

KONDOTEC REPORT

(Year Ended March 31, 2018)

TOP MESSAGE

The KONDOTEC Group has been providing products and merchandise to customers in a wide range of fields and aiming to contribute to development of the social infrastructure for more than half a century 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 as a group, 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 this 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 same as last, our first Integrated Report, 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

The KONDOTEC Group 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
Number of Employees	645 Consolidated:789 (As of March 31, 2018)
Capital stock	2,666 million yen (As of March 31, 2018)
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) 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, 2018)
Factories	4 factories in Japan

History

Over 60 Years of the Company's History

- Challenge for Value Creation -

The company has been striving to meet the needs of customers since its establishment.

KONDOTEC has been able to grow as a manufacturer and wholesale company precisely because the company has continued to challenge and create to meet the needs customers, and because of the support from stakeholders.

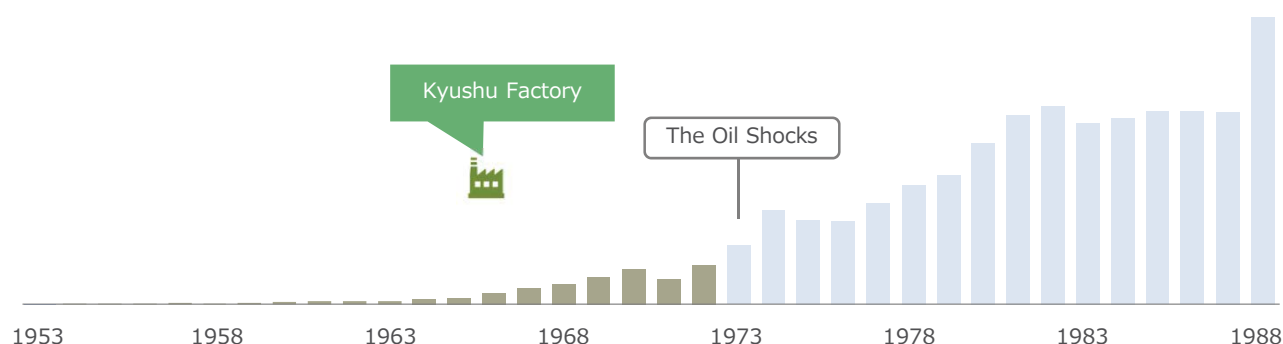
We will continue to challenge and create facing various issues in order to contribute to the development of society going forward.

2018 [Consolidated]

Net sales **52,811** million yen

Network **61** operating sites

Number of Employees **789** members



1947 ►► 1972

Established and Gaining ground in Tokyo, shifting from "sea to land", Kyushu Factory Opened

The Company started business from the ashes of the war, entered into Tokyo, developed large-scale production systems by opening the Kyushu Factory, expansion offices, and thus strengthened its business base.

- 1953** Established Kondo Shoten Co., Ltd.
- 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.



Kyushu Factory

1973 ►► 1988

From the expansion across Japan and completion of the head office building to the next stage

The Company tackled quality improvement at factories while completing the head office building and expanding merchandise from metal construction materials to overall industrial materials. It expanded customers with the establishment of the New Business Division as a direct sales department.

- 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** Body of turnbuckle for building was accredited as JIS No. 1. Established the New Business Division (currently Structural Steel Sales Division).



Shackles



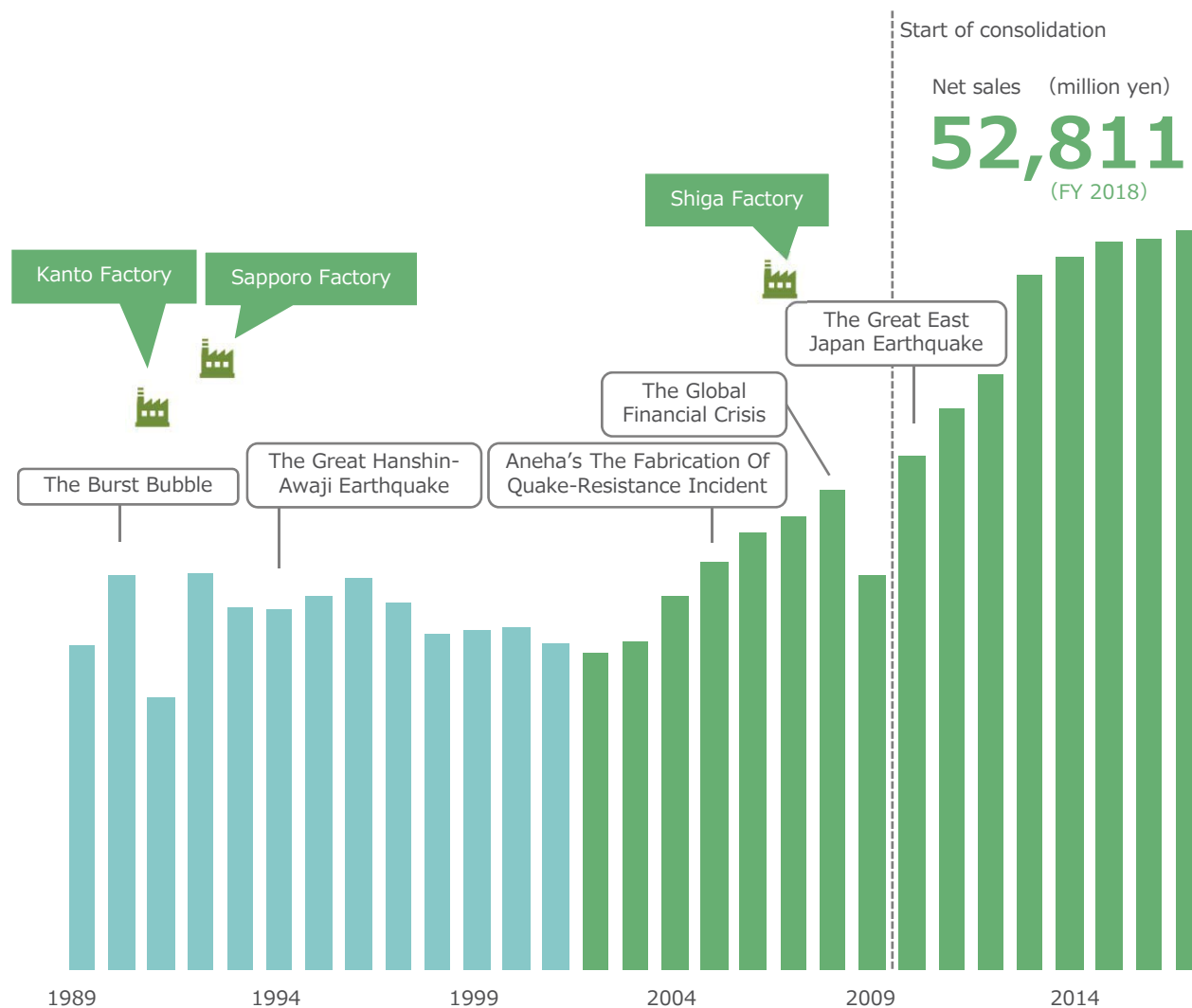
Turn buckles



Wire ropes



Screws



1989 ►► 2001

2002 ►► Present

Reborn KONDOTEC developed the base to leap toward a stock listing

The Company made a fresh start by changing the company name in preparation for the Heisei era. Following the development of the product supply system by establishing factories in Ibaraki and Hokkaido, it changed the internal system for the listing. The Company busily tackled emergencies caused by the Great Hanshin-Awaji Earthquake. Merchandise saw further increases in responding to the needs.

