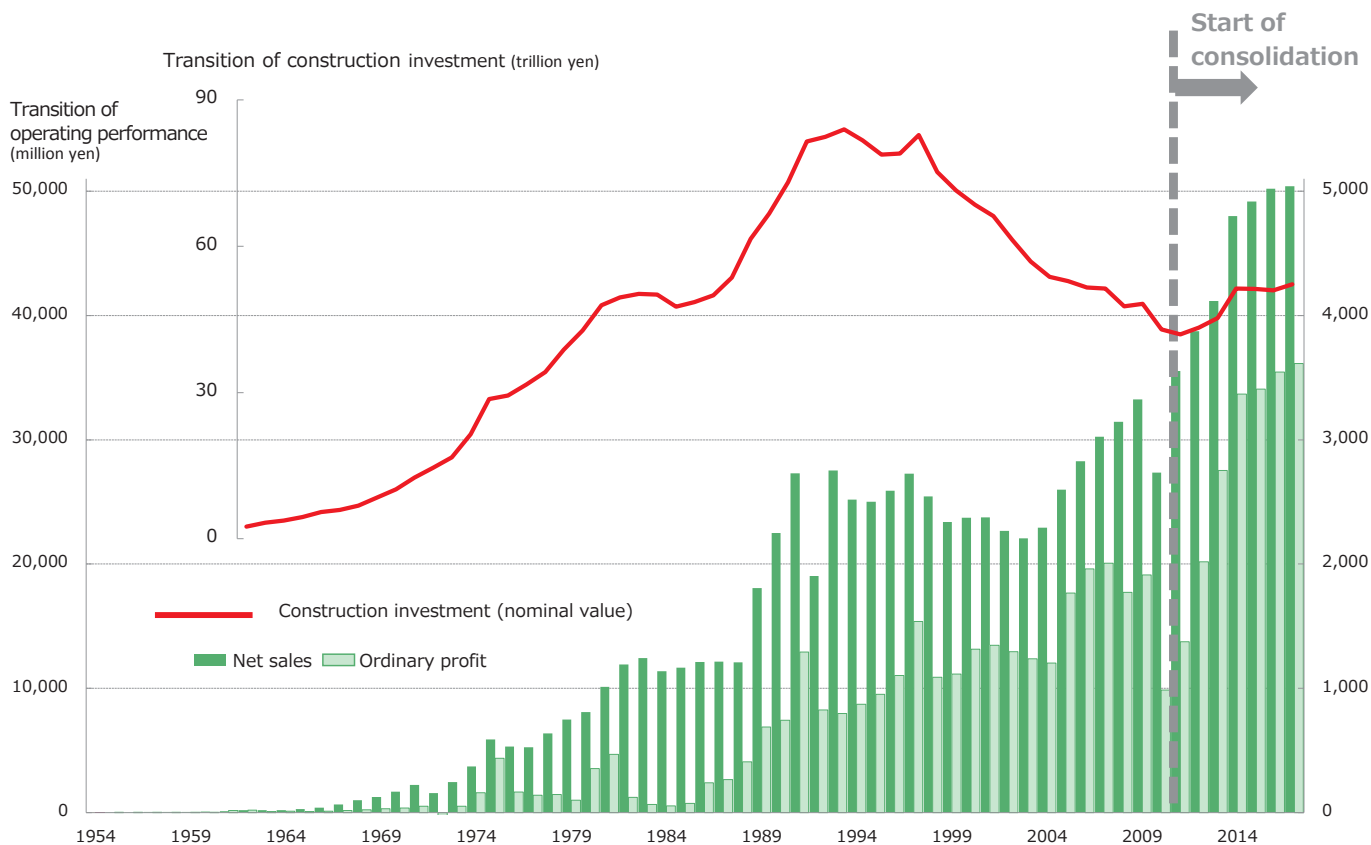
(Growth Strategy ▶P. 21)

■ Diversity of customers’ business areas

Since the KONDOTEC Group engages in the wholesale business mainly in the construction industry, there is demand for the Group’s products and merchandise from customers in a wide range of fields, including construction, civil engineering, roads, railroads, bridges, forestry, marine and environment, etc. In other words, the entire social infrastructure platform is the demander

of our products and merchandise.

Therefore, even if demand from a certain industry declines due to changes in the external environment and sales fall, our sales structure enables us to promote distribution in other industries and accumulate stable sales.



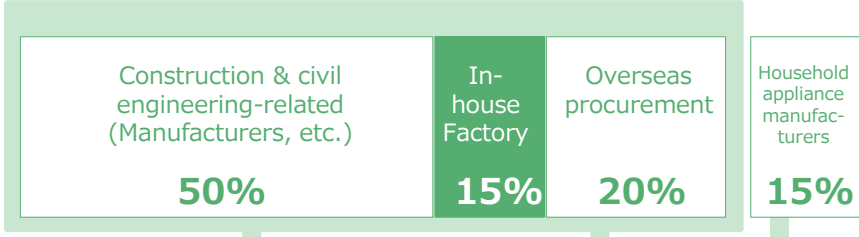
■ Diversity of products and merchandise

The KONDOTEC Group on the whole handles a wide selection of products and merchandise totaling approximately 50,000 items at present. The number of items is steadily increasing based on requests from customers, in-house development and future demand projections.

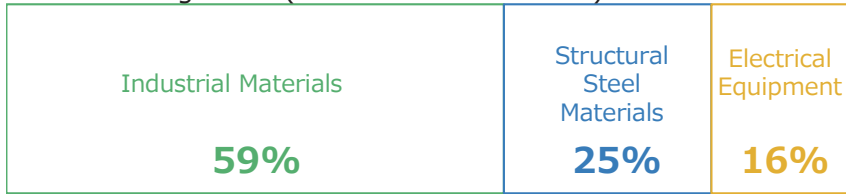
Since we also have a manufacturer function in place, we not only handle general-purpose products and merchandise but also carry out made-to-order production in response to requests from customers. Hence our strength is the capability to accommodate niche requests.

Business Flow Diagram

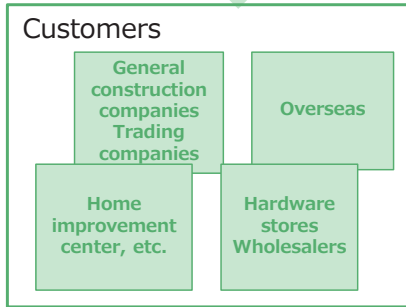
Suppliers



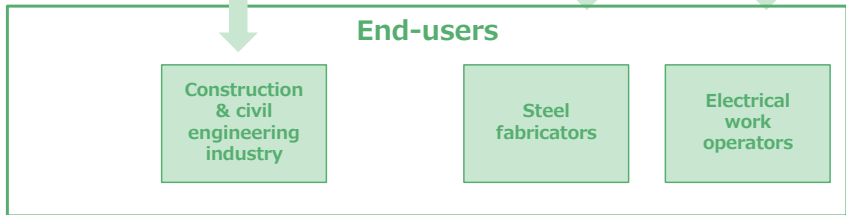
Business Segments (sales contribution ratio)



Customers



End-users



Demanders [Entire infrastructure]



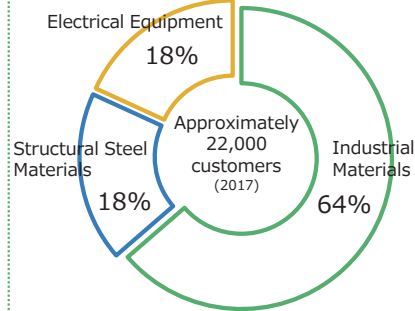
Overseas procurement includes products manufactured in local OEM factories.

Percentage of [manufacturer function] in net sales

* Products: In-house manufactured products and OEM products

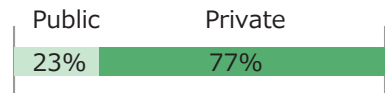


Number of customers by business segments



We provide direct sales of industrial materials and electrical equipment to some end-users.

Fields of demand for products and merchandise



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Business Model

History and Strategy Digest

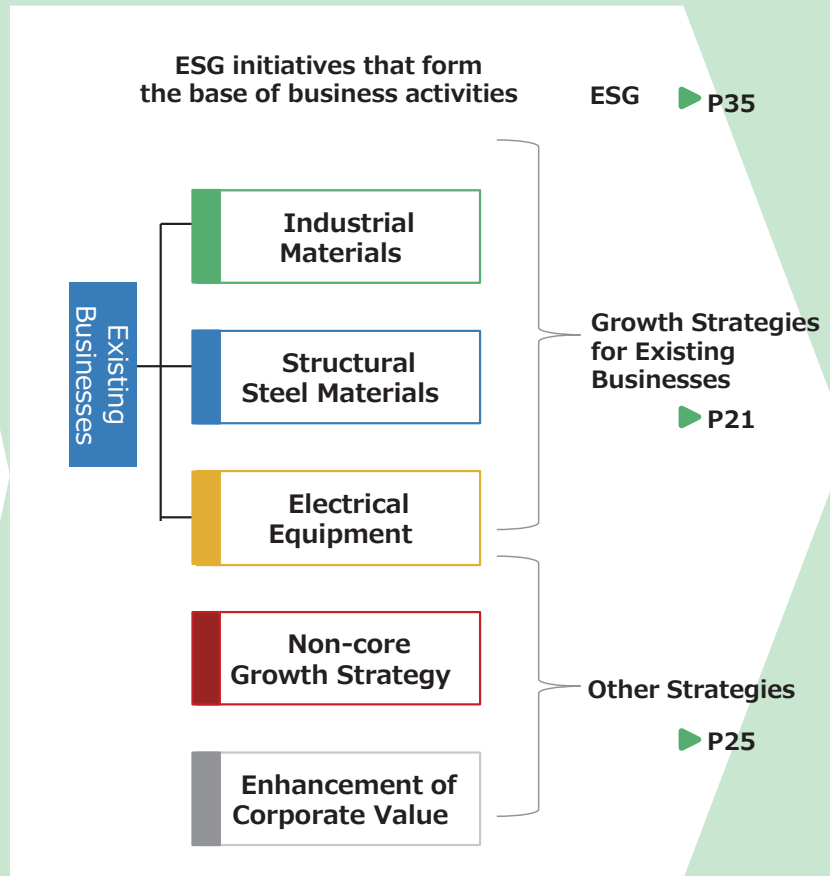
Ever since it was founded, KONDOTEC has continued to resp

1947 ⇒⇒ 1955	Established from the ruins of fire after the war	Shifting of business from post-war re
1956 ⇒⇒ 1965	Gaining ground in Tokyo and shifting from “sea to land”	Began in-house manufacturing of pr implementation across the country
1966 ⇒⇒ 1973	Opening of Kyushu Factory and nationwide business deployment	With the opening of Kyushu Factory, nationwide to make the business pla
1974 ⇒⇒ 1989	Establishment of direct sales division	Established the new business divisio
1989 ⇒⇒ Today	Exchange listing and expansion of business fields	Expanded business fields and enter

KONDOTEC's strength based on its history

- Diversity of customers' business area
- Diversity of products
- Stable financial platform
- Quick delivery of order-made products
- Brand power trusted in Japan and overseas
- Development of a group of professionals with technical skills
- Activities of diverse human resources
- Local-community-oriented sales & marketing activities

Existing business activities and growth strategies



Key Numbers

Number of items handled
Approximately

50,000

Items



Including in-house manufactured products and merchandise

Number of customers nationwide
Approximately

22,000

companies



Number of new customers in a year *

2,707

customers



Total by business segment (2017)

Number of operating sites

61

operating sites



Domestic sites only (2017)

and flexibly to changes in the world and changes to the needs of customers.

recovery activities and casting processing to forging
products and increased items handled to accommodate accelerated efforts to promote infrastructure
, significantly strengthened production capacity and actively continued deployment of operating sites to reform solid
n (currently Structural Steel Sales Division) in response to the slump in construction demand
ed the electrical equipment business (Sanwa Denzai Co., Ltd.); established a subsidiary in Thailand

What KONDOTEC provides to society

Providing a wide range of base materials that support the entire infrastructure

[Corporate Philosophy]

We strive to contribute to the creation of an affluent society by nurturing our employees, who would shape the future, and by conducting corporate activities with innovative and pioneering way.



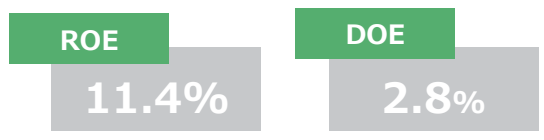
Actual production at factories

30,021 tons



Total for domestic factories (2017)

Management indicators



Ratio of females employed

46%



Number of new graduates employed in the last five years

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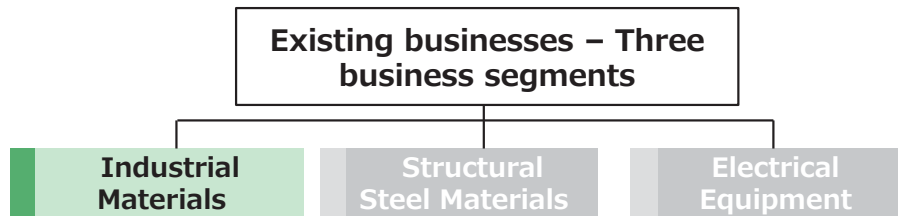
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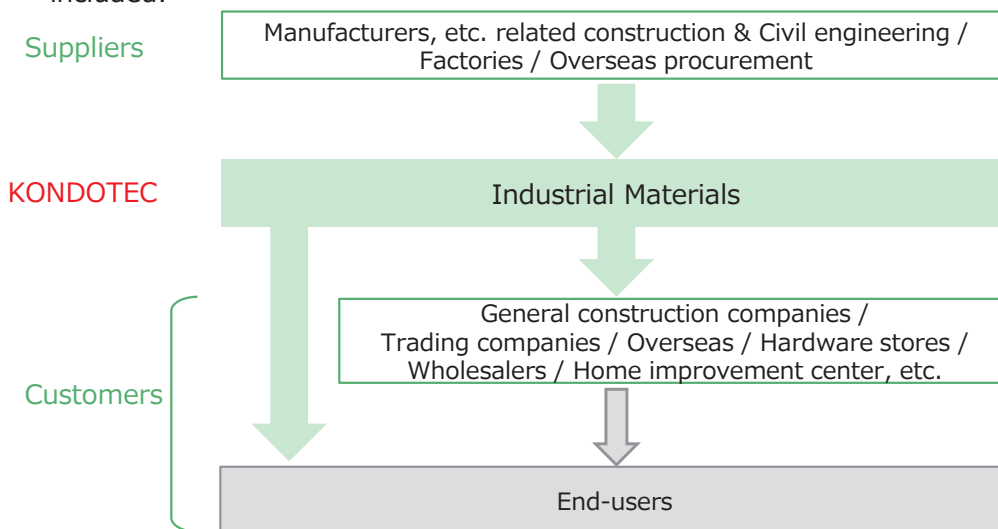
SUPPLEMENT

Business Report



■ Industrial Materials

With the retail hardware business at the core, we manufacture, procure, and sell civil engineering and construction materials, machinery and equipment. Of the subsidiaries, KONDOTEC INTERNATIONAL (THAILAND) CO., LTD. and CHUOH GIKEN Co., Ltd. are included.

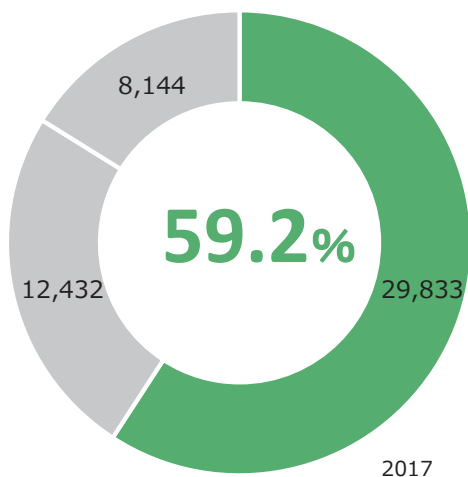


Number of operating sites	KONDOTEC INC. 30 operating sites (Subsidiaries) KONDOTEC INTERNATIONAL (THAILAND) CO., LTD. CHUOH GIKEN Co., Ltd.
Number of customers	Approximately 14,000 companies
Number of new customers*	1,660 customers
Net sales of new customers*	1,535 million yen
Characteristics	<ul style="list-style-type: none"> •Wide range of products and merchandise handled; stable performance •Earnings driver

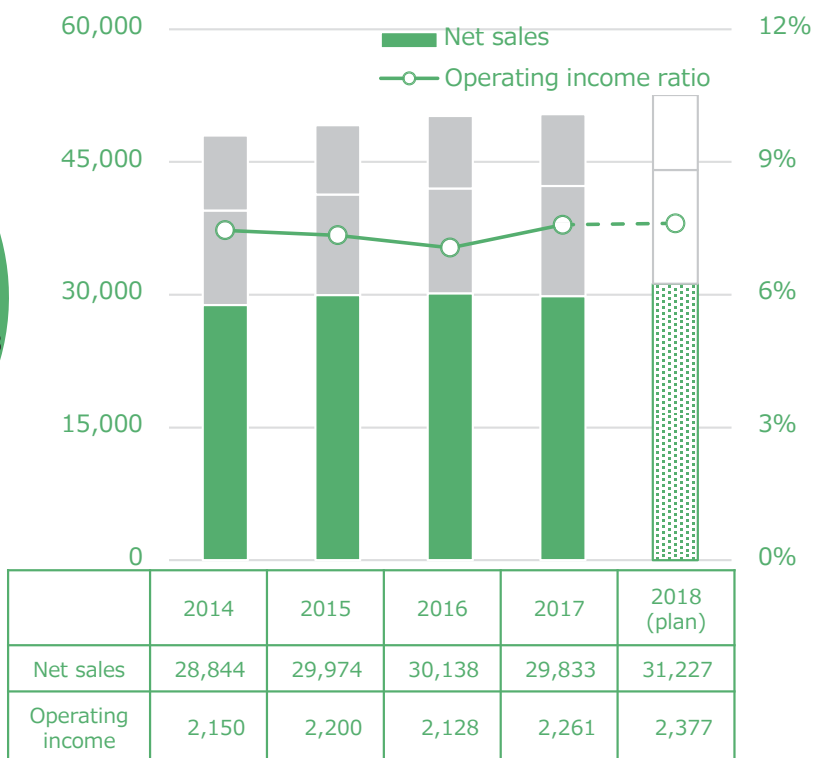
*The number of new customers and of net sales represent the number and net sales of customers exploited this fiscal year and in the previous fiscal year, and for which actual sales were made this fiscal year.