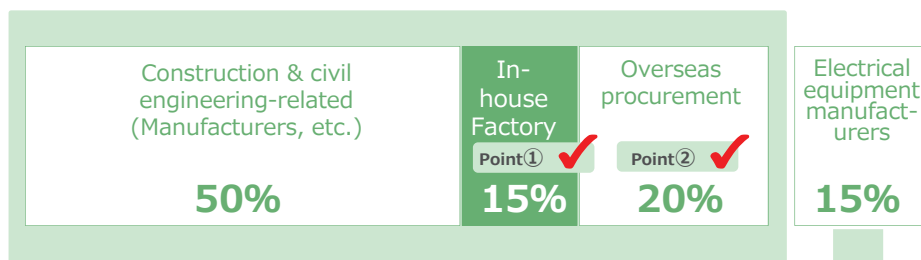
- 1989** Changed the company name to KONDOTEC INC.
- 1991** Opened Kanto Factory.
- 1992** Opened Sapporo Factory.
- 1995** Listed on the Second Section of the Osaka Stock Exchange.
- 1999** Listed on the Second Section of the Tokyo Stock Exchange.
Opened Kanto Logistics Center.
- 2000** Started our website.
- 2001** Started Product Catalogs.

Business Expansion, Entering a new stage by M&A

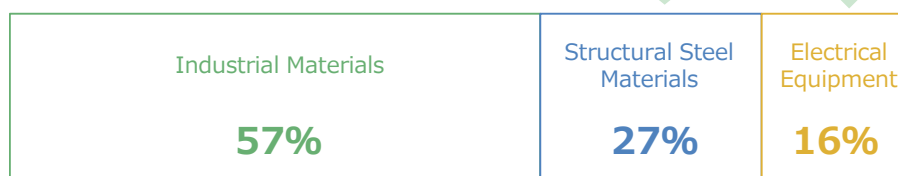
- 2003** Opened Homecenter Division. (currently Homecenter Group)
- 2004** Implemented Yantai Distribution Warehouse based on a contract concluded with a Chinese logistics trading company.
- 2005** Entered into an agency contract with pewag in Austria.
- 2007** Opened Shiga Factory.
- 2010** Acquired shares of Sanwa Denzai Co., Ltd. (the business of electrical equipment) to make the company a consolidated subsidiary.
- 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.
Acquired shares of CHUOH GIKEN Co., Ltd. (the business of design and manufacture of machinery and devices) to make the company a consolidated subsidiary.
- Introduced the shareholder incentive plan. (Offering rice certificates once a year)
- 2015** Opened Purchasing Division
- 2016** Opened Business Strategy Department
- 2017** Opened E-commerce Group

Business Flow Diagram

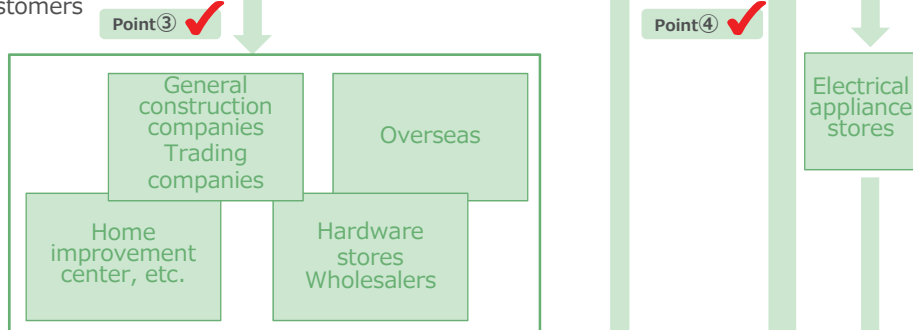
Suppliers



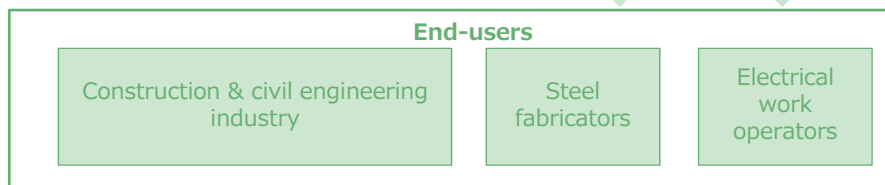
Business Segments of sales structure (sales contribution ratio)



Customers



End-users



Demanders [Entire infrastructure]



Point① ✓

manufacturer function in net sales
Approximately **40%**
※In-house manufactured products and OEM products

Point② ✓

Overseas procurement includes products manufactured in local OEM factories.

Point③ ✓

Number of customers by business segments

Total
Approximately **24,500** customers (2018)

61 %	Industrial Materials
21 %	Structural Steel Materials
18 %	Electrical Equipment

Point④ ✓

We provide direct sales of Structural Materials and Electrical Equipment to some end-users.

Point⑤ ✓

Demand for products and merchandise
Public **22%**
Private **78%**

■ Strength (1): Strength in procurement

Characteristics

- Many suppliers
- Establishment of the purchasing division to handle not only domestic goods but also imported ones.
- Establishment of own factories at four sites in Japan
- Dealing of special orders
- Owning of OEM production factories in Japan and abroad

⇒

Effects

- Capable of providing products and merchandise according to needs by having not only cheap imported merchandise (procurement) but also high-quality and highly value-added in-house manufactured products.
- Capable of stable supply due to many suppliers, and not depending on specific suppliers

(Expected risks)

Complexity of supplier management/foreign exchange risk/risk of higher raw material prices/defect liability risk/product liability risk/supplier country dependency risk

Response to the risks: Derivative transactions, offering of highly value-added merchandise other than just low prices

■ Strength (2): Strength in sales methods

Characteristics

- Development of the quick delivery system with all operating sites fully equipped with warehouses
- Capture of demand in each area of Japan through expansion across the country
- Proposals of merchandise rooted in the area, dealing with about 50,000 items
- Quick delivery of made-to-order products from four factories in Japan

⇒

Effects

- Realization of the quick delivery system with each operating site having inventories
- Thorough small-lot sales rooted in the region

(Expected risks)

Possibility of industrial accidents from warehouse operations/insufficient labor force for inventory management/possibility of employee accidents at the time of delivery

Response to the risks: Meetings of the Safety and Health Committee⇒P50, Safety driving initiative⇒P50

■ Strength (3) Strength in customers

Characteristics

- Sales to various industries/businesses
- Diversified small-lot sales (many counter-parties)
- Establishment of a sales desk specialized in targets (Tokyo metropolitan area, railway environment, home improvement center, e-commerce, etc.)

⇒

Effects

- Not prone to be affected by conditions of particular industries, by selling to various industries

(Expected risks)

Stagnant economic activities in the construction industry and the resulting decrease in demand/management of many customers/insufficient staff for marketing and operations

Response to the risks: Introduction of the core system, implementation of training to improve marketing and operational abilities⇒P51
Four growth strategies and non-core growth strategies

The KONDOTEC group has not incurred a deficit for ordinary profit since establishment to the present (*excluding irregular periods for financial settlement). In our more than 60 years of history, we have responded to changes in external environments each time, and continued changing the business structure and expanding the merchandise we handle (Our Company's history and changes in earnings ⇒ P 5)

The three strengths described on this page have been nurtured in such history of reforms. With external environments expected to change even more rapidly going forward, we will continue to be conscious about what should be changed and what should not to reflect them in our management.

Moreover, having decided growth strategies separately for sustainable growth going forward, the Company will strive for further development (Growth strategies ⇒ P22 and P25)

Business Model

History and Strategy Digest

Ever since it was founded, KONDOTEC has continued to respond flexibly to changes

1947 ⇒ ⇒ 1972	Established and Gaining ground in Tokyo, shifting from “sea to land”, Kyushu Factory Opened	⇒
1973 ⇒ ⇒ 1988	From the expansion across Japan and completion of the head office building to the next stage	⇒
1989 ⇒ ⇒ 2001	Reborn KONDOTEC developed the base to leap toward a stock listing	⇒
2002 ⇒ Now	Business Expansion, Entering a new stage by M&A	⇒

KONDOTEC's strength based on its history

Diversity of customers' business area

Diversity of products and merchandise

Stable financial platform

Quick delivery of order-made products

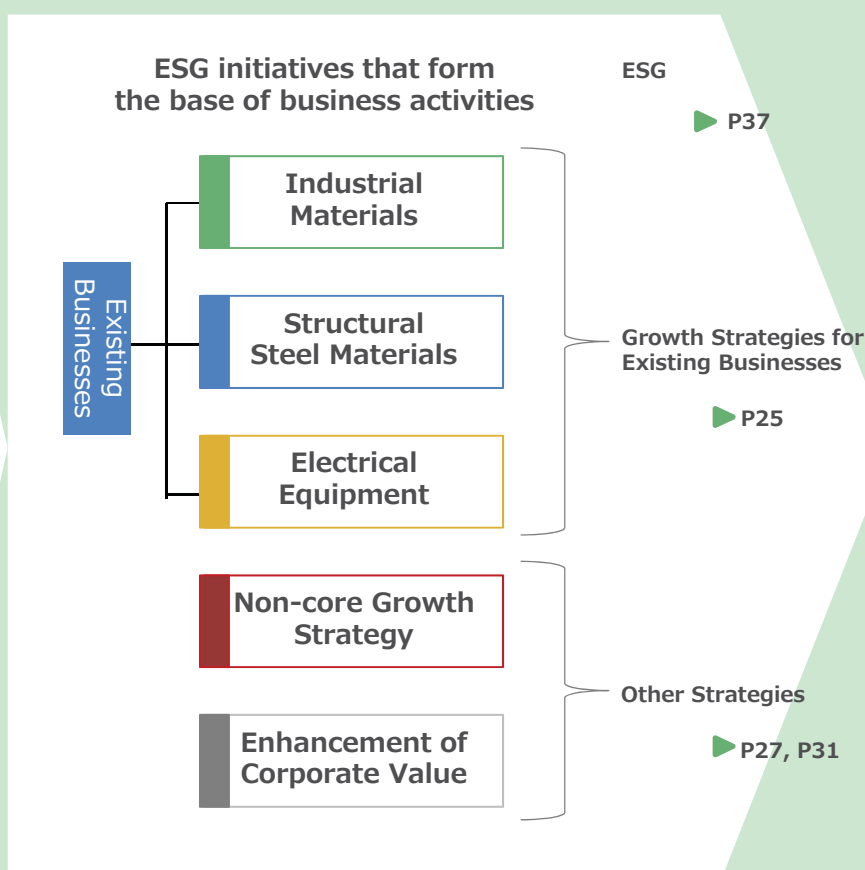
Brand power trusted in Japan and overseas

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



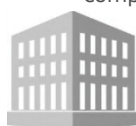
Including in-house manufactured products and merchandise

Number of customers nationwide

Approximately

24,500

companies



Number of new customers in a year*

2,822

customers



Total by business segment (2018)

Number of operating sites

61

operating sites



Domestic sites only (2018)

in the world and changes to the needs of customers.

Capture of demand in post-war recovery activities, shifting of business from and casting processing to forging and Began in-house manufacturing of products and increased items handled to accommodate accelerated efforts to promote infrastructure implementation across the country. With the opening of Kyushu Factory, significantly strengthened production capacity
Actively continued deployment of operating sites nationwide to make the business platform solid and established the New Business Division (currently Structural Steel Sales Division) in response to the slump in construction demand
The Company made a fresh start by changing the company name in preparation for the Heisei era. Following the development of the supply system by establishing factories in Ibaraki and Hokkaido, it changed the internal system for the listing. The Company busily tackled emergencies caused by the Great Hanshin-Awaji Earthquake.
Business Expansion, Aggressive M&A, Designated as the First Section stock by the Tokyo Stock Exchange

WE ARE KONDOTEC

KONDOTEC VISION

FINANCIAL DATA

ENVIRONMENT

SOCIAL

GOVERNANCE

SUPPLEMENT

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

32,458

tons



Total for domestic factories (2018)

Management indicators

ROE

10.7%

DOE

2.7%

(2018)

Ratio of females employed

45%



Number of new graduates employed in the last five years

Materiality

In engaging in corporate activities, we recognize that management promoting responses to ESG (environment, society and governance) issues will lead to sustainable growth. Accordingly, we have established the ESG Basic Policy in the following sequence to identify the goals to be achieved in each ESG area in management and related issues, and fulfil social responsibilities in management activities.

Materiality was sorted out by considering SDGs [sustainability of global environment, sustainability of human society and elimination of poverty] published in the 2015 Paris Agreement and taking into consideration the relevance to 17 SDGs goals.

Verification of materiality and the process of formulating the ESG Basic Policy

STEP 1

Verification of materiality and the process of formulating the ESG Basic Policy

We identified potential items for our issues, and identified issues for each stakeholder referring to various guidelines (IIRC and ISO26000*)

*IIRC: Framework within the International Integrated Reporting Council
ISO26000: Guidance on social responsibility of organizations



STEP 2

Judgement on the importance of each item

We evaluated the importance of issues identified in STEP 1 with the importance for stakeholders (vertical axis) and the importance for the Company (horizontal axis), and selected items of high importance as issues.



STEP 3

Identification of materiality in ESG and policy formulation

At the Board of Directors meeting, we discussed again the order of priority for important items selected in STEP 2, and based on the result, identified materiality and decided the ESG Basic Policy.

What is SDGs?

SDGs stands for Sustainable Development Goals, which are the global long-term goals from 2016 to 2030 for which international agreement was achieved at the United Nations in 2015. With 17 goals and 169 targets, they were adopted as the action plan for the prosperity of mankind and the earth.















Covering a wide range of problems from hunger and poverty to economic disparity, human rights and environmental measures, it advocates realizing a world that "leaves behind no one" where all people can live with dignity regardless of their social and economic situations.



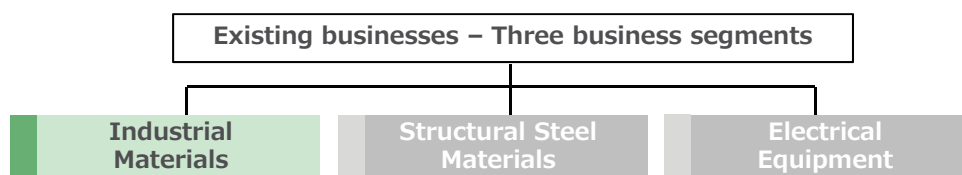
Decision on materiality (key issues) and ESG Basic Policy

We decided on materiality as follows after the three steps. We will regard this materiality as the ESG Basic Policy and link it to sustainable corporate growth by incorporating it in the management strategy.

We will explain in detail in chapters on p.39 and after what we are doing and the content we will focus on going forward according to the ESG Basic Policy.