Percentage of Total Sales per business segment (million yen)



Changes in Net Sales (million yen)



Overview of the Year Ended March 31, 2017

Public investments moved at a moderate pace and companies were active in pursuing capital investments. Consequently, sales of construction site equipment and hauling equipment were strong. Meanwhile, demand for products used in temporary yards associated with decontamination work, and for frames for solar power generation, were

not as high as for 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 profit ratio on imported products improved and operating income increased 6.3% year on year to 2,261 million yen.

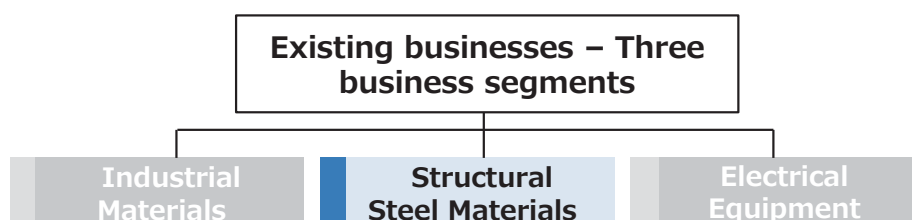
Initiatives Going Forward

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 across 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 products and merchandise lines with competitive items to increase sales.

Initiatives we must take toward achieving further

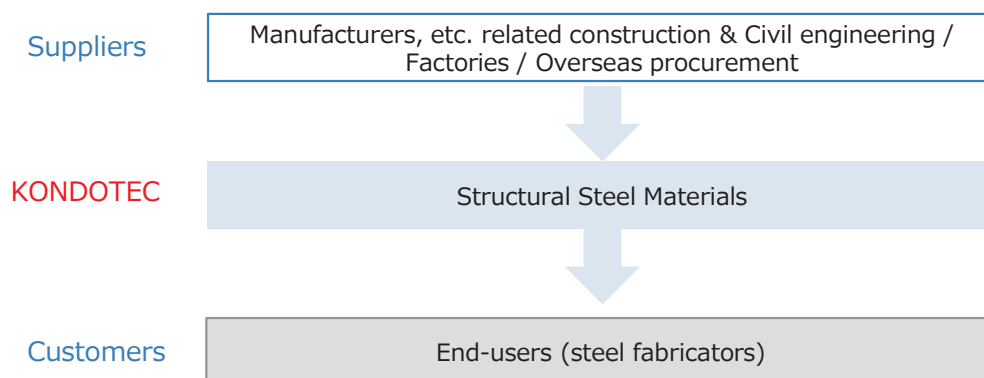
growth going forward include conducting sales and marketing activities that respond to concentrated purchasing and bulk purchasing by large trading companies and general construction companies in order to increase orders in the Tokyo metropolitan area and expanding sales channels by reinforcing overseas transactions.

By taking 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 income of 2,377 million yen.



■ Structural steel materials

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

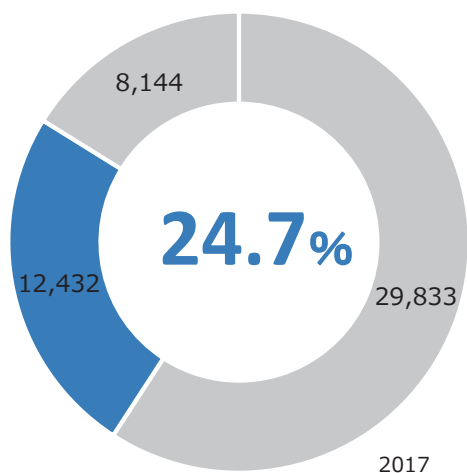


Number of operating sites	KONDOTEC INC. 16 operating sites
Number of customers	Approximately 4,000 companies
Number of new customers*	659 customers
Net sales of new customers*	744 million yen
Characteristics	<ul style="list-style-type: none"> •Operating performance increases/decreases in connection with the demand for steel frames •High percentage of in-house manufactured products •High market share

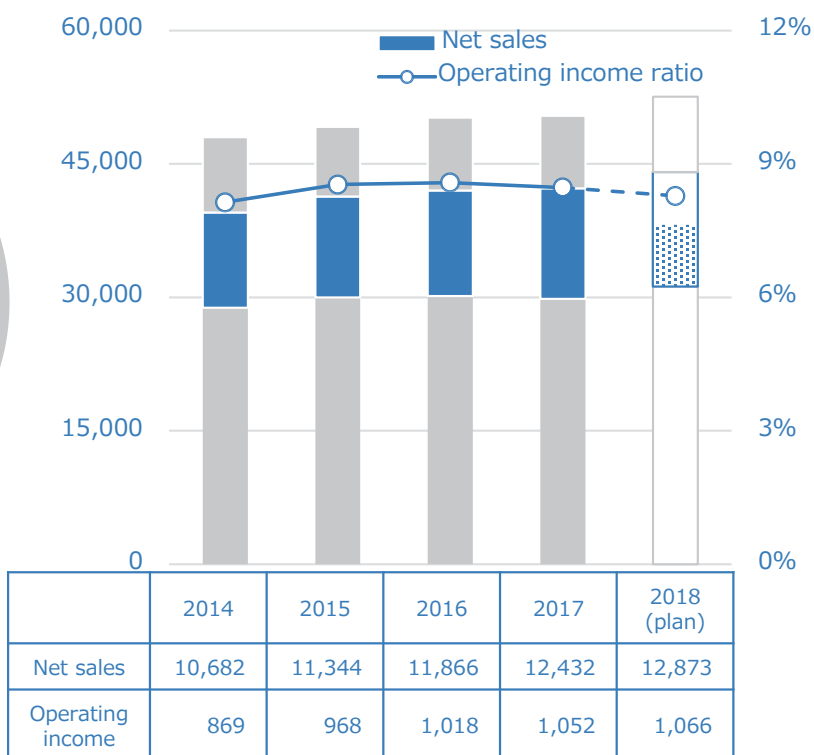
*The number of new customers and of net sales represent the number and net sales of customers exploited this fiscal year and in the previous fiscal year, and for which actual sales were made this fiscal year.



Percentage of Total Sales per business segment (million yen)



Changes in Net Sales (million yen)



Overview of the Year Ended March 31, 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 of 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 income increased 3.4% from the year before to 1,052 million yen.

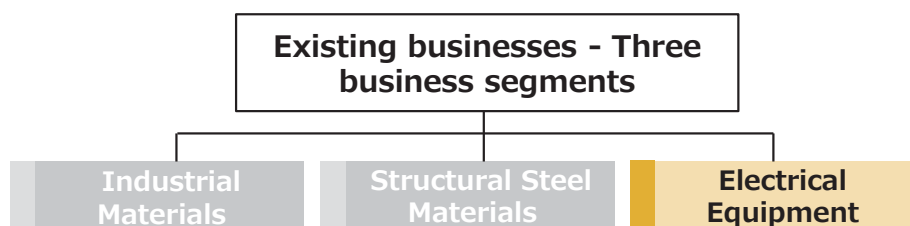
Initiatives Going Forward

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

Key initiatives to take toward achieving further growth are increasing orders related to construction projects by strengthening sales and marketing activities to large fabricators and steel

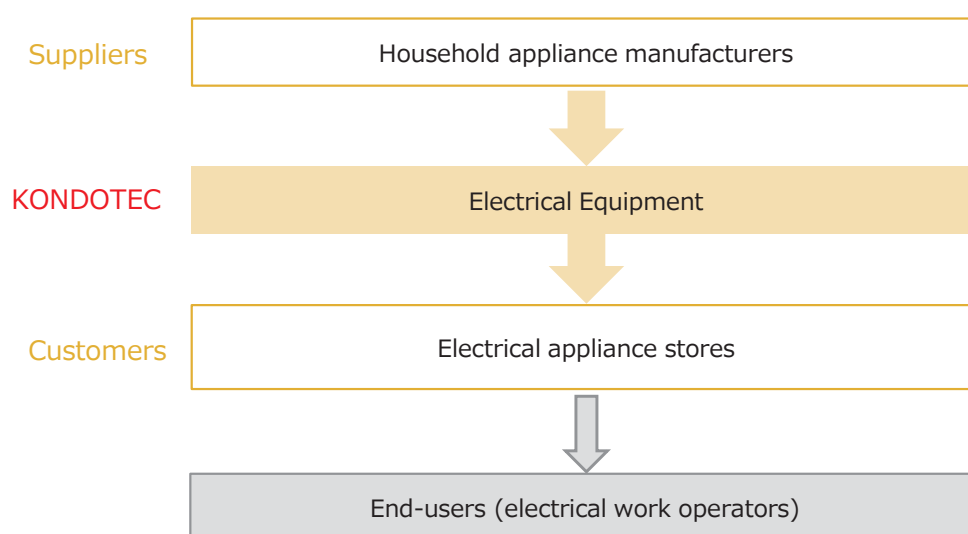
trading companies, and widening our distribution network. This is to be done by not only selling anchor bolts but also by emphasizing the attractive features of the anchor construction of undertaking installations upon acquiring a construction business license to assist in covering the shortage of manpower in the construction industry.

By taking 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 income of 1,066 million yen.



■ Electrical equipment

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

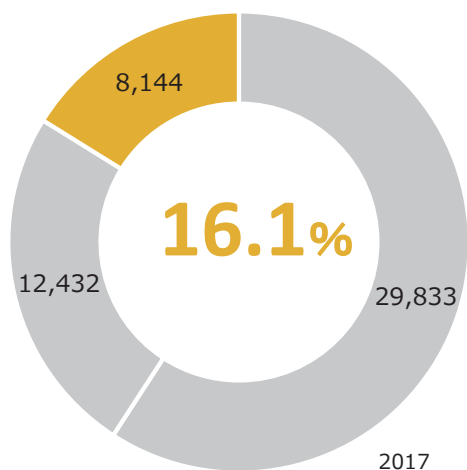


Number of operating sites	(Subsidiary) Sanwa Denzai Co., Ltd. 15 operating sites
Number of customers	Approximately 4,000 companies
Number of new customers*	388 customers
Net sales of new customers*	663 million yen
Characteristics	<ul style="list-style-type: none"> •Products handled are mainly electrical equipment •Securing stable sales volumes •Dominant store openings mainly in Aichi and Gifu Prefectures

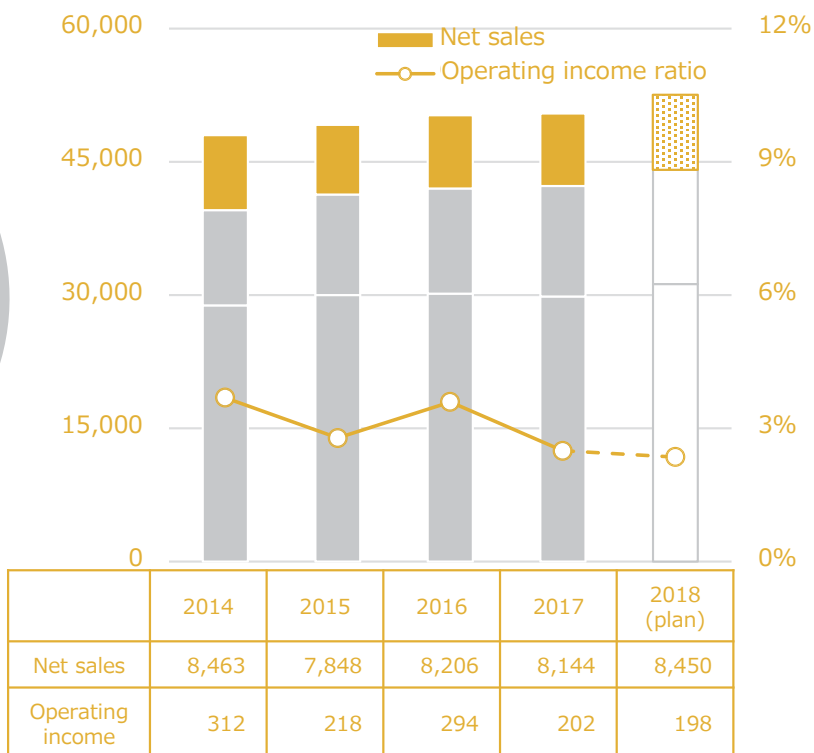
*The number of new customers and of net sales represent the number and net sales of customers exploited this fiscal year and in the previous fiscal year, and for which actual sales were made this fiscal year.



Percentage of Total Sales per business segment (million yen)



Changes in Net Sales (million yen)



Overview of the Year Ended March 31, 2017

Demand for our merchandise 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 income came to 202 million yen, down 31.1% from a year earlier. This

was attributable in part to continuing competition with other companies in the same business over acquiring orders, causing the gross profit ratio to decline 0.1 percentage points. 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 merchandise handled, including merchandise for housing-related facilities and systems, and broaden the area for conducting sales activities in order to ensure to bring in orders and increase net sales.

To achieve incremental growth going forward, we will enhance our manpower and further

strengthen our construction operation, which was reorganized in the fiscal year ended March 31, 2017, and expand orders by directly selling to housing manufacturers and end users as well as work to increase merchandise handled and widen areas of distribution.

By taking these initiatives, we will aim to achieve our targets for the fiscal year ending March 31, 2018, which are net sales of 8,450 million yen and an operating income of 198 million yen.

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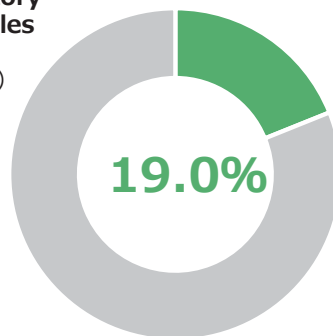
SUPPLEMENT

■ Functions as a manufacturer (Roles of factories)

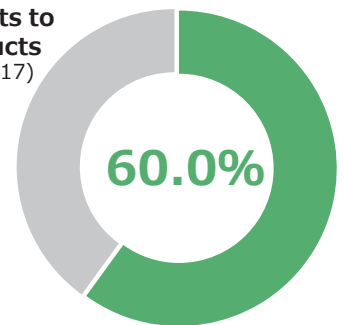
With a view to promoting a local community-oriented sales structure, the Company, as a wholesale company with a manufacturing division, maintains four factories in Japan and makes an effort to pay careful attention to customer feedback in distributing products.

The majority of the Company's products are **made-to-order products** that require high-level precision and short-term delivery. This prevents encroachment from overseas and leads to achieving a high profitability.

Percentage of factory products to net sales of KONDOTEC (2017)



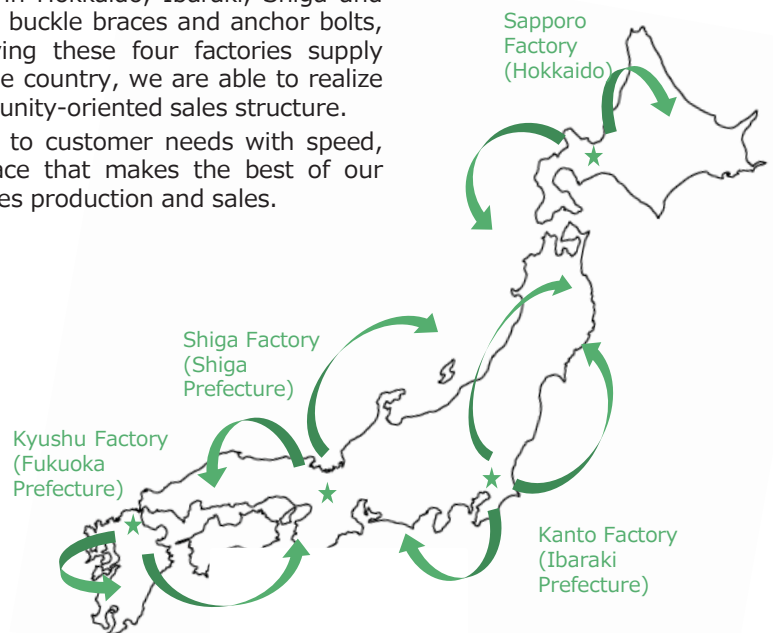
Percentage of made-to-order products to factory products (2017)



■ Local community-oriented structure

The Company maintains four factories in Hokkaido, Ibaraki, Shiga and Fukuoka. All factories manufacture turn buckle braces and anchor bolts, which are our core products. By having these four factories supply products to our sales network across the country, we are able to realize rapid delivery and operate a local community-oriented sales structure.

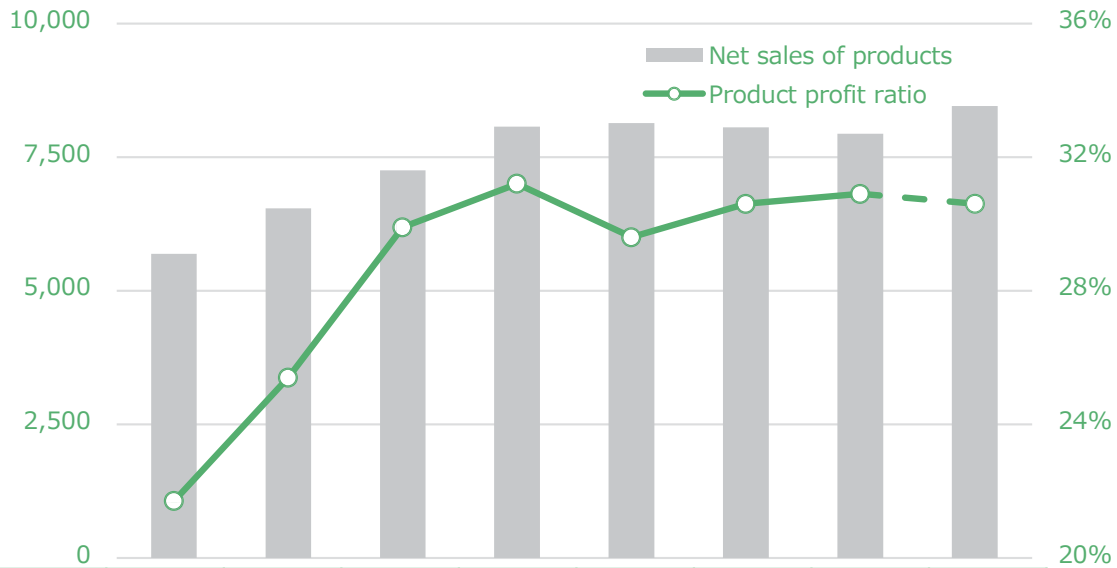
Setting our first priority on responding to customer needs with speed, we have a production structure in place that makes the best of our comprehensively capability that integrates production and sales.



Q. Why do all factories manufacture the same products?

- A.** Turn buckle braces and anchor bolts, which are our core products, are heavy and incur high transport costs. Therefore, we established four factories in distant locations across the country to have each factory supply products to the sales locations in their respective regions in order to reduce the costs and risks associated with transportation.