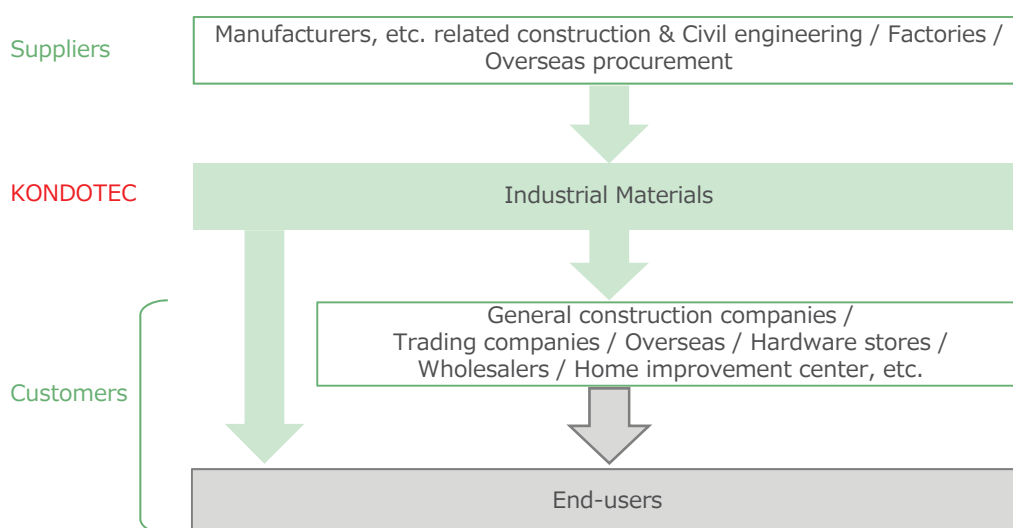
ESG	Materiality		Relevant SDGs
Environment	(1) Provision of the optimal products/merchandise for environmental measures	Goods handled by the Company (Presentation of environment related materials)	    
	(2) Corporate activities paying attention to the environment	Initiatives for environmental protection and energy-saving Management of emissions (material balance)	
Society	(1) Product liability/quality assurance	Quality management of products/merchandise Stance for safety and security	      
	(2) Communication with shareholders and investors	Engagement with shareholders	
	(3) Appropriate information disclosure/security	Stance for information disclosure	
		Information security measures	
	(4) Association with local communities	Operating site opening plan	
	(5) Safety measures and work-style reform	Counter-measures for risks such as disasters	
		For employees' health, safety and hygiene	
Governance	(6) Human resource development and diversity	Policy on human resource development	 
		Diversity	
	(1) Strengthening of corporate governance	Corporate governance	
		Compliance Basic Policy	
	(2) Thorough compliance		

Business Report



■ Industrial Materials

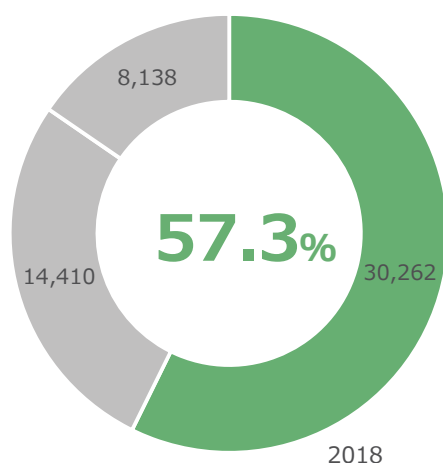
With the retail hardware business at the core, we manufacture, procure, and sell civil engineering and construction materials, machinery and equipment. Of the subsidiaries, KONDOTEC INTERNATIONAL (THAILAND) CO., LTD. and CHUOH GIKEN Co., Ltd. are included.



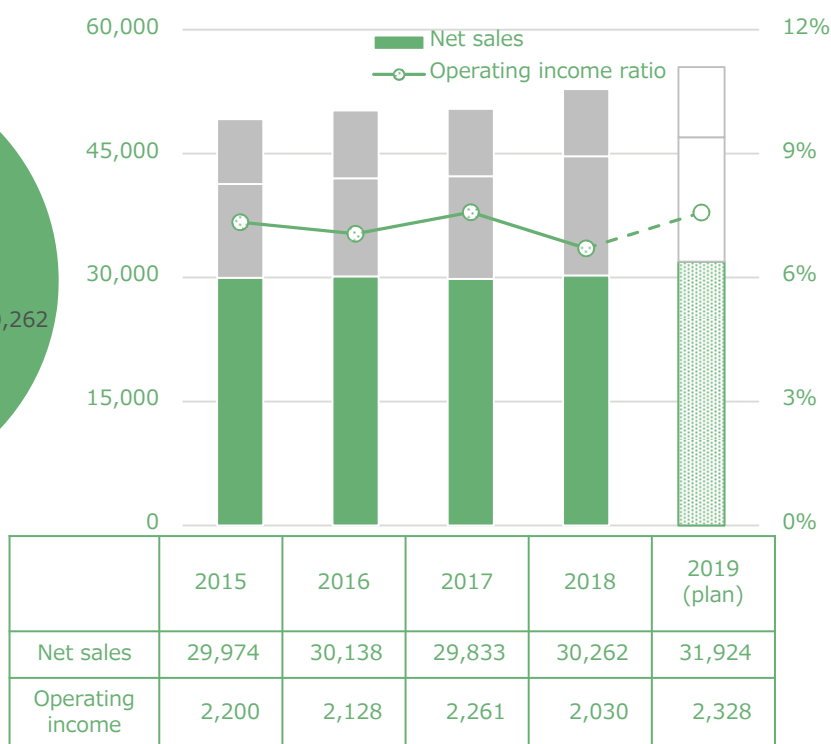
Number of operating sites	KONDOTEC INC. 30 operating sites (Subsidiaries) KONDOTEC INTERNATIONAL (THAILAND) CO., LTD. CHUOH GIKEN Co., Ltd.
Number of customers	Approximately 15,000 companies
Number of new customers*	1,728 customers
Net sales of new customers*	1,289 million yen
Characteristics	<ul style="list-style-type: 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, 2018

Domestic construction markets were solid for both private and public works, with construction & Civil engineering related products and merchandise such as braces, secondary steel products, scaffolding chains, lifting clamps and construction site equipment, showing steady movements. As a result, net sales came to 30,262 million yen, up 1.4% from a year earlier.

In terms of profit, selling, general and administrative expenses increased, in particular freightage expenses and personnel expenses, in addition to the decreased gross profit ratio due to the difficulty in passing on the increased purchasing costs of imported products. Consequently, operating income decreased 10.2% to 2,030 million yen.

Initiatives Going Forward

Construction work for the 2020 Tokyo Olympic and Paralympic Games have started in earnest and the demand associated with the event is expected to spread from the Tokyo Metropolitan area 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 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 year ending March 31, 2019, which are net sales of 31,924 million yen and an operating income of 2,328 million yen.

Risks

- 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 segment's sales, 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 segment.

- Dependence on imported merchandise and FX fluctuation

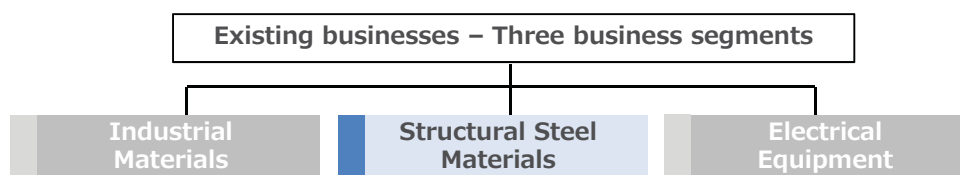
The segment has been moving forward with its efforts to increase procurement of imported

merchandise 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 Segment.