Transition of Product Profit Ratio (million yen)



	2011	2012	2013	2014	2015	2016	2017	2018 (plan)
Product profit ratio	21.7%	25.4%	29.9%	31.2%	29.6%	30.6%	30.9%	30.6%
Net sales of products	5,692	6,540	7,251	8,070	8,138	8,056	7,940	8,455

■ Towards automation of production facilities

In August 2014, we made CHUOH GIKEN Co., Ltd. a consolidated subsidiary. The company engages in design and manufacturing of various types of machinery and equipment and we have had business relationships with them.

CHUOH GIKEN Co., Ltd. is known for having achieved the automation of production facilities at

Japan's top-class electric appliances manufacturers and automotive parts manufacturers. KONDOTEC has conventionally been engaged in the automation of production facilities and will further work to increase production efficiency of its products by leveraging the know-how of the subsidiary.

Company Profile of CHUOH GIKEN Co., Ltd.

Location	1164-7 Ikedera, Kora-cho, Inukamigun, Shiga
Established	March 1981
Paid-in capital/Shareholders	45 million yen / 100% by KONDOTEC
Business areas	Design and manufacture of various types of machines and equipment, including labor-saving equipment and transport devices, in addition to industrial machines and electronic parts for automobiles and household appliances

KONDOTEC

VISION

Growth strategy of KONDOTEC

Medium-term Management Plan

Medium-term Management Plan

KONDOTECH discloses its Medium-term Management Plan based on the current sales structure.



■ Market trends

Public investments

- Growing need for preventing/reducing damage and increasing earthquake resistance against natural disasters
- Expanding the maintenance and renovation market for maintenance/upgrades associated with the aging of public infrastructure.
- Initiatives in response to a labor shortage and work style reforms are urgent issues

Private capital investment

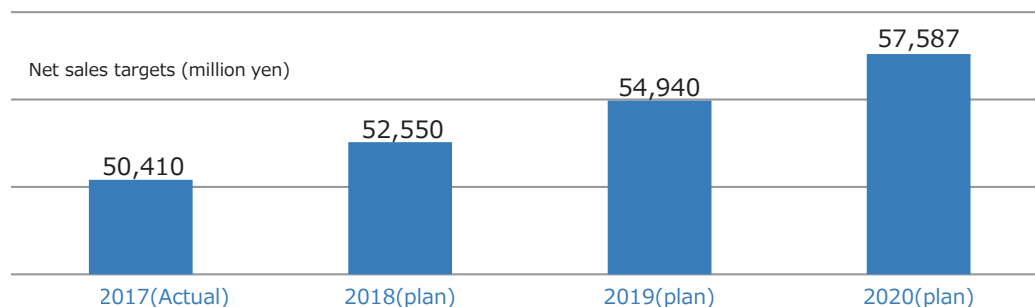
- Recovery of sentiment of capital investment in the private sector due to improved corporate earnings
- Maintenance, repair and strengthening earthquake-resistance of private facilities
- Expansion of inbound demand

Various projects

- Establishment of airports, ports and other infrastructure in the Tokyo metropolitan area in addition to construction work related to the Tokyo Olympic and Paralympic games
- Linear Chuo Shinkansen, Hokkaido/Hokuriku/Kyushu(Nagasaki) Shinkansen lines

■ Financial Target

The Medium-term Management Plan adopts the rolling method which responds to changes in the management environment while verifying the outcome and issues every year in an effort to realize the mid-to-long vision.



Net sales	50,410	52,550	54,940	57,587
Operating income	3,516	3,611	3,667	3,932
Ordinary income	3,614	3,719	3,794	4,065
Profit attributable to owners of parent	2,497	2,524	2,553	2,736

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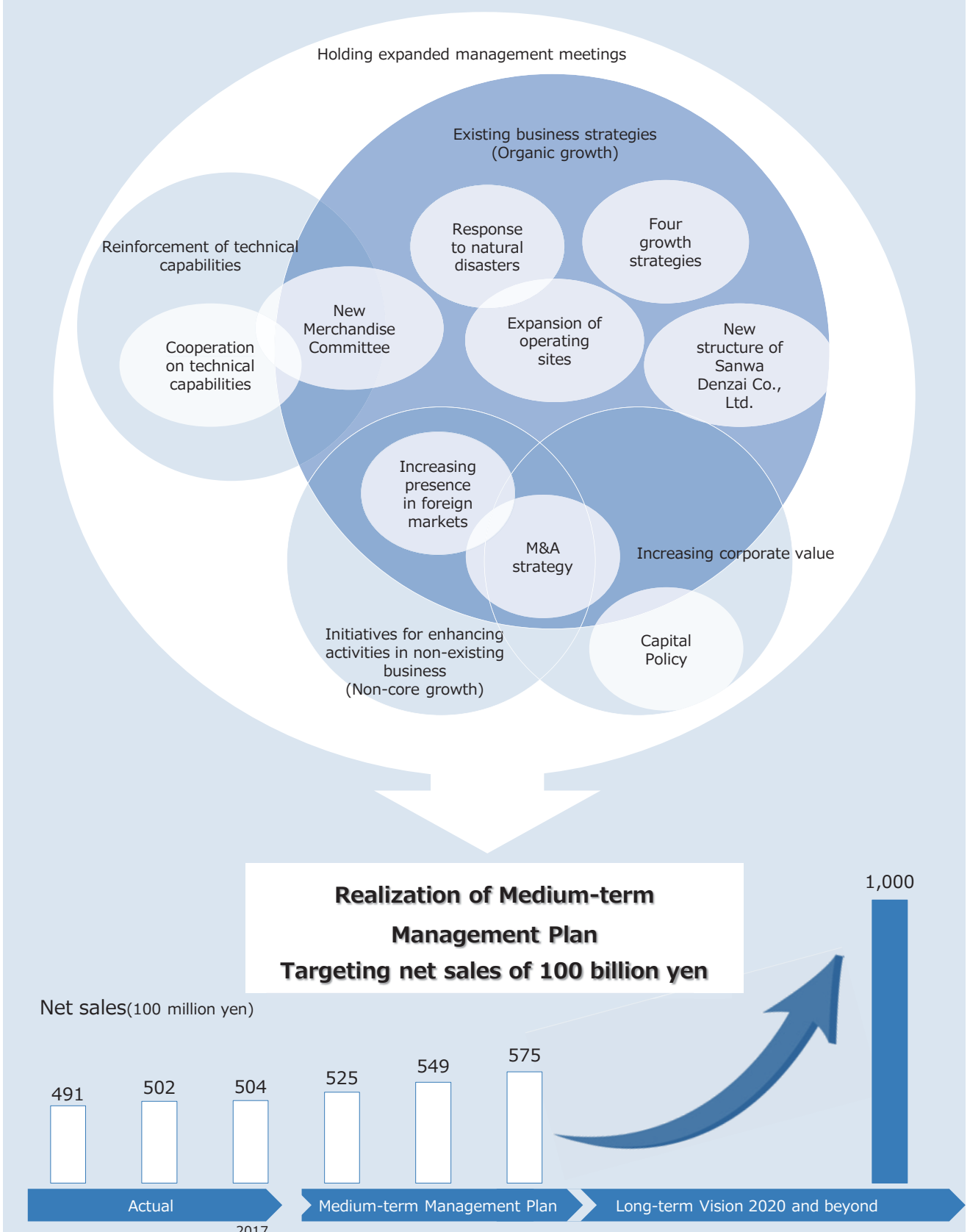
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Growth Strategy

Basic structure of growth strategies





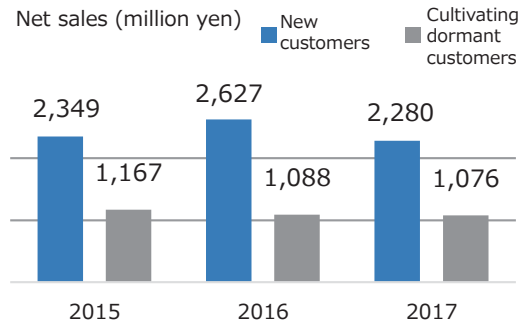
Existing business strategies (organic growth strategies)

■ Four growth strategies

KONDOTEC is strengthening the following four initiatives toward expanding orders.

(1) Cultivation of new customers

KONDOTEC achieves a monthly average of one new customer per sales representative and a yearly average of 1,500 new customers as a company. In addition, we exploit a yearly average of 10 dormant customers per sales representative and these activities form the source for 20,000 sales customers.



(2) Offer of new merchandise

For the purpose of developing new merchandise, joint New Merchandise Committee meetings are held between the sales division and the manufacturing division periodically to discuss requests from customers and proposals for improvement. We will continue to develop and cultivate merchandise with even higher added value in order to offer such merchandise.



▶ For more, see page 40

(3) Adoption of flexible sales methods

KONDOTEC not only sells merchandise but also maintains a structure to enable the undertaking of anchor construction by having construction managing engineers and acquiring a construction business license. By becoming involved in the initial phase of a construction project, we are able to acquire information on necessary construction materials ahead of others and make use of such information on sales activities.

We also have in place a lifting

equipment adviser as an internally authorized qualification to heighten the expertise on lifting equipment and promote distinguished services.

Furthermore, we also issue product catalogs specific to certain sectors and customers, such as those on lifting equipment, machinery & equipment for harbors, materials to prevent damage from wildlife, and agricultural equipment, in addition to the general product catalog.



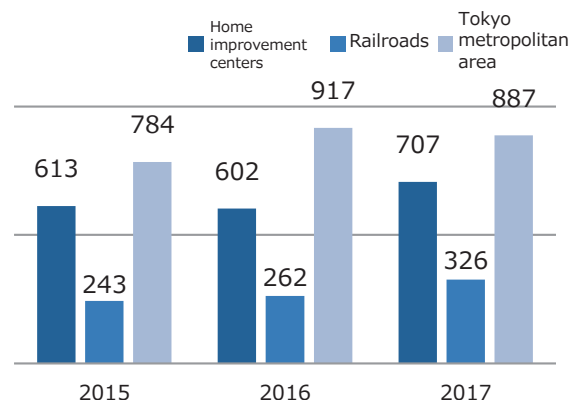
(4) Cultivation of distribution routes

We are working to expand our business into new sectors, such as Home improvement centers and railroad companies, in addition to the existing distribution routes.

We also established the "E-commerce Group" in July 2017 to explore sales through the Internet.

Further, we have in place a sales force dedicated to the Tokyo metropolitan area to accommodate bulk purchasing from large trading companies and headquarters of general construction companies from which orders have been increasing in recent years.

Net sales (million yen)



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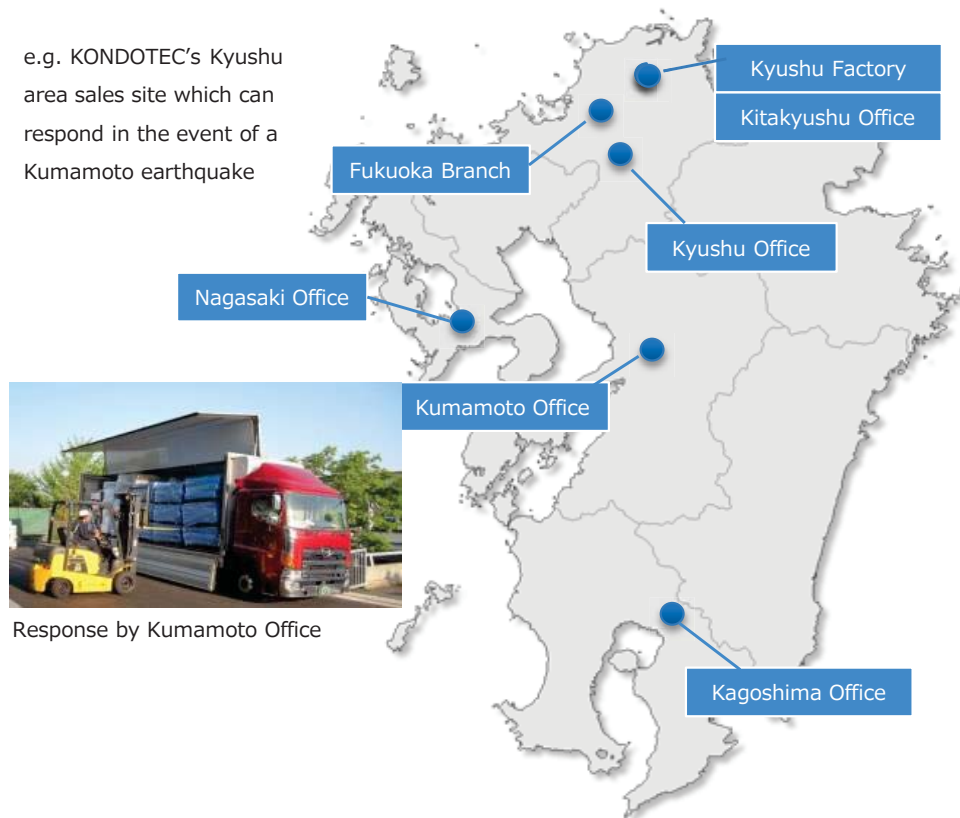
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Existing business strategies (organic growth strategies)

■ Response to natural disasters

Our products and merchandise support recovery/restoration efforts from disasters and are in demand in the event of abnormal weather conditions, such as extremely heavy rainfall everywhere. We maintain a structure across the country that enables us to immediately respond to such urgent demand for products and merchandise and carry out our responsibility to supply.



■ Expansion of operating sites

We opened the Morioka office in July 2015, the Nagano office in January 2016 and the Kumamoto office in April 2016.

We will continue to maintain a local-community-oriented sales structure in order to respond quickly to customer needs and execute quick deliveries in an effort to realize customer-focused management.

In March 2017, the Shizuoka office and the Tokai office were relocated as part of our BCP initiative and to offer increased convenience for customers by enhancing our operations.



Morioka Office



Nagano Office

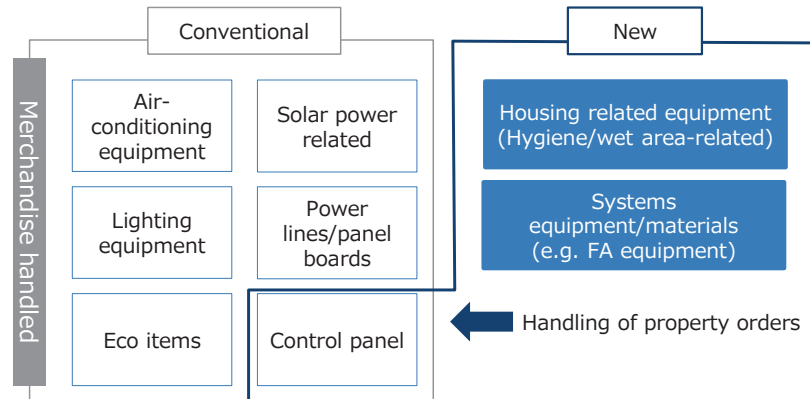


Kumamoto Office



■ New structure at Sanwa Denzai Co., Ltd.

KONDOTEC's consolidated subsidiary Sanwa Denzai Co., Ltd. began operating under a new structure effective April 2016 as follows with the aim of achieving certain growth in 2020 and beyond and to actively reinforce its management platform.



(1) Reinforcement of direct-demand business

An electric facility operating site was established to carry out wholesaling of merchandise as well as to organize construction work. Efforts are made to promote the direct-demand business function to housing makers and end users in an effort to expand orders.

(2) Expansion of merchandise handled

Merchandise lineups have been expanded to include housing related equipment and system materials in addition to conventionally handled merchandise (e.g. air-conditioning equipment, solar power related materials, lighting equipment, power lines and panel boards, and eco items). And, we also handle property orders about control panel.

(3) Expansion of operating site

We opened Aihoku Office to cover the northern region of Aichi Prefecture and the Tono region of Gifu Prefecture where more adequate sales & marketing activities were needed. In the southern region of Aichi Prefecture, existing sites will continue to deepen activities.

Reinforcement of technical capabilities

■ Cooperation on technical capabilities

Effective October 1, 2016, KONDOTEC took over the "ALPS-mark iron pulley" manufacturing business from Akinaga Factory Co., Ltd.. Through succeeding the "ALPS-mark iron pulley" manufacturing business, we make use of Akinaga Factory Co., Ltd.'s manufacturing technologies which contribute to our efforts to further enhance our products and services.

*We do not manufacture certain ALPS-mark iron pulleys.

Succeeded business

"ALPS-mark iron pulley" manufacturing business



Initiatives for enhancing activities in non-existing business (Non-core growth strategies)

■ M&A strategy

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 opportunities by analyzing and discussing the growth potential of the relevant business, while taking capital cost into consideration.

Four perspectives in pursuing M&A

1. Neighboring industry

Pursue M&A with companies associated with industries other than the construction industry and promote business expansion

Actual case: Sanwa Denzai Co., Ltd.

2. Deepening the business

Pursue M&A with material manufacturers, etc.

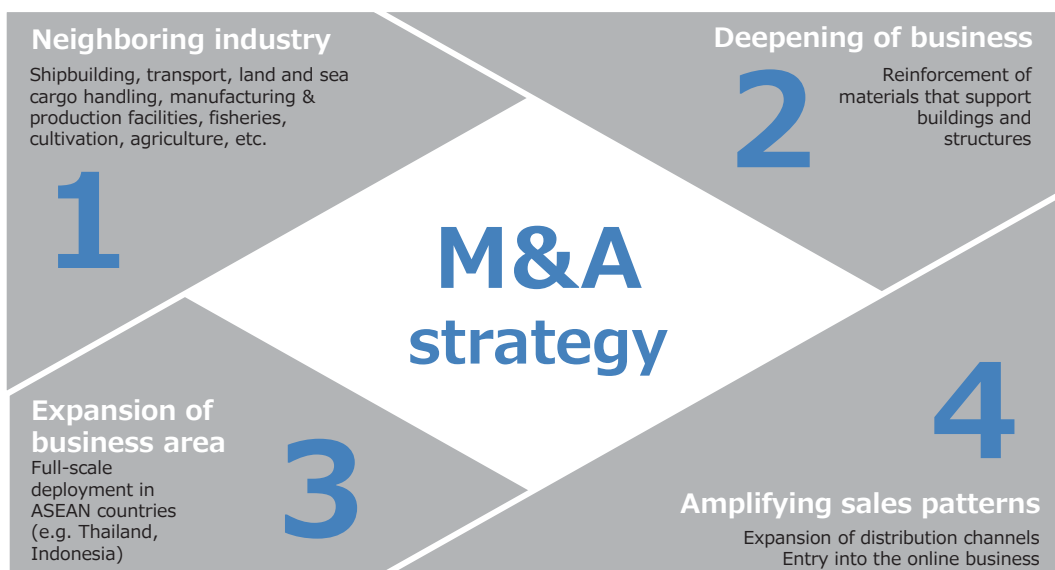
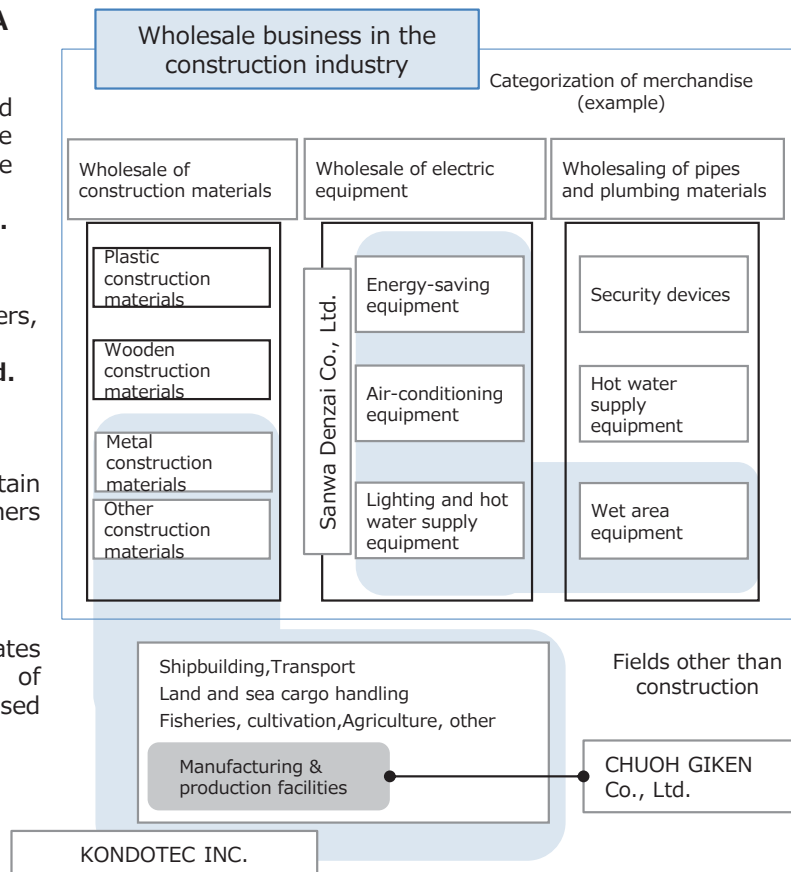
Actual case: CHUOH GIKEN Co., Ltd.

3. Expansion of business area

Pursue M&A with companies that maintain overseas sites to capture customers overseas

4. Amplifying sales patterns

Pursue M&A with companies that operates different sales patterns from those of KONDOTEC, such as retail, catalog-based selling, and online sales.



■ Increasing presence in foreign markets

Based on our view that increasing presence in foreign markets where growth is expected will contribute to enhancing our earnings capability, we established a subsidiary in Thailand in November 2012. We executed a capital increase in August 2014, acquired all shares from the two joint venture companies and substantially made the firm our fully-owned subsidiary. Currently, we are

moving ahead with activities to expand our business in ASEAN countries with Thailand as our base location. 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.

KONDOTEC INC. and overseas expansion

While the planned figure for net sales from overseas business in the year ending March 31, 2018 is 484 million yen (total for International Sales Division and subsidiary in Thailand), our export business was active prior to the Plaza Accord in 1985 and handled exports worth approximately 2,000 million yen. However, given the currency crisis in 1997, when Asian currencies

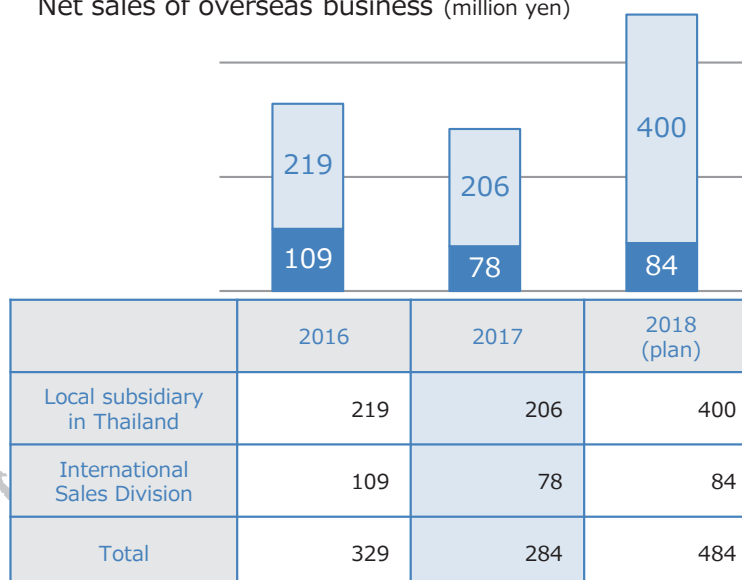
slumped, the export business became difficult and we shifted from export to import. Subsequently, we established a dozen OEM plants in China to establish a structure that is not affected by the yen's appreciation and resumed exports around 2006.

Subsidiary in Thailand

Company name:	KONDOTEC INTERNATIONAL(THAILAND) CO.,LTD.
Head office location:	Bangkok, Thailand
Business areas:	Import, export and local sale of industrial materials, structural steel materials, electrical equipment, etc. in Thailand
Paid-in capital:	102 million bahts (approximately 316 million yen)
Date established:	November 1, 2012



Net sales of overseas business (million yen)



*Amounts of inter-company transactions are not included.

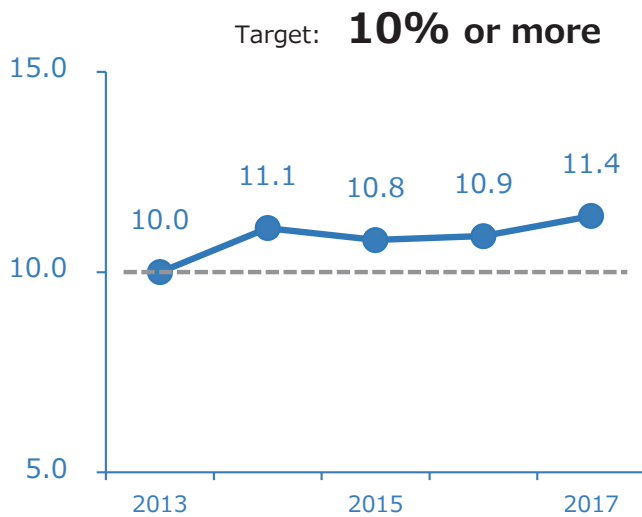
Increasing corporate value

■ Capital policy

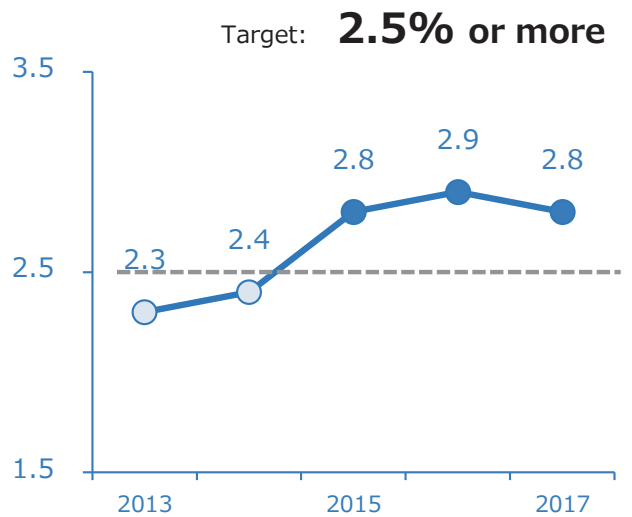
Our capital policy stands on two key components; capital efficiency target and shareholder return target. We set the capital efficiency target by using ROE, an index that reflects the efficiency of capital investment in pursuit of business expansion, in an effort to promote creation of corporate value. 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.

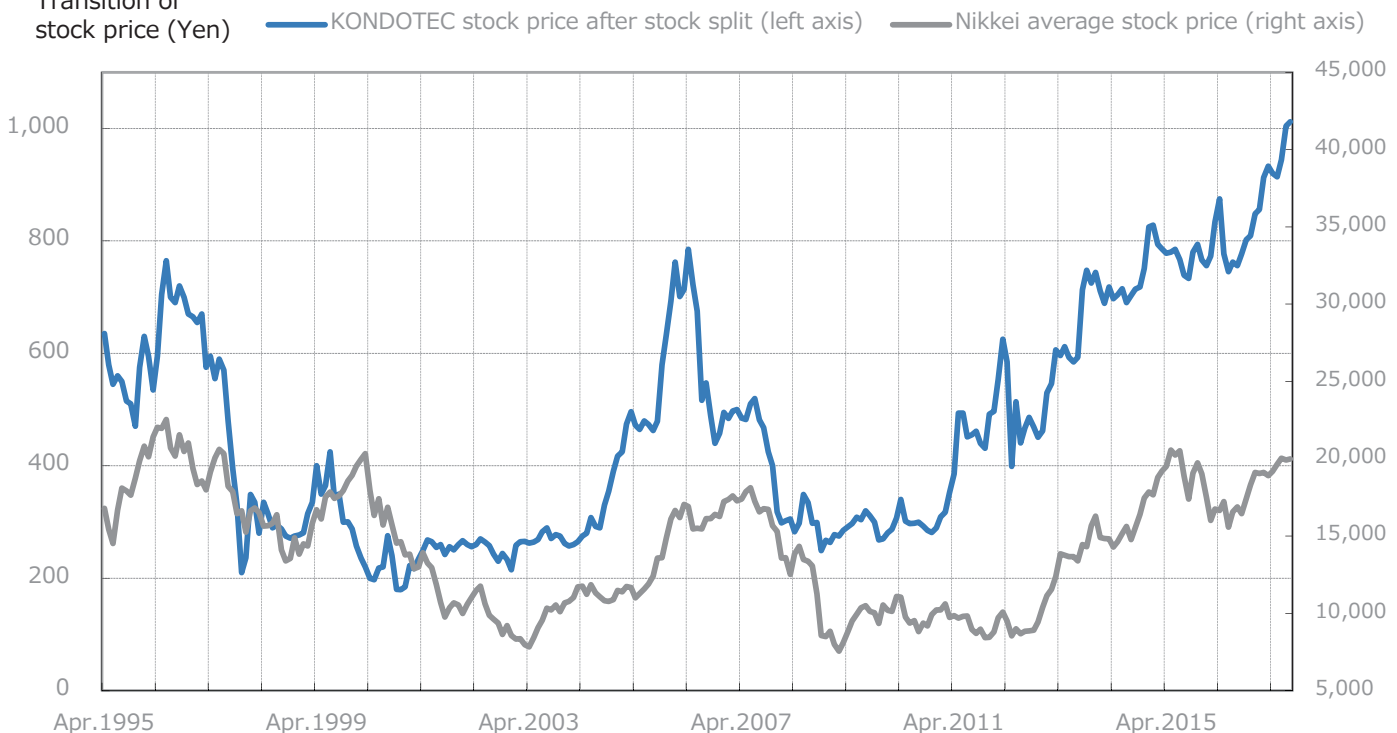
Actual ROE (%)



Actual DOE (%)



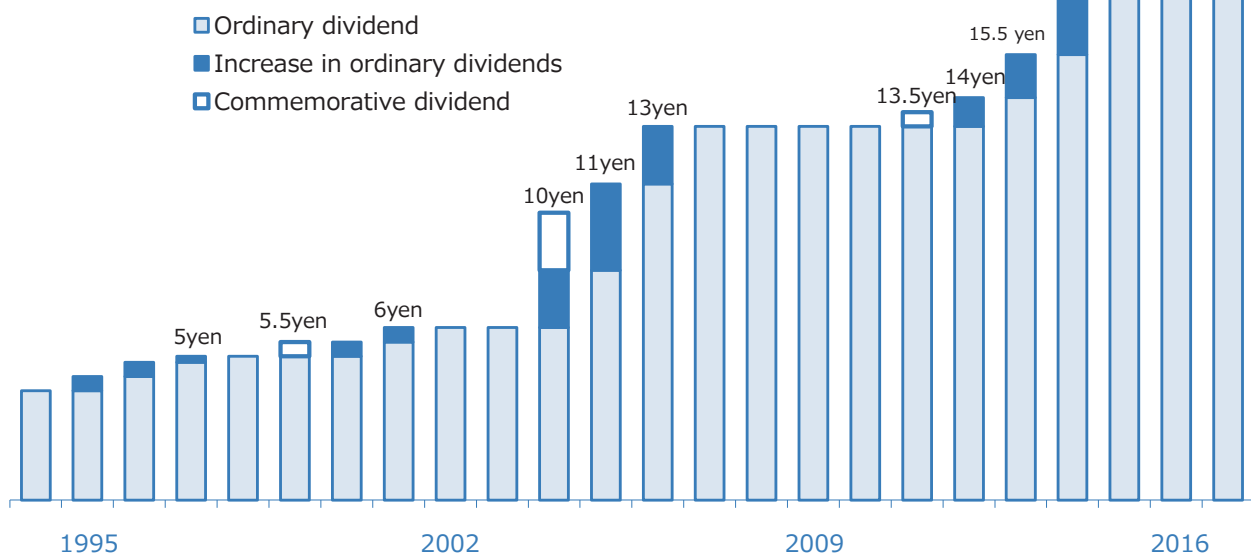
Transition of stock price (Yen)





Reference:
Transition in dividends

Since the initial listing: **No decrease** in dividends
Plan to **increase dividends** for the **7th** consecutive period



■ Acquisition of treasury shares

Acquisition period	February 15, 2016 through April 20, 2016
Number of shares acquired	956,900 shares
Acquisition price	799 million yen

* From August 25, 2017, we will acquire treasury shares in conjunction with the introduction of the Board Benefit Trust system.

■ Dividend yield

Closing price on March 31, 2017: **933 yen**

Dividend yield	2.5%
Dividend yield including shareholder incentives	~3.4%

■ Shareholder incentive plan

Number of shares held	Shareholder incentives
100 or more shares, fewer than 1,000 shares	2 kg-rice certificate (equivalent to 880 yen)
1,000 or more shares, fewer than 10,000 shares	5 kg-rice certificate (equivalent to 2,200 yen)
10,000 or more shares	10 kg-rice certificate (equivalent to 4,400 yen)

* 1 kg-rice certificate is worth 440 yen.

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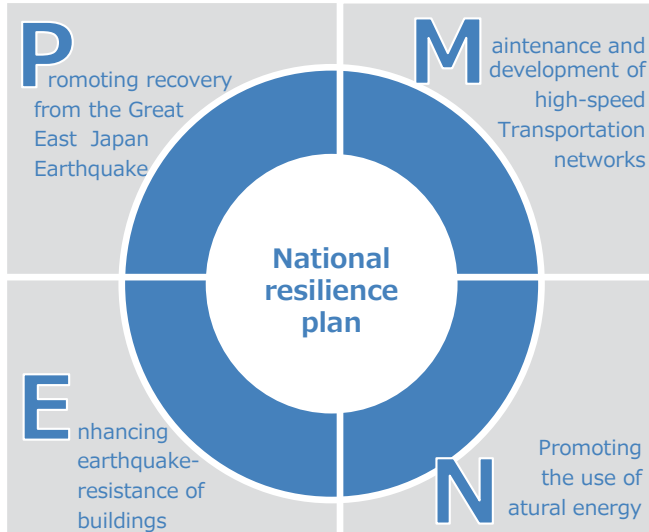
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Opportunities and Risks

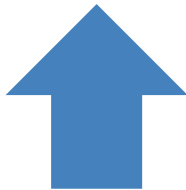
Other external environment



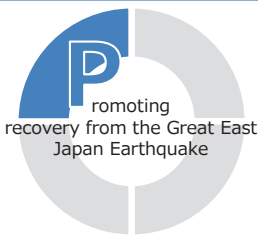
Government investment
22,230 billion yen
 (Up 5.4% year on year)



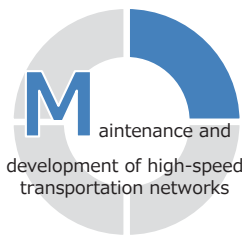
Private investment
32,730 billion yen
 (Up 4.3% year on year)



* Source: "FY2017 Estimate of Construction Investment" released in June 2017 by the Ministry of Land, Infrastructure, Transport and Tourism



In efforts to recover from the Great East Japan Earthquake, there has been growth in demand for anchor bolts, round separators and caisson hanging rods that are necessary for reestablishing infrastructure and for container bags, etc. that are useful for decontamination work.



In maintenance and development high-speed transportation networks, scaffolding chains necessary for conducting aerial work and STK nets used to preventing falls from aerial work come in handy.



In order to enhance earthquake-resistance of buildings, braces and wooden house hardware that we manufacture in our factories are essential.



The KONDOTEC Group not only sells LED lighting and solar power panels but also handles base materials (frames) necessary for installation.



■ Risks

(1) Dependence on public investments and private capital investments

Since sales associated with public investments and private capital investments account for a considerable percentage of the Group's sales, we are working to establish a new pillar of business and expand our business activities. However, stagnation in the conditions of the construction industry and a decline in demand caused by such conditions may have an impact on the operating performance and financial position of the KONDOTEC Group.

(2) Dependence on imported materials and FX fluctuation

The Group has been moving forward with its efforts to increase procurement of imported materials from overseas, such as China, in an effort to distribute competitive merchandise. However, changes in the political or legal environment, confusion in economic situations and other unforeseeable factors in China and other countries might cause us to encounter problems in executing our business and make it difficult to secure merchandise and materials. In addition, major volatility in the foreign exchange market may have an impact on the operating performance and financial position of the KONDOTEC Group.

(3) Price competition

If price competition with competitors continues to intensify in each of the product markets and local markets to which the Group belongs and it becomes difficult to maintain fair prices, this may have an impact on the operating performance and financial position of the KONDOTEC Group.

(4) Impact of fluctuation in product markets

Procurement prices of raw materials for the products of the KONDOTEC Group tend to fluctuate depending on the demand & supply trends of steel materials. The Group maintains relationships with multiple suppliers to mitigate and disperse risks, and works to reduce costs related to production technologies in order to stabilize and increase profitability. However, fluctuations in the steel materials market may have an impact on the operating performance and financial position of the KONDOTEC Group.

(5) Impact of disasters, etc. on manufacturing sites

The KONDOTEC Group carries out periodic inspections of power and machinery facilities in order to minimize dormant adverse effects caused by an interruption in the production lines. However, there is no guarantee that the impact caused by a disaster, power outage or other incident that might occur at manufacturing sites can be entirely prevented or reduced. Therefore, in the event that an incident causing interruption of operation occurs, our production capacity might decline even when supplementing affected tasks between factories that manufacture same products or production is outsourced to a cooperating factory.