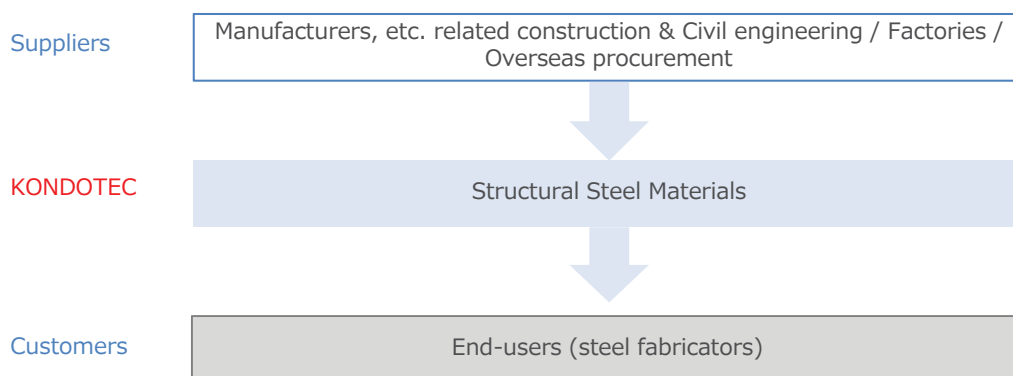
- Price competition
- Impact of fluctuation in product markets

P16 Risks
P16 Risks



■ Structural steel materials

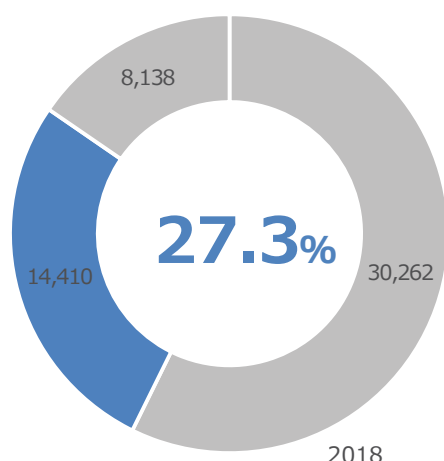
We manufacture, procure, and sell construction-related materials for steel fabricators.



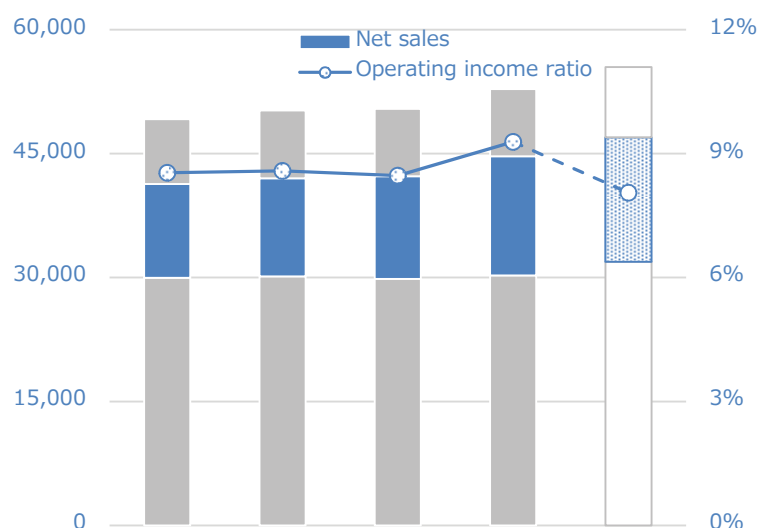
Number of operating sites	KONDOTEC INC. 16 operating sites
Number of customers	Approximately 5,000 companies
Number of new customers*	693 customers
Net sales of new customers*	890 million yen
Characteristics	<ul style="list-style-type: none"> • Operating performance increases/decreases in connection 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)



	2015	2016	2017	2018	2019 (plan)
Net sales	11,344	11,866	12,432	14,410	15,055
Operating income	968	1,018	1,052	1,338	1,212

Overview of the Year Ended March 31, 2018

Demand for steel frames moved steadily in major products using structural steel materials such as steel frame materials, high-strength bolts, braces and anchor bolts, due to the increase in accommodation facilities for inbound tourists, and low to medium rise properties, including distribution warehouses and factories. As a result, net sales came to 14,410 million yen, up 15.9%

from a year earlier. In terms of profit, as a result of efforts to absorb the decrease in gross profit ratio due to increase in purchasing costs and the increase in sales, general and administrative expenses by increased revenue, operating income increased 27.1% from the year before to 1,338 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 redevelopment construction work in urban areas and the 2020 Tokyo Olympic and Paralympic Games, large-scale distribution warehouses and hotels for inbound demand, the KONDOTEC Group will attract new and dormant customers and boost sales of products in an effort to expand net sales.

Key initiatives to take toward achieving further growth going forward are increasing orders

related to construction projects by strengthening sales to large steel fabricators and expanding transactions with steel trading companies, as well as strengthening sales of major products, centered on factory products.

By taking these initiatives, we will aim to achieve net sales of 15,055 million yen for the year ending March 31, 2019. For operating income, we plan on 1,212 million yen mainly due to an increase in sales, general and administrative expenses for new operating site opening.

Risks

• Price competition

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

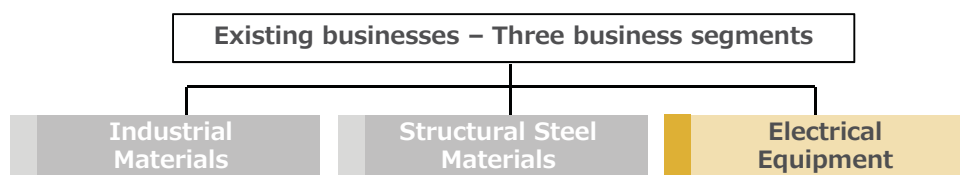
• Impact of fluctuation in product markets

Procurement prices of raw materials for the products of the segment tend to fluctuate depending on the demand & supply trends of steel

materials. The segment 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 segment.

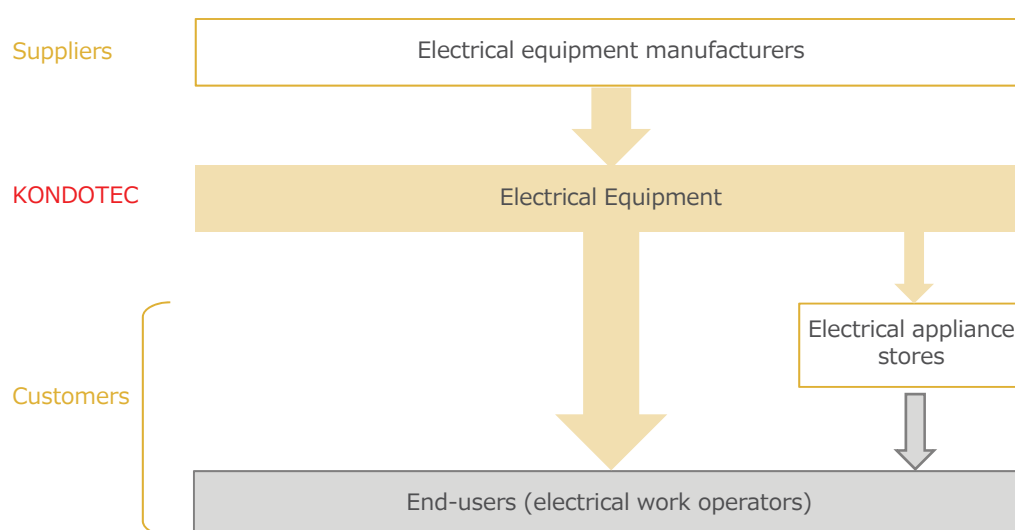
• Dependence on public investments and private capital investments

► P14 Risks



■ Electrical equipment

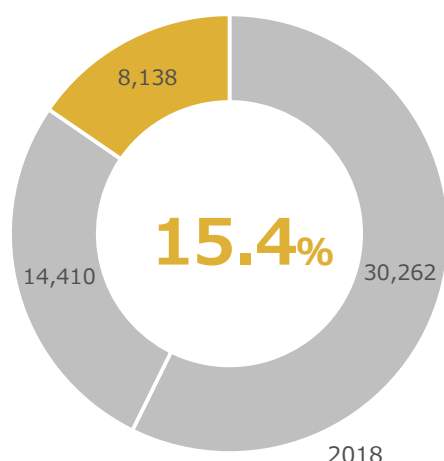
We procure and sell electrical equipment to electrical work operators engaged in construction of houses, buildings, facilities, factories and other structures and to electrical appliance stores. This business is handled by a consolidated subsidiary, Sanwa Denzai Co., Ltd.