(6) Defects

In the event that a case of compensation for damage arises based on warranty against defects and product liability in connection with the business of the KONDOTEC Group, such case may have an impact on the operating performance and financial position of the Group.

(7) Retirement benefit obligations

In the event that the fair value of pension assets declines and there is a change to the assumptions, such as investment yield and discount rate, used for the calculation of retirement benefit obligations this may have an impact on the operating performance and financial position of the KONDOTEC Group.

(8) Credit risk of customers

The Group sets credit limits on customers based on the degree of credibility as part of its efforts to prevent the occurrence of bad debt. However, if bad debt expenses arise due to the bankruptcy of a customer, this may have an impact on operating performance and financial position of the KONDOTEC Group.

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Financial Information

Consolidated Financial Highlights

	2013	2014	2015	2016	2017	2017
■ Results of Operations(million yen and Thousand U.S. dollars)						
Net sales	¥41,153	¥47,991	¥49,168	¥50,211	¥50,410	\$449,334
Operating income	2,664	3,271	3,303	3,441	3,516	31,340
Profit attributable to owners of parent	1,605	1,992	2,098	2,239	2,497	22,261
Capital investment	566	679	403	842	695	6,199
Depreciation	390	418	449	405	438	3,908
EBITDA	3,117	3,784	3,860	3,910	4,052	36,118
■ Financial Position (million yen and Thousand U.S. dollars)						
Total assets	¥31,192	¥34,481	¥35,186	¥34,645	¥36,524	\$325,562
Net assets	16,990	18,783	20,231	21,102	22,719	202,511
Interest-bearing debt	808	806	636	508	501	4,472
■ Cash Flows(million yen and Thousand U.S. dollars)						
Cash flows from operating activities	¥2,077	¥1,887	¥1,818	¥1,945	¥2,737	\$24,401
Cash flows from investing activities	(494)	(660)	828	(829)	(646)	(5,761)
Cash flows from financing activities	426	(389)	(699)	(1,092)	(1,032)	(9,199)
Cash and cash equivalents, end of year	4,798	5,636	7,626	7,594	8,660	77,193
■ Per Share Information(Yen and U.S. dollars)						
Profit attributable to owners of parent per share	¥60.77	¥72.13	¥75.91	¥81.01	¥93.29	\$0.83
Net assets per share	615.12	679.27	730.49	774.18	846.59	7.54
Dividend per share	14.00	15.50	20.00	22.00	23.00	0.20
■ Financial Indicators						
Operating income margin (%)	6.5	6.8	6.7	6.9	7.0	
Profit attributable to owners of parent margin (%)	3.9	4.2	4.3	4.5	5.0	
ROE (%)	10.0	11.1	10.8	10.9	11.4	
ROA (%)	5.4	6.1	6.0	6.4	7.0	
Equity ratio (%)	54.5	54.4	57.4	60.8	62.1	
DOE (%)	2.3	2.4	2.8	2.9	2.8	
Current ratio (%)	171.0	170.1	187.6	205.8	212.4	
D/E ratio (%)	4.7	4.3	3.1	2.4	2.2	
Fixed ratio (%)	58.2	53.6	48.5	48.0	45.6	
Ratio of retained earnings to total assets (%)	43.6	44.1	46.4	51.9	54.4	
■ Stock Price Index						
Stock closing price (Yen)	¥606	¥718	¥786	¥834	¥933	
Price earnings ratio (Times)	10.0	10.0	10.4	10.3	10.0	

1 EBITDA = Income before income taxes + Interest expenses + Depreciation

※ 2 ROE = Profit attributable to owners of parent / (Net assets - Subscription rights to shares - Non-controlling interests)

3 ROA = Profit attributable to owners of parent / Total assets

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

5 Current ratio = Current assets / Current liabilities

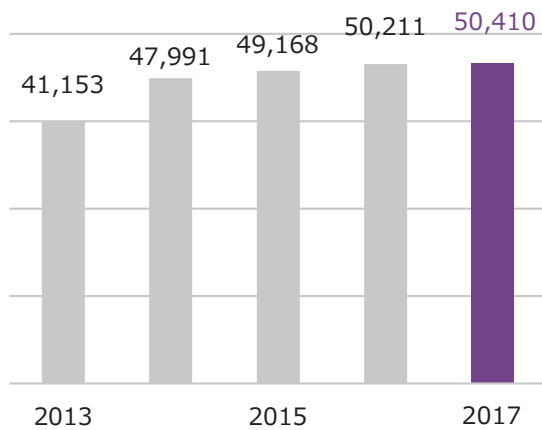
※ 6 D/E ratio = Interest-bearing debt / (Net assets - Subscription rights to shares - Non-controlling interests)

7 Fixed ratio = Non-current assets / (Net assets - Subscription rights to shares - Non-controlling interests)

Consolidated Financial Performance

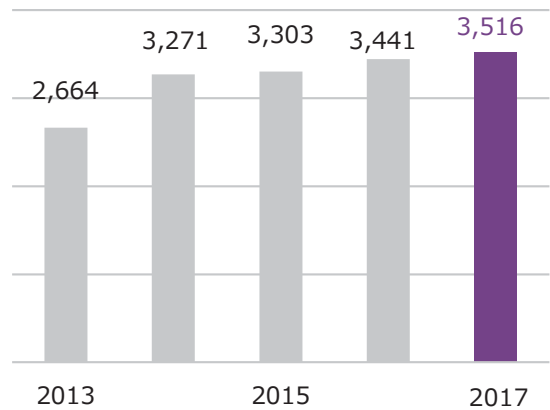
■ Net sales(million yen)

50,410 million yen
0.4 % UP ↗



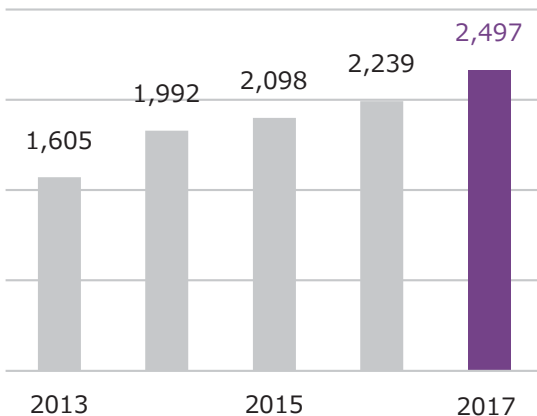
■ Operating income(million yen)

3,516 million yen
2.2 % UP ↗



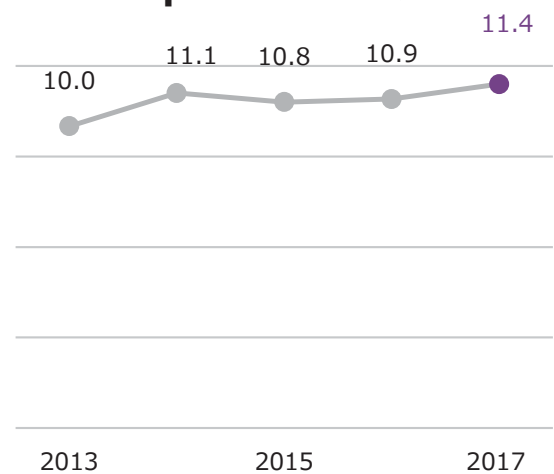
■ Profit attributable to owners of parent(million yen)

2,497 million yen
11.5 % UP ↗



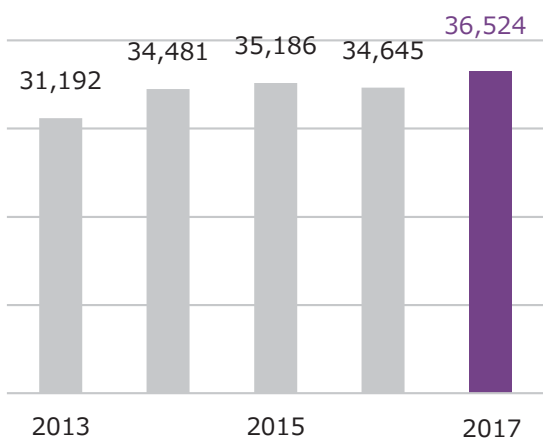
■ Return on Equity (ROE)(%)

11.4 %
0.5 point UP ↗



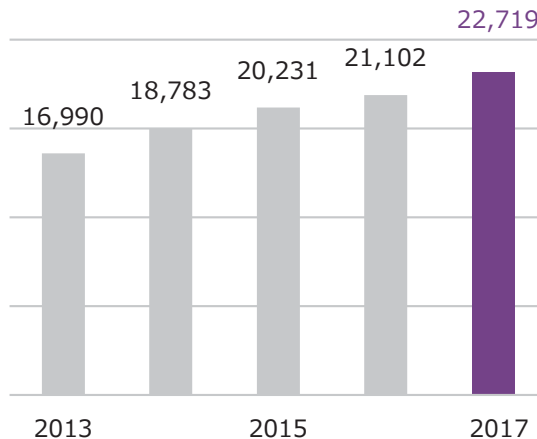
■ Total assets(million yen)

36,524 million yen
5.4 % UP ↗



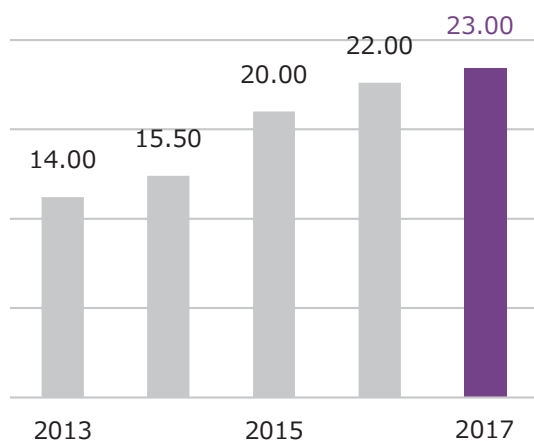
■ Net assets(million yen)

22,719 million yen
7.7 % UP ↗



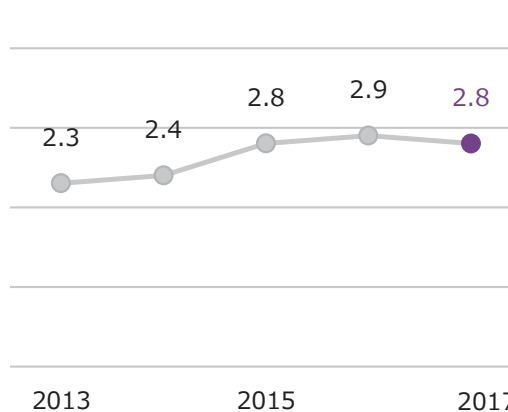
■ Dividend per share(Yen)

23.00 yen
1 yen UP ↗



■ Dividend on Equity ratio (DOE)(%)

2.8 %
0.1 point DOWN ↘



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ESG Basic Policy

Earth Friendly Company KONDOTEC INC.

In recent years, ESG investments, which value companies that give consideration to non-financial information on Environmental, Social and Governance matters, have been expanding.

Social responsibility investment (SRI), which originated from the idea of investors supporting companies that demonstrate excellence in environmental protection and similar activities, has been conventionally known as a method of investment that gives consideration to non-financial information. There has been growing attention to the concept of ESG investment: recognizing the importance of environmental, social, and governance criteria leads to increasing corporate value over the long term.

At KONDOTEC, we remain committed to having dialogue with stakeholders while continuing to pursue CSR and relevant initiatives, which we have conventionally carried out based on our corporate philosophy, which values the development of human resources and social contribution. At the same time, we are determined to face ESG issues and carry out initiatives which take into account the three directions of environment, social, and governance in recognition that they contribute to the enhancement of corporate value as we aim to increase our corporate value on a long term.



ESG items					
Environment		Social		Governance	
Biodiversity	Environmental pollution	Connections with local communities	Equal opportunity	Board of Directors	Anti-corruption
Environmental impact	Environmental policy	Shareholders & investors	Human rights	Female directors	Regulatory organs
Water resource management	Climate changes	Supply chain labor	Health & safety of employees	Accountability to stakeholders	Code of Ethics
	Environmental information disclosure	Relationships with customers and business partners			

Source: Material released by Mitsubishi UFJ Trust and Banking Corporation

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Promoting Harmony with Communities and the Environment

We operate in harmony with local communities and contribute to realizing an enriched environment.

The KONDOTEC Group are determined to actively be involved with local communities by making use of our experience nurtured through conducting corporate activities in an innovative and pioneering way in line with our corporate philosophy, in an effort to contribute to creating an affluent society.

■ Cleaning activities

As part of our CSR initiatives, employees volunteer to clean the neighborhood of our head office in an effort to contribute to making the local community beautiful.



■ Forest preservation activities

As part of our education for new employees, we participate in forest preservation activities as volunteers. With the cooperation of Osaka Green Trust, we are involved in thinning work and pedestrian road development.



■ PET bottle cap collection activity

We organize a cap collection activity where we separate and collect PET bottle caps that are otherwise incinerated, and we donate the profit from the sales of caps to recycling business operators.





■ Energy-saving initiatives

Participation in “Fun to Share”

“Fun to Share” is a climate change campaign organized by the Ministry of the Environment with a view to realizing a low-carbon society. In order to protect the environment leading to the future, we participate in this activities run under the key phrase, “realizing a low-carbon society with the spirit of mottainai.”



Drive to achieve 10% cut in power usage

KONDOTEC promotes transparency of power usage by making the monthly power usage information open to all offices and conducting analyses and comparisons of data. We launched the cool biz and warm biz initiatives with a view to reducing power usage in our offices by 10% year on year and have been updating energy-saving activities daily.

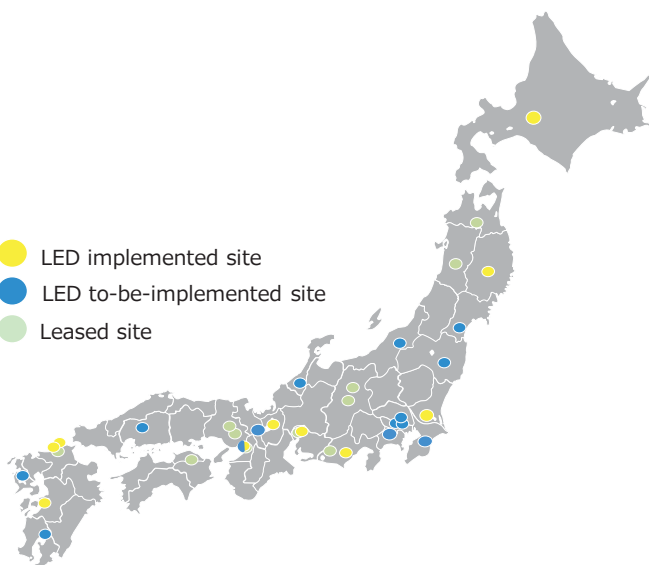


Promoting LEDs

In 2015, we completed installing LED lighting in factories and are currently in the process of installing LED lighting in our offices. We plan on completing LED installations in all of the properties we own by 2020.

These LED installations are being carried out in cooperation with Sanwa Denzai Co., Ltd., our subsidiary and wholesaler of electric equipment.

- LED implemented site
- LED to-be-implemented site
- Leased site

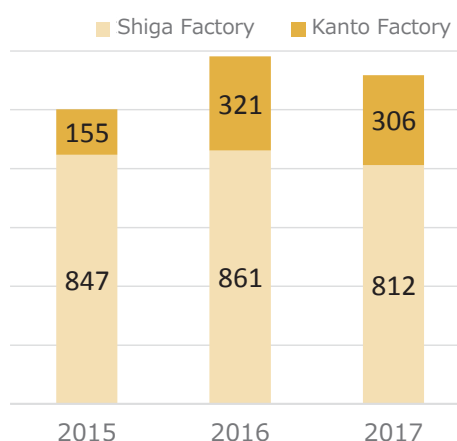


■ Solar power generation

KONDOTEC’s two factories and Sanwa Denzai Co., Ltd. operate the solar power generation system as the installation model in our power sales business.

Our subsidiary Sanwa Denzai Co., Ltd. and KONDOTEC’s Steel Frame Building Sales Division handle parts of solar power generation systems and frames respectively, and we pursue sales by leveraging synergistic effects.

Transition of annual power generation
(thousand kWh)



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■ Sale of eco-related merchandise

With growing interest in environmental protection over the last few years, we are also handling merchandise that has a lesser impact on the environment and merchandise that are suitable for reducing environmental pollution.

Eco mold N-10

This is a water-soluble concrete form releasing agent that uses vegetable oil-based raw materials. Compared with an oil-based product, it leaves little concrete on the mold and can be used with ease.



Eco mark authorized number: 11 110 005 / NETIS registration number: CG-120003-A

■ Energy consumption year-on-year comparison *KONDOTEC non-consolidated

The table presents a year-on-year comparison of unit of energy consumption, which is reported to the Kansai Bureau of Economy, Trade and Industry each year.

	2013	2014	2015	2016	2017	Change in 5-year average consumption rate
Year-on-Year change (%)		98.5	103.6	98.2	105.6	101.4

■ Material balance

The following illustrates the overall input-output balance and expenditures and revenues during the course from research and development to manufacturing within the business activities of KONDOTEC.

* Actual results of Kyushu Factory, our main factory, are used.

INPUT			OUTPUT		
Raw materials	Iron and steel	15,232t	Production	Iron & steel products	14,298t
	Coating material	27.1m ³		Air emission	CO ₂
Energy	Electricity	4,195,659kWh	Industrial waste/byproduct	Recycled volume	1,350t
	Natural gas	0 m ³ ·N or PJ		Amount of outsourced disposal	
	LPG	20.8t	Drainage		Water
	Diesel fuel	5,626 ℓ			
	Kerosene	6,706 ℓ			
	Heavy oil	2,203 ℓ			
Irrigation water	Water	2,670m ³	* 2017		

<Expenditure relating to environmental protection>

Cost for preventing water pollution
→ Oil-water separator tank cleaning and oil leakage investigation (1,935 thousand yen)

Cost for preventing unpleasant odors
→ Installation of fans with organic solvent adsorbent filter in varnish coating area (1,409 thousand yen)

<Revenues relating to environmental protection>

Revenues in business for recycling waste (e.g. steel scraps) generated from major business activities or recycling used products, etc. (25,182 thousand yen)



SOCIAL

Keeping Close to Customers

By taking advantage of being a wholesale company with a manufacturing division, we will strive to increase customer satisfaction.

As a wholesale company with a manufacturing division, we maintain factories at four locations in Japan and provide products and merchandise that meets the needs of society based on close dialogue with business partners and customers in an effort to increase customer satisfaction.

■ Safety measures for products

From the perspective of providing safe, quality products, all of our factories have achieved ISO9001. In addition, to further enhance the quality of products we handle, the Quality Control Section has been established in the Manufacturing Headquarters and the section performs strength testing and inspections on a day-to-day basis.