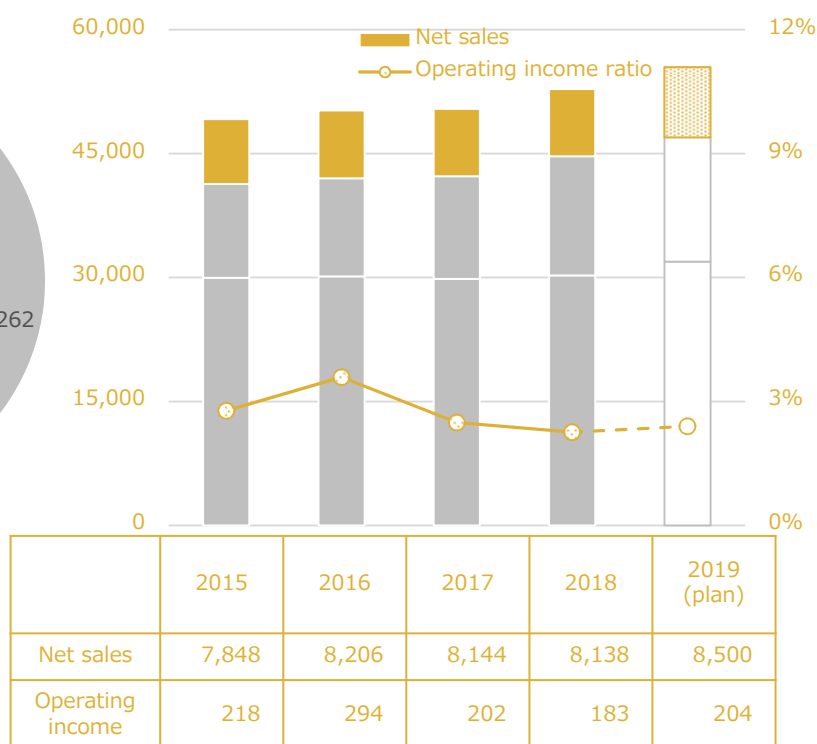
Number of operating sites	(Subsidiary) Sanwa Denzai Co., Ltd. 15 operating sites
Number of customers	Approximately 4,500 companies
Number of new customers*	401 customers
Net sales of new customers*	662 million yen
Characteristics	<ul style="list-style-type: none"> • Merchandise handled are mainly electrical 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, 2018

Demand for mega-solar projects decreased, while there were increases in large-lot road-lighting facility projects related to public work, as well as relatively small-scale solar power generation facility projects for independent houses. As a result, net sales came to 8,138 million yen, down 0.1% from a year earlier.

In terms of profit, operating income came to 183 million yen, down 9.5% 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.

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 to ensure bringing in orders and increasing net sales.

To achieve incremental growth going forward, we will enhance our power as an organization by developing human resources such as the

reinforcement of management abilities through training; attract new and dormant customers; increase merchandise handled; and widen areas of distribution. Furthermore, we will focus on increasing orders received by direct sales to housing manufacturers and end-users.

By taking these initiatives, we will aim to achieve our targets for the year ending March 31, 2019, which are net sales of 8,500 million yen and an operating income of 204 million yen.

Risks

- Dependence on public investments and private capital investments (in Tokai area) ▶ P14 Risks

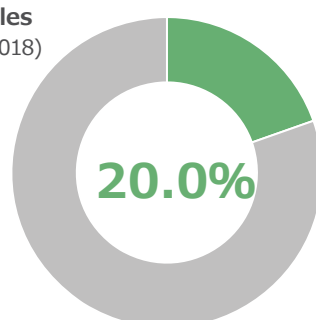
- Price competition ▶ P16 Risks

■ Functions as a manufacturer (Roles of factories)

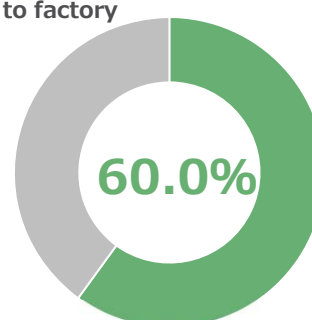
With a view to promoting a local community-oriented sales structure, the Company, as a wholesale company with a manufacturing division, maintains four factories in Japan and makes an effort to pay careful attention to customer feedback in distributing products.

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 (2018)



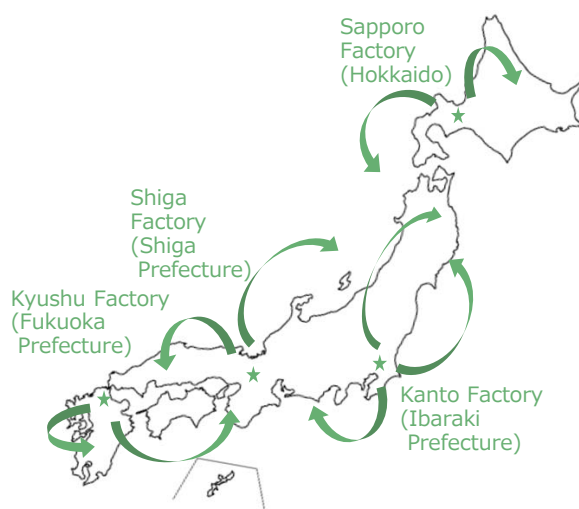
Percentage of made-to-order products to factory products



■ 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 quick 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.