Going forward, we will aim to achieve ISO14000, which is an international standard related to the environment.



■ To ascertain the needs of customers

KONDOTEC holds New Merchandise Committee meetings jointly between its sales division and manufacturing division and actively takes steps for developing and improving products and merchandise by leveraging its position as a manufacturer and making the best of its capability as a wholesale company to capture comments of clients.

Example 1: Chain sling manufactured by Pewag

In order to make KONDOTEC known as a leading provider of lifting equipment, we serve as the sole agent in Japan for Pewag, an Austrian company with worldwide recognition and a 100-year history as a manufacturer of chains and accessories, and provide the domestic market with highly reliable lifting equipment.



Example 2: KT harness

The need for safety harnesses is growing from the perspective that they offer safety and reduce damage to the body in the event of a fall. We distribute "KT harness," a KONDOTEC brand product.



■ Response to complaints

In the event that a complaint is raised, KONDOTEC first has the sales representative meet with the customer and prepare a report. When there is a need to investigate the cause, if the case pertains to a product manufactured in-house, the Quality Control Section in the Manufacturing Headquarters takes the necessary steps, while if the case pertains to procured merchandise, we take steps jointly with

the supplier. We have a mechanism to share complaints whereby holding a meeting on complaints (irregularly held) and cases that should be shared on a corporate-wide basis are addressed to the entire organization by issuing a sales report or guidance to draw attention in order to share information.

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Together with Shareholders and Investors

We offer fair, accurate and speedy information disclosure in an effort to have all stakeholders deepen their understanding of the KONDOTEC Group.

We recognize the importance of having shareholders and investors gain an understanding of the KONDOTEC Group. For this reason, we bear in mind the need to offer careful explanations to shareholders and investors as well as to ensure fair, accurate and speedy information disclosure.

Further, in order to contribute to increasing the corporate value of the KONDOTEC Group, we work to strengthen our financial position and take other steps to enhance our earnings capability while pursuing strategic investment by M&A and other means, as well as actively expanding business investment aimed at growth. At the same time, we take initiatives to improve capital efficiency.

■ IR policy

1. Basic policy

KONDOTEC will make efforts to have all stakeholders, including shareholders and investors, gain a better understanding about our Company and will disclose important information on the Company by considering fairness, accuracy and timeliness in order to support stakeholders make appropriate assessments.

2. Information disclosure standards

KONDOTEC will conduct information disclosure in accordance with the Financial Instruments and Exchange Act and other relevant laws and also with the timely disclosure rules set forth by the stock exchange on which the stock of the Company is listed. KONDOTEC will also actively disclose information not required to be disclosed under laws, regulations and rules if such information is judged to be useful for shareholders and investors.

3. Information disclosure methods

KONDOTEC will disclose information via the Timely Disclosure Network (TDnet) provided by the stock exchange as well as actively make use of the Company's website in an effort to conduct fair and speedy information disclosure.

4. Future projections

Future operating performance projections that the Company releases are based on data available at the time of making the release. Actual results may differ considerably from projections due to various factors and changes.

5. IR quiet period

In order to prevent leakage of financial results information and ensure fairness, KONDOTEC observes a quiet period which runs for a few weeks up to the release of financial results. During this quiet period, we will refrain from responding to comments, questions, etc. regarding financial results. If, however, we become aware of the possibility during the quiet period that operating performance figures will deviate significantly from the Company's forecasts, we will disclose information as needed.

■ IR activities

Bearing in mind the need to offer information disclosure that takes into account fairness, accuracy and timeliness, KONDOTEC organizes briefings for institutional investors and individual interviews led by the President, participates actively in IR events for individual investors, and discloses IR materials via the Company's website.



← Nikkei IR & Investment Fair in which we participate in August every year



↑ Business report issued semi-annually

← Company information published in an easy-to-understand manner on the KONDOTEC website

TOPICS

The Company's website was selected by

- ★Nikko IR as the best site for three consecutive years and by
- ★Morningstar as an excellent company in the IR website rankings.

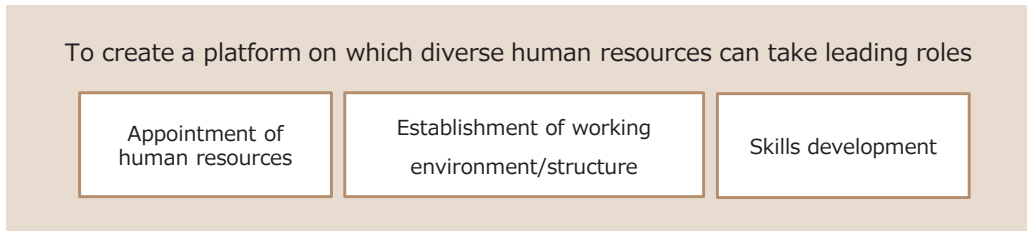
We will continue to further enhance our website and conduct timely and fair information disclosure to all stakeholders including shareholders.



Together with Our Employees

Diversity - Basic principle

KONDOTEC recognizes the importance of establishing a working environment in which employees with diverse backgrounds fully demonstrate their respective abilities and are motivated to work, in order to contribute to creating an affluent society as stated in our corporate philosophy. For this reason, we take initiatives to promote diversity and a good work-life balance, and make efforts to nurture a corporate climate where employees can work with liveliness.



Appointment of human resources

■ Human resources development, non-discriminatory employment & hiring policy

In hiring employees, KONDOTEC respects the diverse characteristics of individuals, including age, gender and nationality. We also offer support to athletes as well as appoint highly motivated contract workers as regular employees. In June 2015, KONDOTEC appointed one female director who has been taking an active role.

Male-female ratio of new employees in the last five years and home countries of international students

Year of employment	Male	Female	Total	Nationality of international students (other than Japan)
April-2017	8 persons	10 persons	18 persons	
April-2016	9 persons	9 persons	18 persons	
April-2015	12 persons	9 persons	21 persons	Thailand, Vietnam
April-2014	11 persons	7 persons	18 persons	China
April-2013	9 persons	6 persons	15 persons	Myanmar, China, Indonesia, Thailand

Appointment of a female director

1 out of 13





Establishment of working environment/structure

■ Enhancement of remuneration and benefits programs

(Employee stock ownership plan (ESOP) & trust-type ESOP (E-Ship®))

In October 2013, KONDOTEC introduced an ESOP which offers shares to employees who have been promoted or assumed a position.

By issuing shares as an incentive to employees of the Company, we encourage employees to heighten their motivation and morale toward enhancing performance as part of our effort to increase corporate value of the Company in the medium-and-long term.

Incentives given to date

	Number of shares acquired	Number of shares granted			
Date	2013.8.21	2014	2015	2016	2017
Number of shares	125,000 shares	16,500 shares	25,600 shares	20,200 shares	32,400 shares
Eligible persons		48 persons	48 persons	47 persons	57 persons

During 2008 to 2012, we introduced “E-Ship®” - an advanced Employees shareholders association using the trust mechanism - as part of our welfare benefit program for employees, and distributed a total of 59 million yen to employees who were Employees shareholders association members.

■ Measures to ensure safety of employees

We hold a safety and hygiene committee meeting at the head office and the factory once a month in an effort to prevent work-related accidents.

We also promote our no-accident policy by introducing telematics as part of our “zero traffic accident movement” in connection with our sales and transport activities, issuing a company-wide alert in the event of a car accident, as well as taking other steps.

■ Work-life balance

In an effort to put in place a favorable working environment, we aim to improve the percentage of paid vacation taken, the ratio of child care leave taken, and the percentage of workers returning to work after taking leave.

✓ Paid vacation acquisition target for April 1, 2017 to March 31, 2018: **40%**

Skills development

■ Education & training systems

KONDOTEC carries out educational programs for developing human resources that shape the future, in accordance with the Company’s corporate philosophy. We offer new employee training programs for younger employees, and follow up on new employees by designating a more experienced employee of a similar age at the assigned department to serve as a one-to-one supervisor for new employees. We then offer training for new employees six months after they enter the company and again three years later.

and next-generation senior managers, we provide education to reinforce management skills and hold senior manager candidate development training programs according to the number of years of employment in order to develop human resources who grow with the company.

Furthermore, we established an internally authorized “lifting equipment adviser” qualification, which leads to enhancing employees’ knowledge on products and merchandise.

SPECIAL CONTENTS
**KONDOTEC
 &
 SPORTS**

KONDOTEC continues to support sporting competitions of athlete employees. At KONDOTEC's track & field and baseball clubs, employees prac

**Introduction of April,2017
 new employees aiming to
 participate in the Tokyo
 Olympic games**



Our employee, Ms. Kuze, has been selected as a April,2017 certified athlete for the Olympic games.

Name	Mika Yamamoto	Kihou Kuze
Hometown	Nara Prefecture	Okayama Prefecture
Assigned department	Purchasing Division	General Affairs Division
Competing event	Discus throw 	Javelin 
Personal best (Reference Japan record)	49.33m (58.62m)	58.98m 7th in history of Japan *1 (63.80m)
Comments	I want to grow both at work and in competitions! I want to participate in the Tokyo Olympic Games and return the favor of the Company hiring me.	I want to participate in the Tokyo Olympic Games and win a medal! I will make every effort to maintain a good balance between work and competition and achieve a Japan record three years from now.

*1 * As of July 2017

Activities of the track & field club

KONDOTEC's track & field team participated in the Osaka Castle relay marathon on March 20, 2017. We will continue to encourage employees to promote good health.



Activities of the baseball club

About 15 employees mainly in the Kansai area belong to our baseball club. Our team competes in the Daikenki Baseball Championship (organized by Osaka Construction Machinery Association) every year in fall.





...ees. Currently, two employees are practicing daily with the aim of participating in the 2020 Tokyo Olympic
...tice together by demonstrating teamwork and participate in competitions.



KONDOTEC LOVES SPORTS



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Basic concept

KONDOTEC recognizes that strengthening and enhancing corporate governance through increasing soundness, transparency and efficiency of management and maximizing corporate value is one of the most important management objectives. To realize this objective, our basic concept of corporate governance calls for reinforcing our compliance and internal audit systems, conducting timely disclosure of management information, operating results and other pieces of information via our website and other means, and strengthening functions for speedy decision-making and management supervision.

Corporate Governance

■ Corporate governance structure summary table

Type of organizational design	Company with an Audit & Supervisory Board
Number of directors (including the number of outside directors)	10 (2)
Number of audit & supervisory board members (including the number of outside audit & supervisory board members)	3 (2)
Term of office of directors	1 year
Adoption of executive officer system	Yes
Incentive remuneration	Performance-based stock compensation plan
Accounting Auditor	Deloitte Touche Tohmatsu LLC

■ Reasons for adopting the current corporate governance system

KONDOTEC believes that putting in place an Audit & Supervisory Board and having an audit system where Audit & Supervisory Board Members supervise management is effective and hence operates as a company with an Audit & Supervisory Board system.

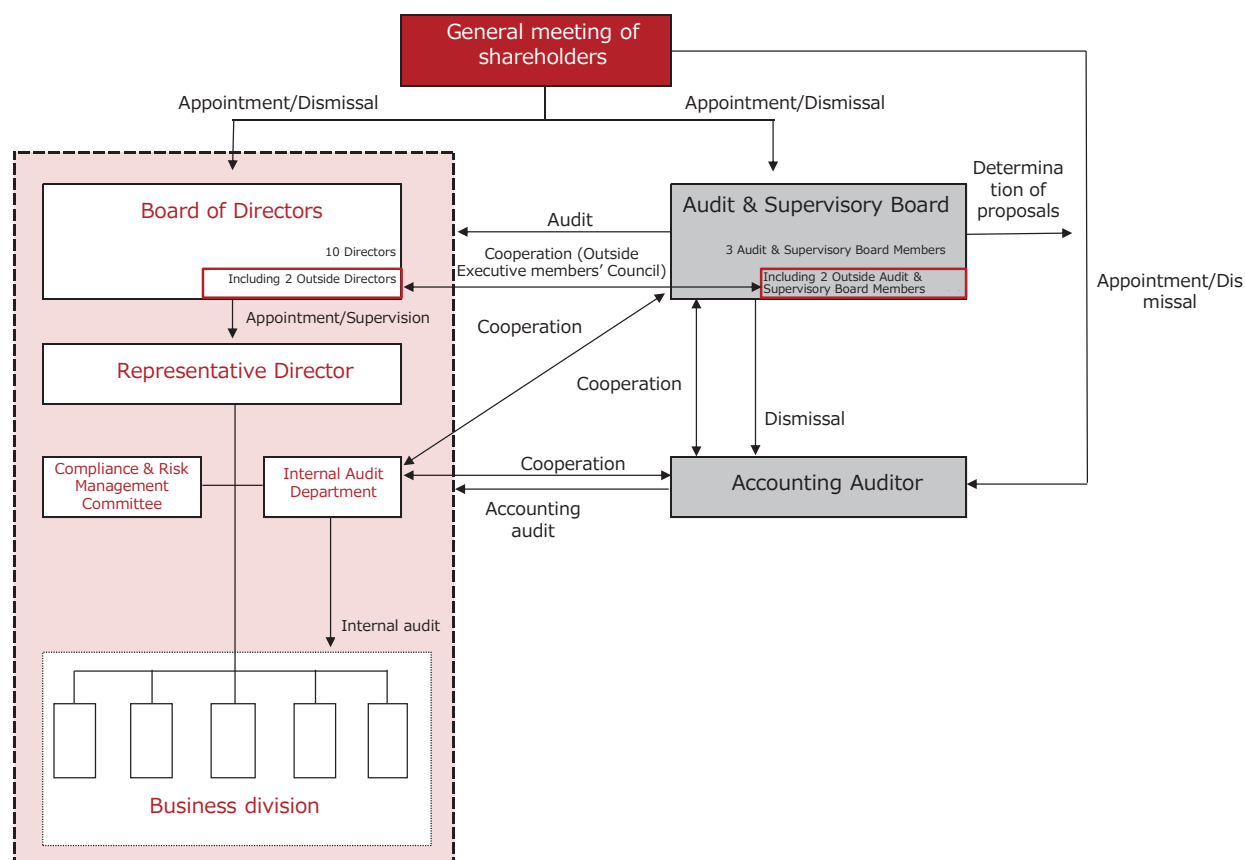
The Audit & Supervisory Board comprises three Audit & Supervisory Board Members, including one full-time Audit & Supervisory Board Member and two part-time Audit & Supervisory Board Members (Outside Audit & Supervisory Board Member) with specialist knowledge on finance,

accounting and laws, and carries out supervision from an objective and fair point of view.

The Board of Directors holds a regular monthly meeting as well as an extraordinary meeting whenever necessary, promotes efficiency of decision-making for the execution of important business activities and reinforcement of the supervision function, and elects two Outside Directors for supervising the status of efficiency and lawfulness from an independent perspective.

■ Corporate governance system

KONDOTEC's corporate governance system is shown in the diagram below.



■ KONDOTEC's managing organ

Board of Directors

KONDOTEC holds a meeting of the Board of Directors at least once a month and complies with the policy of addressing all matters provided in the Board of Directors' Regulations and those corresponding to agenda items to the Board of Directors in making decisions on important matters.

In addition, the Board of Directors receives reports on the status of business execution of KONDOTEC and its subsidiaries from each of the respective directors on a periodic basis and carries out supervision, etc. on the

reasonableness and efficiency of business execution.

KONDOTEC conducts the Board of Directors assessment questionnaire based on self-assessments made by all Directors and Audit & Supervisory Board Members once a year. The Board of Directors deliberates on and considers the results of the questionnaire and makes necessary improvements to secure effectiveness and increase the quality of the Board of Directors as a whole.

Executive Officers

KONDOTEC adopts an executive officer system and five Executive Officers and Directors in

charge of business operations promote speedy business execution.

Outside Directors

KONDOTEC appoints two Outside Directors (one lawyer and one law school professor), who supervise management and offer advice from an objective point of view in consideration of the corporate business community on the whole, including laws and regulations, in an effort to increase transparency of the Board of Directors and reinforce the supervision function.

Audit & Supervisory Board/Outside Audit & Supervisory Board Members

KONDOTEC adopts the Audit & Supervisory Board system. Two of the three Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members (one lawyer and one CPA) who exchange opinions on audit methods and audit standards from their professional points of view at the meeting of the Audit & Supervisory Board which is held at least once a month in order to improve the appropriateness and efficiency of the audit. In this way, we strive to enhance and reinforce our audit system.

Furthermore, with a view to improving the function of Audit & Supervisory Board Members, the Members receive a report on the results of the accounting audit from the Accounting Auditor at each financial closing. If needed, Audit & Supervisory Board Members accompany the Accounting Auditor in the audit of an office, exchange information and opinions, and promote close cooperation in an effort to improve the appropriateness and efficiency of audits.

Internal audit

Our Internal Audit Department is placed as a unit directly under the President. There are two full-time staff members. These internal auditors audit the status of compliance with laws, regulations and internal rules and the appropriateness and efficiency of business processes, etc. of each division, provide guidance for improvement and perform follow-ups.

In addition, they conduct audits to continuously verify whether the system to ensure the reliability of financial reporting functions appropriately and makes corrections where necessary.

Accounting Auditor

KONDOTEC has appointed Deloitte Touche Tohmatsu LLC as the Accounting Auditor and establishes an environment in which the Accounting Auditor is able to perform audits from a fair and unbiased perspective, by providing the auditor accurate management information in a timely manner.

Compliance & Risk Management Committee

The Compliance & Risk Management Committee, led by the President as the committee chairman, is in place.

The Compliance & Risk Management Committee promotes the dissemination of awareness to comply with relevant laws, regulations, corporate ethical standards and internal regulations among all employees and creates a structure to prevent scandals and other problems by developing plans and measures on compliance, including education and guidance for practicing compliance. The Committee also collects information on various risks surrounding KONDOTEC and its subsidiaries and analyzes the information to develop specific preventive measures. It also puts in place a structure to minimize the impact of risks should any such risk becomes apparent, in an effort to reinforce the corporate platform.

Outside Executive members' Council

The Outside Executive members' Council comprising Outside Directors and Outside Audit & Supervisory Members has been established. The Council meets periodically to promote the exchange of opinions among outside Executive members.