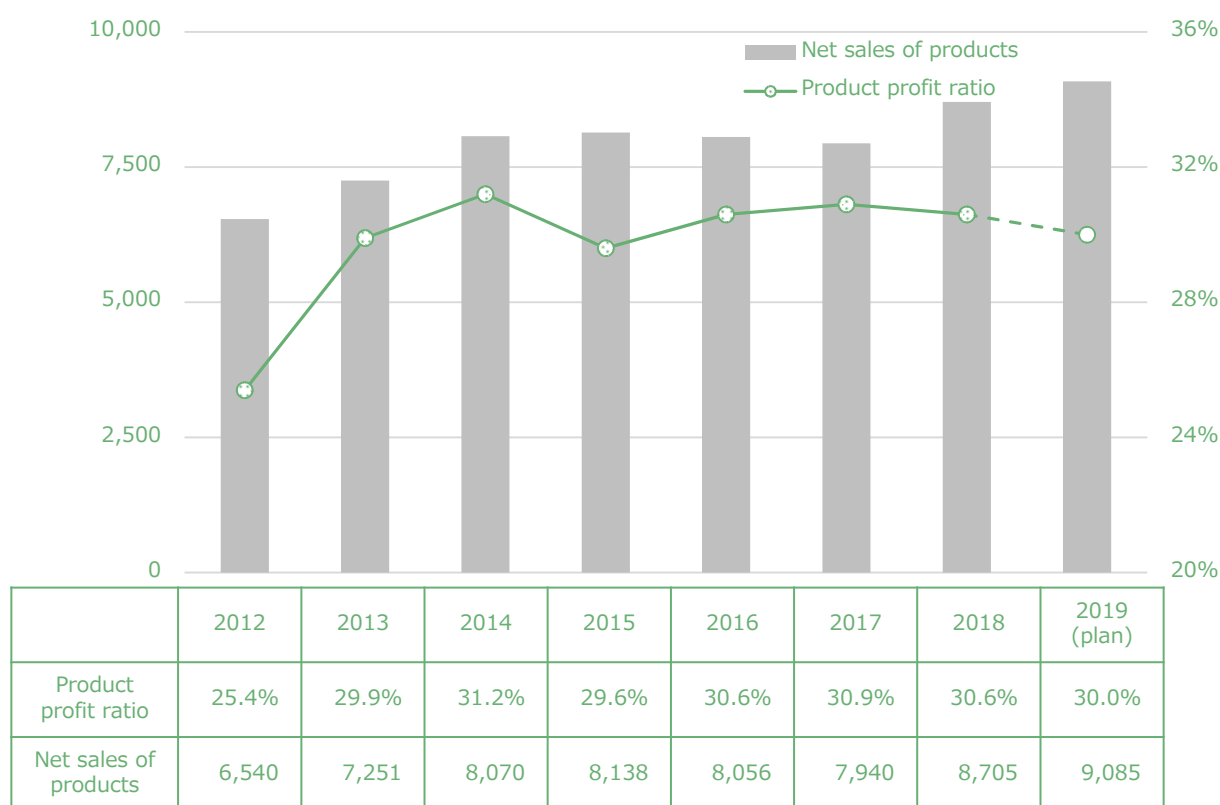
Pursuing the safety of products

The Company is a brace manufacturer that has acquired JIS from the production of turn buckle bodies to turn buckle products with all our factories having acquired JIS (Japan Industrial Standards) for turn buckles, etc.

Moreover, we are actively acquiring ISO (International Organization for Standardization) certification.

▶ P45

Transition of Product Profit Ratio (million yen)



■ 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, Inukami-gun, 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 machinery and electronic parts for automobiles and household appliances

Top Message

To respond to stakeholders' expectations

The history of KONDOTEC is one of responding to the needs of customers and society.
We will continue to identify those needs accurately and meet expectations.



■ History and the current situation of the Company

We, KONDOTEC INC., are a manufacturer and wholesale company providing infrastructure and environment related products and merchandise to various industries, including civil engineering and construction. The Company started business as Kondo Shoten in Taisho-ku, Osaka in 1947, and reorganized into a stock company in 1953 to establish Kondo Shoten Co., Ltd. We had been assembling and producing hardware for vessels, mainly shackles, wire rope clips, etc., since foundation, and in 1955 introduced new manufacturing facilities to take the first step as a full-fledged manufacturer from the previous assembling production. Subsequently, as the Japanese economy entered into the growth period, which increased demand for construction, the Company established operating sites with inventories in major cities across Japan, dealt with various customer needs and responded to customer requests with quick delivery. We continued to increase products and merchandise we handled to meet customers' requests and needs, open operating sites, and reorganize.

Currently, the Company has three segments. The first one is the industrial materials, which sells industrial materials such as many factory products and purchased merchandise to various industries including construction and distribution related, fishery materials and agricultural materials. The second one is structural steel materials, which supplies materials to steel fabricators processing frameworks of construction such as distribution warehouses and factories. The third one is Sanwa Denzai, our subsidiary in Nagoya. It is the electrical equipment, which delivers solar power and LED lights, air-conditioners, electric wires, switches, etc., to electrical work operators. We deal with products and merchandise totaling well over 50,000 items, and receive new inquiries every day. Much of the products and merchandise we deliver is used at construction sites and factories, and may be accompanied with risk if the method of use, etc., are not appropriate for the situation. It is also an important role for the Company to assist in the prevention of accidents by fully acquiring knowledge of products and merchandise.

■ For Growth Going Forward

Provision of safety and security

The Company group has been growing without incurring a deficit on an ordinary income basis from its establishment to the present day by quickly grasping the needs of customers and changes in the social situation and responding flexibly (*excluding irregular financial settlements). And, in order for companies to develop perpetually, it will become even more important to have a management stance of promoting responses to key ESG issues. We recognize that as a wholesale company with a manufacturing function we need to fulfill the responsibility for the provision of optimal products and merchandise for environment measures, corporate activities paying attention to the environment, quality improvement in products and merchandise handled, and quality management. Not to mention the quality improvement of our products, which is an especially important part, regarding purchased merchandise and OEM products as well, our technical service staff and purchase section staff strive to improve quality by visiting local factories and giving technical instruction. Moreover, we have established an internally accredited qualification "Lifting equipment advisor" whose qualifiers endeavor to actively visit users of lifting equipment (including safety and health officers at construction sites and in factories), not only those who are in the area of their responsibility, and

inspect lifting equipment used for free in principle, and give advice or exchange opinions as appropriate.

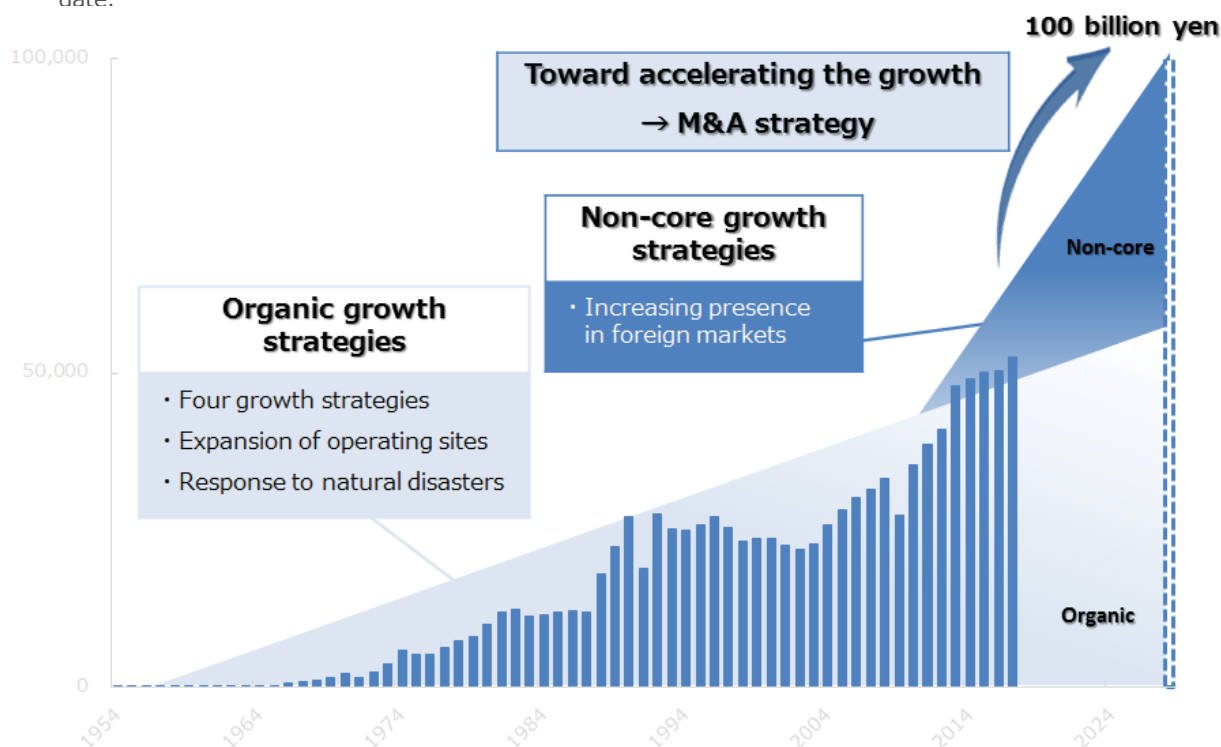
Changes according to the times

Moreover, as a characteristics of our offices, we use existing assets with care for the head office and operating sites. Please visit our head office if you have an opportunity. Many people are surprised at the gap between the head office building constructed in 1974 and our website substantially renewed in 2007. This culture of not incurring wasteful costs has been a good feature of the Kondo spirit for a long time. Going forward, however, we would also like to make capital investment in labor saving, and enhance offices and facilities for employee comfort, while succeeding the spirit of not incurring wasteful costs. The Company takes up Return On Equity (ROE) as a management indicator, targeting ROE of 10% or higher, while expanding strategic investment through M&As, etc., and aggressive business investment for growth, including capital investment. Being conscious of capital efficiency, we will carefully identify areas with potential for growth, and proceed with M&A strategies and entry into overseas markets.