■ Executive members As of July 1, 2017

Title	Name	Area of responsibility and important concurrent positions	Independent officer	Number of shares held (Thousand shares)
President and Representative Director	Katsuhiko Kondo	Representative Director of Towa Kosan Corp. Representative Director of Toto Kosan INC.		97
Senior Executive Director	Tomoya Ando	General Manager, Management Headquarters and Manager, General Affairs Division Director, Sanwa Denzai Co., Ltd. Director, CHUOH GIKEN Co., Ltd.		53
Executive Director	Shigeru Hirata	General Manager, Sales Headquarters		146
Executive Director	Haruo Miya	General Manager, Manufacturing Headquarters and Manager, Kanto Factory		25
Director	Masahiko Yano	Manager, Development Sales Division; Manager, Homecenter Group; and Manager, E-commerce Group		20
Director	Yasuhiro Toki	Manager, Purchasing Division		17
Director	Hiroyuki Yada	Manager, Western Japan Sales Division		3
Director	Akira Takagi	Manager, Kyushu Factory		2
Outside Director	Michiko Kanai	Attorney-at-law Outside Audit & Supervisory Board Member, USJ Co., Ltd. Outside Audit & Supervisory Board Member, Sankyo Seiko Co., Ltd. Outside Director, IDEC CORPORATION	○	0
Outside Director	Masashi Yamato	Professor at Graduate School of Law, Kansai University	○	—
Full-time Audit & Supervisory Board Member	Tetsuo Kawase	Audit & Supervisory Board Member, Sanwa Denzai Co., Ltd. Audit & Supervisory Board Member, CHUOH GIKEN Co., Ltd.		39
Outside Audit & Supervisory Board Member	Yoshinobu Muratsuji	Attorney-at-law	○	2
Outside Audit & Supervisory Board Member	Masaharu Nakagawa	CPA Outside Audit & Supervisory Board Member, Nakamura Choukou Co., Ltd. Outside Audit & Supervisory Board Member, GMB CORPORATION	○	1

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■ Directors and Audit & Supervisory Board Members

Terms of Executive members

KONDOTEC appoints candidates for Directors by considering individuals who fulfill respective statutory requirements, who are excellent both in terms of personality and insight, who can carry out their professional responsibilities, and who are capable of making accurate and timely decisions and of cooperating and working with and covering each function and division of the Company. Such individuals are recommended by the President or the Board of Directors, and approved for the position at the general meeting of shareholders.

KONDOTEC appoints candidates for Audit & Supervisory Board Members by considering individuals who have expertise in legal, financial and accounting matters, who hold knowledge on the business activities of the Company, and who maintain diverse perspectives concerning corporate management, in a comprehensive manner. Such individuals are recommended by the President or the Board of Directors and are approved for the position at the general meeting of shareholders.

Further, based on the recognition that diverse values and points of view are essential in business management going forward, KONDOTEC appoints a female director.

Standards for Independence of Outside Directors/Outside Audit & Supervisory Board Members

KONDOTEC appoints Outside Directors and Outside Audit & Supervisory Board Members by considering individuals who fulfill the requirements under the Companies Act and the independence standards set forth by the Tokyo Stock Exchange. The Company elects individuals who are capable of carrying out supervision and giving advice based on abundant experience and insights as Outside Directors, and elects individuals who can conduct fair audits of the management status as Outside Audit & Supervisory Board Members. KONDOTEC registers all four Outside Directors and Outside Audit & Supervisory Board Members as independent Executive members based on the rules of the Tokyo Stock Exchange with the said exchange.

Status of attendance by Outside Directors/Outside Audit & Supervisory Board Members

65th term (April 1, 2016 to March 31, 2017)

Position	Name	Board of Directors (12 board meetings)	Audit & Supervisory Board (14 board meetings)
Outside Directors	Masaru Tokuda	Attended 12 meetings (100%)	—
	Michiko Kanai	Attended 12 meetings (100%)	—
Outside Audit & Supervisory Board Members	Yoshinobu Muratsuji	Attended 12 meetings (100%)	Attended 14 meetings (100%)
	Masaharu Nakagawa	Attended 12 meetings (100%)	Attended 14 meetings (100%)

■ Descriptions based on the Corporate Governance Code

Analysis and assessment of effectiveness of the entire Board of Directors

KONDOTEC makes decisions on important matters at the regular meeting of the Board of Directors held every month based on discussions by attendees, including Outside Directors and Outside Audit & Supervisory Board Members who state their opinions. In this way, we make an effort to heighten the effectiveness of the Board of Directors.

Once a year, we conduct an analysis and assessment of the effectiveness of the entire Board of Directors. In April 2017, we made an assessment of the effectiveness of the Board of Directors. We discussed and made considerations on the results of the assessment at the meeting of the Board of Directors in May 2017.

1. Period: April 2017 to May 2017
2. Method: Anonymous self-assessment by all Directors and Audit & Supervisory Board Members (including outside Executive members)
3. Assessment items: Structure and operation of the Board of Directors, deliberation, governance system, general assessment of the Board of Directors
4. Summary of results: While all Executive members made the assessment that the effectiveness of the Board of Directors on the whole was secure, there were comments suggesting that the materials for the board meeting should be distributed further in advance so that matters can be sufficiently reviewed, and that further training programs suitable for board members should be implemented.
Based on these assessment results, the Company has decided to distribute supporting materials well in advance to secure adequate time for Outside Directors and Outside Audit & Supervisory Board Members to review the materials.
We will continue to make improvements to ensure the effectiveness and enhance the quality of the Board of Directors.

Training policy for Directors and Audit & Supervisory Board Members

KONDOTEC offers opportunities for Directors and Audit & Supervisory Board Members to participate in various training programs, including training sessions and lectures by internal and external instructors, external seminars, and web-based seminars, in an effort to have Executive members gain necessary knowledge and understand/promote duties and responsibilities.

Policy concerning cross-held shares

1. Policy on cross-shareholding
KONDOTEC maintains cross-held shares for the purpose of contributing to the increase of corporate value in the medium to long term by maintaining and reinforcing relationships with important business partners.
2. Verification on cross-held shares
Each year, KONDOTEC's Board of Directors verifies the reasonableness and necessity of cross-held shares in consideration of the return and risk associated with shareholding from the medium-to-long-term perspective.
As of March 31, 2017, we held 6 issues of cross-held shares worth 39 million yen in book value and 323 million yen in market value, equivalent to 0.1% and 0.9% respectively of total assets of 36,524 million yen.
3. Exercise of voting rights on cross-held shares
KONDOTEC respects the management policy, strategies, etc. of investee companies, makes comprehensive judgment on whether the shareholding contributes to sustainable growth and medium-to-long corporate value, and exercises voting rights.

Basic policy concerning constructive dialogues with shareholders

KONDOTEC promotes constructive dialogues with shareholders through holding briefings for individual investors and financial results briefings, in addition to the general meeting of shareholders and participating in IR fairs.

We also appoint the Director who manages the General Affairs Division responsible for IR as the Director in charge of IR, and share information with other departments to strengthen cooperation.

In order to reflect the opinions of shareholders on management, when important feedback given

from an objective viewpoint arises, we make an effort to report the matter to the Board of Directors as needed.

In addition, KONDOTEC has put in place its IR Policy, which defines the quiet period and other matters, and its IR Internal Information Management Regulations, which set forth rules on communicating important facts and internal information, and performs accordingly in managing information.

■ Whistle-blowing system

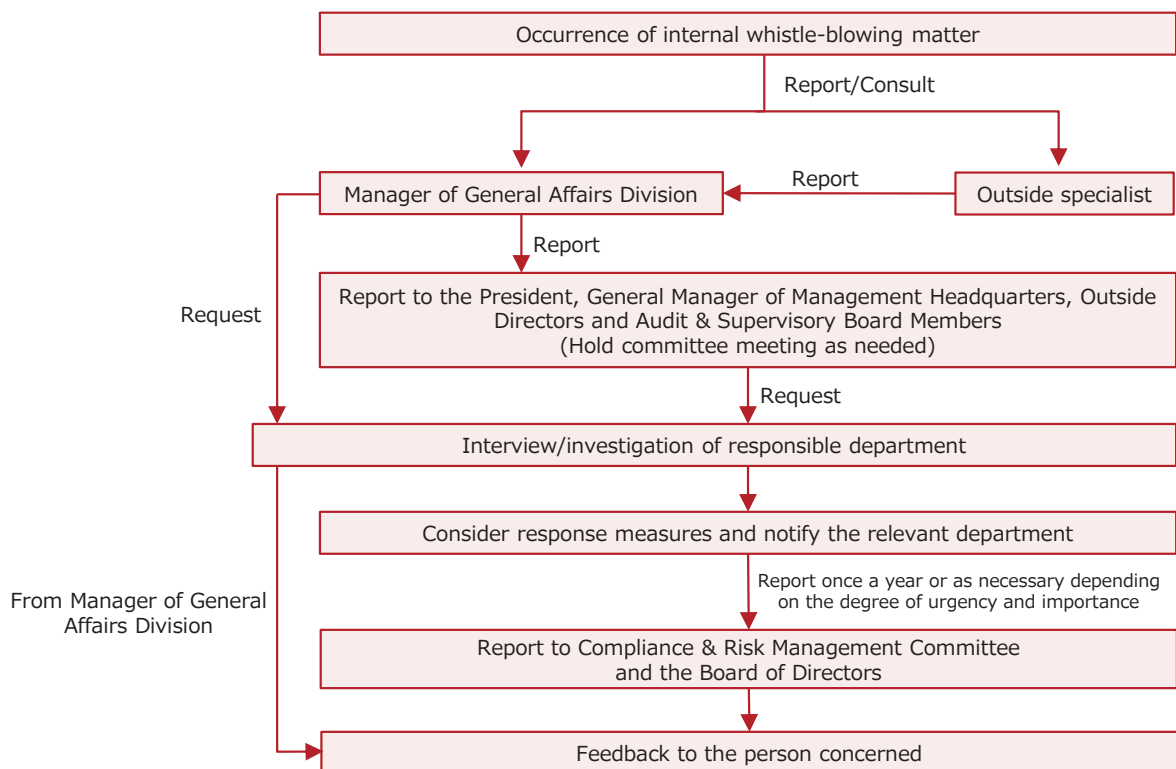
KONDOTEC has formulated internal regulations on whistle-blowing and put in place two points of contact for whistle-blowing inside and outside the company. The Company's whistle-blowing system is such that when whistle-blowing occurs, the Manager of General Affairs Division, which is the internal point of contact for whistle-blowing, reports the matter to the President, General Manager of Management Headquarters, Outside Directors and Audit & Supervisory Board Members; requests that the responsible department investigates the matter; and

proposes and notifies the measure for response. The status of operation for whistle-blowing is reported at the Compliance & Risk Management Committee and the Board of Directors once a year, and the Board of Directors supervises the status of operation.

We also maintain internal regulations and a system to ensure that whistle-blowers are not treated unfairly.

There were no cases of whistle-blowing in the year ended March 31, 2017.

Whistle-blowing system flow



Remuneration of Executive members

■ Remuneration of Directors and Audit & Supervisory Board Members (April 1, 2016 to March 31, 2017)

Position	Number of persons paid	Amount of payment (Thousand yen)
Directors	12 persons	199,808
Audit & Supervisory Board Members	3 persons	22,440
Total	15 persons	222,248

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(Notes)

1. The amount paid to Directors and Audit & Supervisory Board Members includes 23,940 thousand yen paid to Outside Executive members (two Outside Directors and two Outside Audit & Supervisory Board Members).
2. The number of Directors to whom payment is made includes two Directors who retired from office as of the conclusion of the 64th ordinary general meeting of shareholders held on June 28, 2016.
3. The amount paid to Directors includes 18,744 thousand yen in remuneration concerning subscription right to shares as stock-linked compensation.
4. In addition to the aforementioned amount, we decided to make the final payment associated with the termination of the retirement benefit plan for Executive members addressed at the 52nd ordinary general meeting of shareholders held on June 29, 2004 and, based on this resolution, we paid retirement benefits for Executive members of 28,621 thousand yen to one Director who retired from office as of the conclusion of the 64th ordinary general meeting of shareholders held on June 28, 2016.

■ Policy for determining the amount of remuneration, etc., for Executive members

The policy for determining the amount of remuneration of Executive members, etc. is to decide on the limit of the total amount of remuneration respectively at the general meeting of shareholders. The amount of remuneration of each Director is determined by the Board of Directors based on a certain standard set for each title and by taking into account operating performance trends. The amount of remuneration for each Audit & Supervisory Board Member is determined based on discussions with Audit & Supervisory Board Members. Furthermore, it was resolved at the 65th ordinary general meeting of shareholders held on June 27,

2017 that a performance-based stock compensation plan, "Board Benefit Trust (BBT)" would be introduced.

In conjunction with the introduction of BBT, we will terminate the system of stock-linked compensation for Directors and hence will not issue new stock options for the time being.

The retirement benefit plan for Executive members has been terminated for both Directors and Audit & Supervisory Board Members as of the conclusion of the 52nd ordinary general meeting of shareholders held on June 29, 2004.



65th ordinary general meeting of shareholders (June 27, 2017)

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Supporting Materials

Stock information As of March 31, 2017

■ Company's stock

Total number of shares authorized	60,000,000 shares
Total number of shares issued	27,957,000 shares
Shares per unit	100 shares

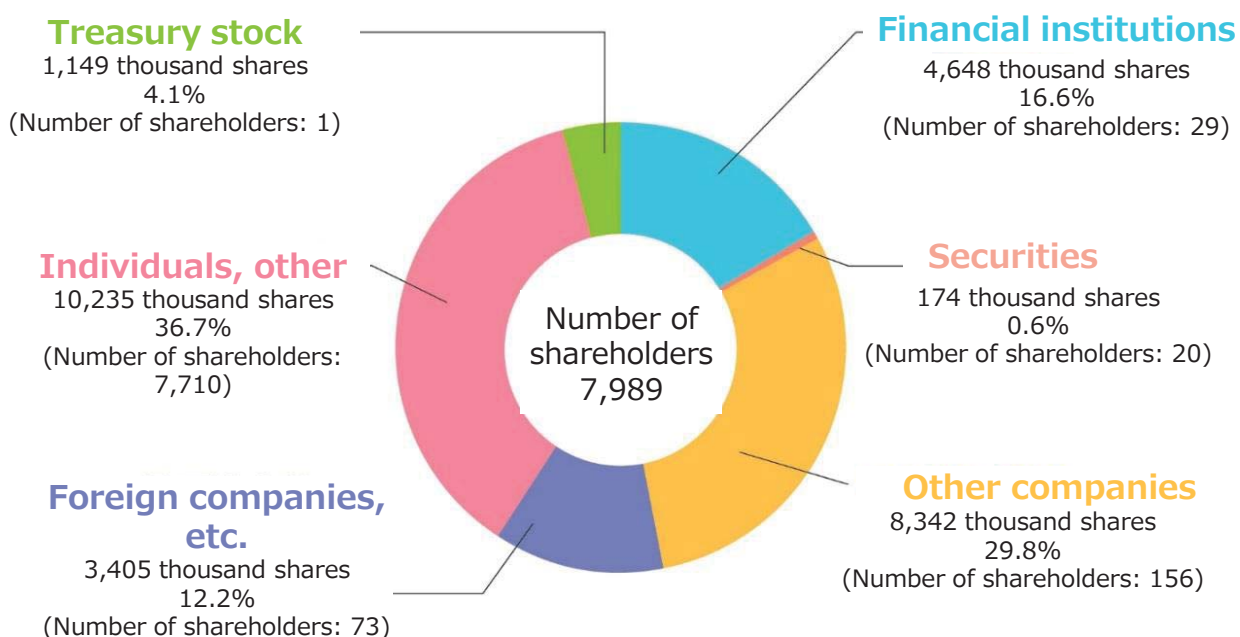
■ Major shareholders

Name of shareholder	Number of shares held (Thousand shares)	Percentage
Towa Kosan Corp.	3,014	11.2%
BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	1,681	6.3%
KONDOTEC employees shareholders association	1,347	5.0%
Osaka Small and Medium Business Investment & Consultation Co., Ltd.	1,247	4.7%
F-planning INC.	900	3.4%
Japan Trustee Services Bank, Ltd. (trust account)	804	3.0%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	753	2.8%
Jummi Kondo	752	2.8%
Toto Kosan INC.	676	2.5%
Masahide Kondo	664	2.5%

* 1,149 thousand shares of treasury stock (excluding 30 thousand shares in the ESOP trust account) are not included in the above "Major shareholders."

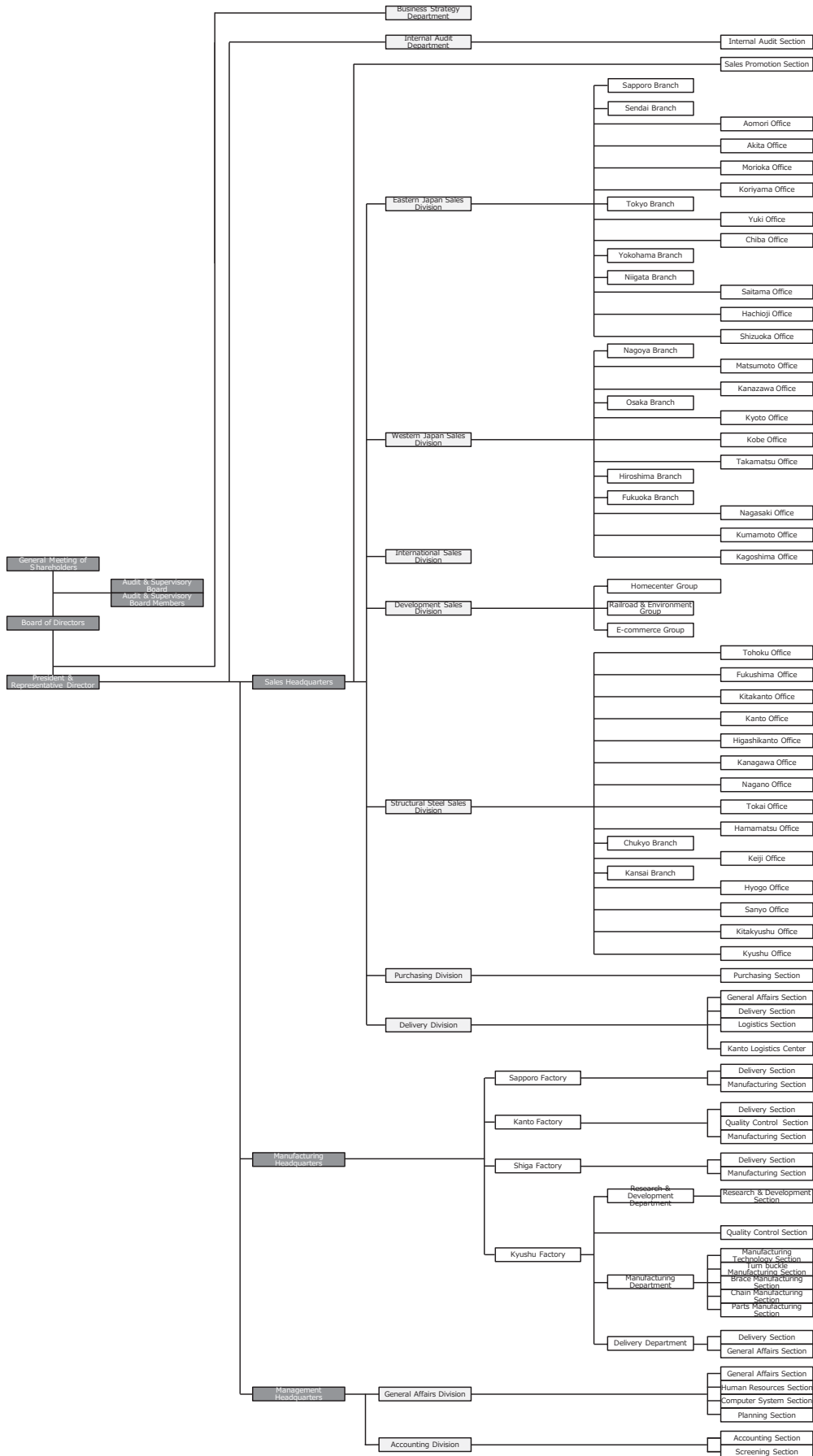
Percentage is calculated with treasury shares excluded.

■ Stock distribution by shareholder category



Organization Chart

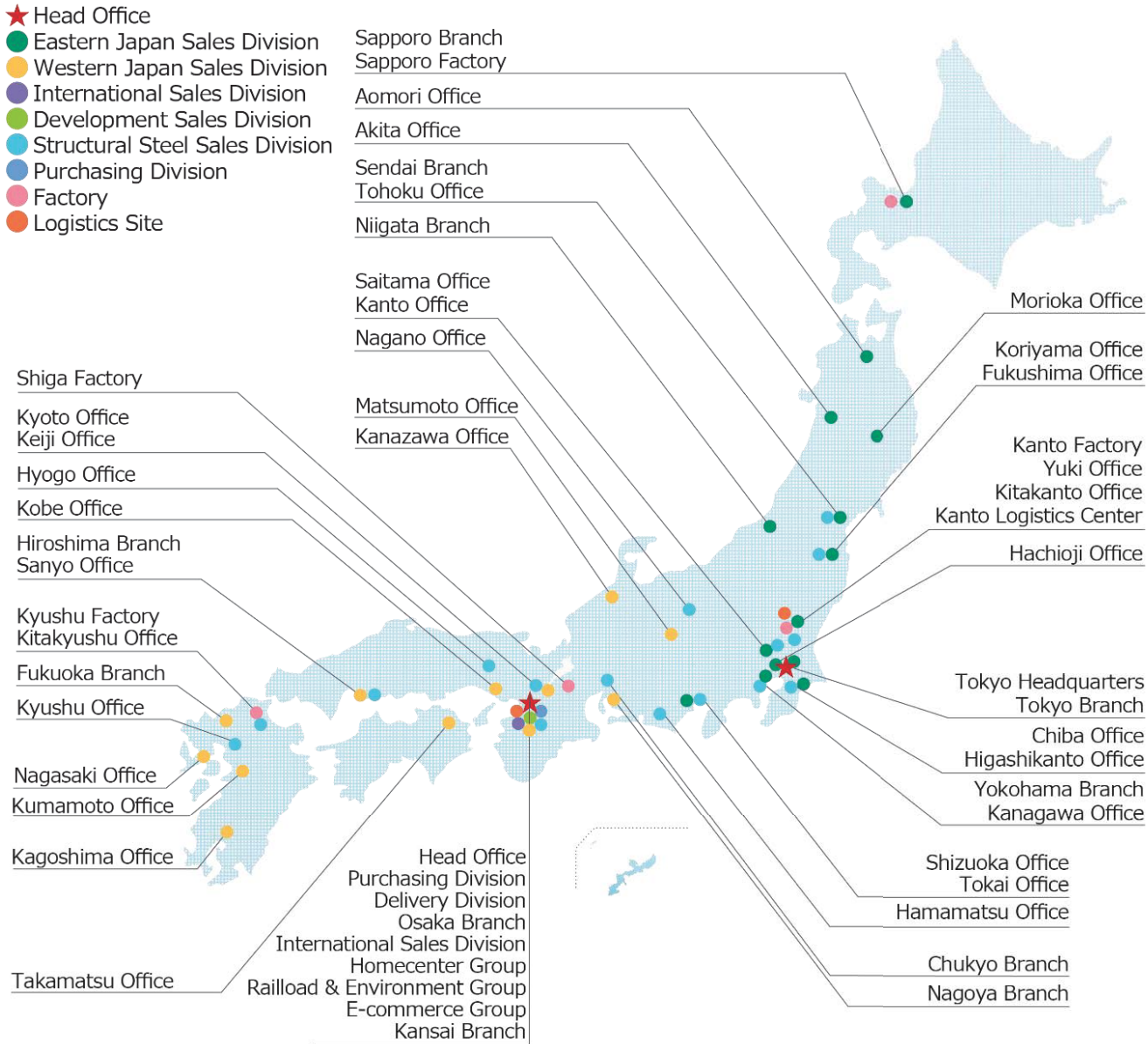
As of July 1, 2017





KONDOTEC Network

As of July 1, 2017



Group Companies

Sanwa Denzai Co., Ltd.(head office: Nishi-ku, Nagoya-shi) 15 offices
 KONDOTEC INTERNATIONAL(THAILAND) CO., LTD. (Bangkok, Thailand)
 CHUOH GIKEN Co., Ltd. (Inukami-gun, Shiga)

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Consolidated Financial Statements

■ Consolidated Balance Sheet

		(Thousand yen)	(Thousand U.S. dollars)
	2016	2017	2017
Assets			
Current assets			
Cash and deposits	7,594,671	8,660,366	77,193
Notes and accounts receivable - trade	12,336,205	12,671,719	112,948
Electronically recorded monetary claims operating	628,572	838,076	7,470
Merchandise and finished goods	2,856,521	2,811,393	25,059
Work in process	158,315	207,541	1,849
Raw materials and supplies	325,603	338,616	3,018
Deferred tax assets	258,195	272,081	2,425
Other	389,884	399,482	3,560
Allowance for doubtful accounts	(8,274)	(7,697)	(68)
Total current assets	24,539,696	26,191,580	233,457
Non-current assets			
Property, plant and equipment			
Buildings and structures (net)	2,410,083	2,562,962	22,844
Machinery, equipment and vehicles (net)	679,857	795,914	7,094
Land	6,101,098	6,103,466	54,402
Other (net)	130,278	87,565	780
Total property, plant and equipment	9,321,317	9,549,908	85,122
Intangible assets			
Other	59,868	57,003	508
Total intangible assets	59,868	57,003	508
Investments and other assets			
Investment securities	265,242	336,639	3,000
Deferred tax assets	294,012	227,311	2,026
Other	199,092	176,955	1,577
Allowance for doubtful accounts	(33,707)	(14,509)	(129)
Total investments and other assets	724,639	726,397	6,474
Total non-current assets	10,105,825	10,333,309	92,105
Total assets	34,645,521	36,524,890	325,562

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	(Thousand yen)	(Thousand U.S. dollars)
	2016	2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,071,376	3,355,033
Electronically recorded obligations - operating	6,246,078	6,438,356
Short-term loans payable	505,000	500,000
Income taxes payable	692,211	583,349
Provision for bonuses	534,120	577,250
Other	873,659	875,445
Total current liabilities	11,922,445	12,329,436
Non-current liabilities		
Deferred tax liabilities for land revaluation	178,749	178,749
Net defined benefit liability	1,333,839	1,242,691
Other	108,232	54,210
Total non-current liabilities	1,620,821	1,475,651
Total liabilities	13,543,266	13,805,088
Net assets		
Shareholders' equity		
Capital stock	2,666,485	2,666,485
Capital surplus	2,442,272	2,452,572
Retained earnings	17,978,861	19,868,122
Treasury stock	(500,756)	(894,279)
Total shareholders' equity	22,586,862	24,092,901
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	149,857	199,478
Deferred gains or losses on hedges	(8,618)	(16,622)
Revaluation reserve for land	(1,510,852)	(1,510,852)
Foreign currency translation adjustment	(4,210)	2,631
Remeasurements of defined benefit plans	(147,895)	(98,623)
Total accumulated other comprehensive income	(1,521,719)	(1,423,988)
Subscription rights to shares	37,112	50,888
Non-controlling interests	0	0
Total net assets	21,102,255	22,719,802
Total liabilities and net assets	34,645,521	36,524,890

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■ Consolidated Income Statement

		(Thousand yen)	(Thousand U.S. dollars)
	2016	2017	2017
Net sales	50,211,628	50,410,789	449,334
Cost of sales	39,553,383	39,230,531	349,679
Gross profit	10,658,245	11,180,257	99,654
Selling, general and administrative expenses	7,216,312	7,664,201	68,314
Operating income	3,441,933	3,516,055	31,340
Non-operating income			
Interest income	1,993	442	3
Dividends income	3,901	4,147	36
Purchase discounts	141,387	140,839	1,255
Miscellaneous income	32,015	26,665	237
Total non-operating income	179,298	172,094	1,533
Non-operating expenses			
Sales discounts	56,488	55,352	493
Interest expenses	1,577	813	7
Miscellaneous loss	18,493	17,147	152
Total non-operating expenses	76,559	73,314	653
Ordinary income	3,544,672	3,614,836	32,220
Extraordinary income			
Gain on sales of non-current assets	4,554	664	5
Gain on sales of investment securities	846	0	0
Total extraordinary income	5,400	664	5
Extraordinary loss			
Loss on sales of non-current assets	-	343	3
Loss on disposal of non-current assets	1,453	2,355	20
Impairment loss	44,574	-	-
Total extraordinary loss	46,027	2,698	24
Income before income taxes	3,504,045	3,612,802	32,202
Income taxes - current	1,211,924	1,102,304	9,825
Income taxes - deferred	52,346	12,957	115
Total income taxes payable	1,264,271	1,115,261	9,940
Profit	2,239,773	2,497,540	22,261
Profit (loss) attributable to non-controlling interests	0	(0)	(0)
Profit attributable to owners of parent	2,239,773	2,497,540	22,261

■ Consolidated Statement of Comprehensive Income

	(Thousand yen)	(Thousand U.S. dollars)
	2016	2017
Profit	2,239,773	2,497,540
Other comprehensive income		
Valuation difference on available-for-sale securities	(138,952)	49,621
Deferred gains or losses on hedges	(11,866)	(8,003)
Revaluation reserve for land	9,377	-
Foreign currency translation adjustment	(54,314)	6,842
Remeasurements of defined benefit plans	(240,138)	49,271
Total other comprehensive income	(435,895)	97,731
Comprehensive income	1,803,878	2,595,271
(Breakdown)		
Comprehensive income attributable to owners of parent	1,803,878	2,595,271
Comprehensive income attributable to non-controlling interests	(0)	(0)

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■ Consolidated Statement of Changes in Shareholders' Equity

2016

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income	
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges
Balance at beginning of the period	2,666,485	2,434,555	16,321,830	(128,810)	21,294,060	288,810	3,248
Changes of items during the period							
Cash dividends			(582,742)		(582,742)		
Profit attributable to owners of parent			2,239,773		2,239,773		
Purchase of treasury stock				(383,196)	(383,196)		
Disposal of treasury stock		7,717		11,250	18,967		
Net changes of items other than shareholders' equity						(138,952)	(11,866)
Total changes of items during the period	-	7,717	1,657,030	(371,946)	1,292,802	(138,952)	(11,866)
Balance at the end of the period	2,666,485	2,442,272	17,978,861	(500,756)	22,586,862	149,857	(8,618)
	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of the period	(1,520,229)	50,103	92,242	(1,085,824)	23,306	0	20,231,542
Changes of items during the period							
Cash dividends							(582,742)
Profit attributable to owners of parent							2,239,773
Purchase of treasury stock							(383,196)
Disposal of treasury stock							18,967
Net changes of items other than shareholders' equity	9,377	(54,314)	(240,138)	(435,895)	13,805	(0)	(422,089)
Total changes of items during the period	9,377	(54,314)	(240,138)	(435,895)	13,805	(0)	870,712
Balance at the end of the period	(1,510,852)	(4,210)	(147,895)	(1,521,719)	37,112	0	21,102,255

2017

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income	
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges
Balance at beginning of the period	2,666,485	2,442,272	17,978,861	(500,756)	22,586,862	149,857	(8,618)
Changes of items during the period							
Cash dividends			(608,279)		(608,279)		
Profit attributable to owners of parent			2,497,540		2,497,540		
Purchase of treasury stock				(416,876)	(416,876)		
Disposal of treasury stock		10,300		23,354	33,654		
Net changes of items other than shareholders' equity						49,621	(8,003)
Total changes of items during the period	-	10,300	1,889,261	(393,522)	1,506,039	49,621	(8,003)
Balance at the end of the period	2,666,485	2,452,572	19,868,122	(894,279)	24,092,901	199,478	(16,622)
	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of the period	(1,510,852)	(4,210)	(147,895)	(1,521,719)	37,112	0	21,102,255
Changes of items during the period							
Cash dividends							(608,279)
Profit attributable to owners of parent							2,497,540
Purchase of treasury stock							(416,876)
Disposal of treasury stock							33,654
Net changes of items other than shareholders' equity	-	6,842	49,271	97,731	13,776	(0)	111,507
Total changes of items during the period	-	6,842	49,271	97,731	13,776	(0)	1,617,547
Balance at the end of the period	(1,510,852)	2,631	(98,623)	(1,423,988)	50,888	0	22,719,802

2017

(Thousand U.S. dollars)

	Shareholders' equity					Accumulated other comprehensive income	
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges
Balance at beginning of the period	23,767	21,769	160,253	(4,463)	201,326	1,335	(76)
Changes of items during the period							
Cash dividends			(5,421)		(5,421)		
Profit attributable to owners of parent			22,261		22,261		
Purchase of treasury stock				(3,715)	(3,715)		
Disposal of treasury stock		91		208	299		
Net changes of items other than shareholders' equity						442	(71)
Total changes of items during the period	-	91	16,839	(3,507)	13,424	442	(71)
Balance at the end of the period	23,767	21,860	177,093	(7,971)	214,750	1,778	(148)

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of the period	(13,466)	(37)	(1,318)	(13,563)	330	0	188,093
Changes of items during the period							
Cash dividends							(5,421)
Profit attributable to owners of parent							2,497,540
Purchase of treasury stock							(3,715)
Disposal of treasury stock							299
Net changes of items other than shareholders' equity	-	60	439	871	122	(0)	993
Total changes of items during the period	-	60	439	871	122	(0)	14,417
Balance at the end of the period	(13,466)	23	(879)	(12,692)	453	0	202,511

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■ Consolidated Statement of Cash Flows

	(Thousand yen)		(Thousand U.S. dollars)
	2016	2017	2017
Cash flows from operating activities			
Income before income taxes	3,504,045	3,612,802	32,202
Depreciation	405,165	438,501	3,908
Impairment loss	44,574	-	-
Share-based compensation expenses	31,477	45,409	404
Increase (decrease) in allowance for doubtful accounts	(36,405)	(19,775)	(176)
Increase (decrease) in provision for bonuses	47,583	43,059	383
Increase (decrease) in net defined benefit liability	(139,843)	(20,253)	(180)
Interest and dividends income	(5,894)	(4,590)	(40)
Interest expenses	1,577	813	7
Loss (gain) on sales of investment securities	(846)	(0)	(0)
Loss (gain) on sales of non-current assets	(4,554)	(320)	(2)
Loss on disposal of non-current assets	1,453	2,355	20
Decrease (increase) in notes and accounts receivable – trade	247,130	(542,158)	(4,832)
Decrease (increase) in inventories	575,186	(17,110)	(152)
Increase (decrease) in notes and accounts payable – trade	(1,579,234)	475,835	4,241
Increase (decrease) in accrued consumption taxes	(87,414)	(110,231)	(982)
Other	65,345	86,262	768
Sub-total	3,069,345	3,990,599	35,570
Interest and dividends income received	5,894	4,590	40
Interest expenses paid	(1,530)	(788)	(7)
Income taxes paid	(1,128,307)	(1,256,776)	(11,202)
Cash flows from operating activities	1,945,402	2,737,625	24,401
Cash flows from investing activities			
Purchase of property, plant and equipment	(809,656)	(629,656)	(5,612)
Other	(20,223)	(16,756)	(149)
Cash flows from investing activities	(829,879)	(646,412)	(5,761)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	(125,000)	(5,000)	(44)
Purchase of treasury stock	(383,962)	(418,902)	(3,733)
Proceeds from sales of treasury stock	5	11	0
Cash dividends paid	(582,787)	(608,476)	(5,423)
Other	(1,008)	324	2
Cash flows from financing activities	(1,092,752)	(1,032,043)	(9,199)
Effect of exchange rate change on cash and cash equivalents	(54,579)	6,524	58
Net increase (decrease) in cash and cash equivalents	(31,809)	1,065,694	9,499
Cash and cash equivalents, beginning of year	7,626,480	7,594,671	67,694
Cash and cash equivalents, end of year	7,594,671	8,660,366	77,193

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Editor's Note

When considering a business model for realizing a sustainable society for KONDOTEC, contribution to "the advancement of female workers in society" is one of the key factors. Meanwhile, considering the bent of the Integrated Report, we needed to not only integrate various reporting matters that we had been disclosing to date into this Report but also take a step further, grasp the Company comprehensively and discuss matters from various perspectives.

Therefore, we formed a project team consisting mainly of female employees and those with diverse career backgrounds and knowledge, including employees who have taken child care leave and experienced job rotations.

While the project team went through a trial and error process and moved ahead with the project, the report still has room for further improvement. We will continue to work on improving KONDOTEC Report while enhancing our dialogue on ESG with stakeholders in our sincere hope that the KONDOTEC Group will grow to contribute to the development of a sustainable society.

Senior Executive Director and General Manager,
Management Headquarters
Tomoya Ando



PROJECT MEMBER

Yuko Izaki

- ★ HR Section recruitment & training etc.
- ★ Jointed in 2008



Yoko Yamakawa

- ★ Planning Section IR etc.
- ★ Jointed in 2010



Mari Katsuki

- ★ Sales Headquarters Promotion tools etc.
- ★ Jointed in 2013



Marina Soya

- ★ General Affairs Section Equities etc.
- ★ Jointed in 2014



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Notes on forward-looking statements

This document contains forward-looking statements including operating forecasts and business plans.

Future operating performance projections that the Company releases are based on data available at the time of making the release. Actual results may differ considerably from projections due to various factors and changes.

Detailed information on financial results

For details of financial results for the year ended March 31, 2017, please refer to the Annual 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.)
- ◆ Reporting organization
KONDOTEC INC. and its group companies
- ◆ Accounting standard
Japanese GAAP

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