■ Growth Strategy

KONDOTEC has two sides, as a wholesale company and a manufacturer. Fusion of these two has been generating not simply two, as a result of one plus one, but infinite expansion. The Company divides the growth strategy into two; organic growth strategies and non-core growth strategies. Organic growth strategies are the business strategies for existing businesses, based on which KONDOTEC has established the earnings base to date.

On the other hand, non-core growth strategies are the initiative to strengthen those other than the existing businesses, which is advocated as strategies for a possible new earnings driver aiming for a further leap going forward. With these as pillars, we will strive to exceed net sales of 100 billion yen during 2020s. We will continue to expand businesses to achieve sustainable growth.



KONDOTEC

VISION

Growth strategy of
KONDOTEC

Medium-term Management Plan

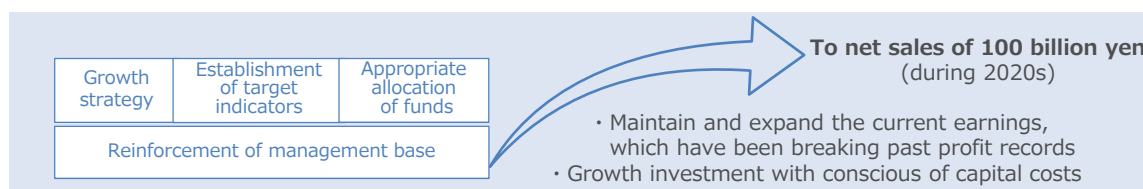
■ Recognition of the Business Environment

For the time being, favorable conditions are expected to continue due to inbound demand, and demand in anticipation of the 2020 Tokyo Olympic and Paralympic Games, etc. Regarding risks, we expect changes in the business environment in which demand for construction investment in Japan, which is the existing core business, will decrease while demand for maintenance and repair will increase.

	Present	Future (FY2020 and after)
	Robust construction investment demand	Decrease in construction investment demand and increase in maintenance and repair demand
Japan	<ul style="list-style-type: none"> Expansion of inbound demand Construction work for facilities related to the 2020 Tokyo Olympic and Paralympic Games Increase in private capital investment due to improved corporate earnings Construction work related to the Linear Chuo Shinkansen and projected Shinkansen lines 	<ul style="list-style-type: none"> Shrinkage of domestic markets due to population decrease Restraint in public investment due to fiscal constraint
Overseas	<ul style="list-style-type: none"> Increase in maintenance/repair construction work due to the aging of social infrastructure Higher need for anti-disaster, disaster mitigation and earthquake resistance against natural disasters Response to labor shortages and work style reform 	
CSR	<ul style="list-style-type: none"> Economic growth of ASEAN countries 	<ul style="list-style-type: none"> Response to SDGs and ESG

■ Basic Policy

While a favorable environment continues, we will strive for sustainable growth and improvement in long term corporate value by responding to changes in the business environment through investment in areas expected to grow going forward (overseas, maintenance and repair, and labor-saving).



■ Financial Target

《Long-term target》

During 2020s

Net sales(Consolidated)

100 billion yen

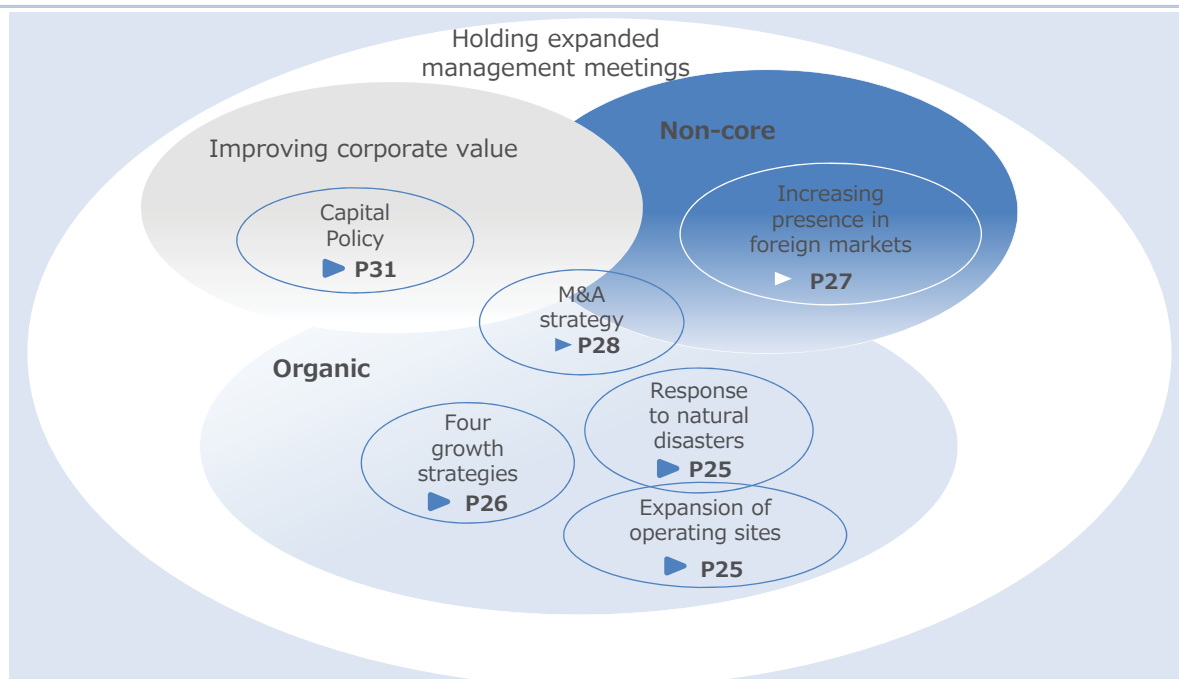
《Medium-term Target》 We will aim to achieve increase in net sales and income by financial target based on the Existing sales structure

Consolidated target (million yen)	2018 (Actual)	2019 (Plan)	2020 (Plan)	2021 (Plan)
Net sales	52,811	55,316	58,056	58,674
Operating income	3,537	3,733	4,013	4,089
Ordinary income	3,655	3,833	4,112	4,191
Profit attributable to owners of parent	2,523	2,626	2,818	2,873

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

Growth Strategy

Basic structure



Existing business strategies (organic growth strategies)

■ Expansion of operating sites

We strive for expansion of operating sites which maintained a local-community-oriented sales structure in order to respond quickly to customer needs.

Recently, we opened the E-commerce Group in July 2017 and the Okayama office in April 2018.

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.

We will continue to execute quick deliveries in an effort to realize customer-focused management.

Risks

If the intensified price competition continues with other competing companies in the local market of each operating site, it may affect earnings.

* Response to the risks

▶ P8 Strength in sales methods



Okayama office

■ 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.

All operating sites have inventories and maintain a structure across Japan that enables us to immediately respond to such urgent demand for products and merchandise and carry out our responsibility to supply.

Risks

With many applicable merchandise being imported ones, securing merchandise may become difficult due to unexpected events such as changes in overseas economic situations, including China. In addition, substantial changes in foreign exchange markets may affect earnings.

* Response to the risks

▶ P8 Strength in procurement

One of merchandise for natural disasters

Tarpaulins (Left)

Flexible container bags (Right)



■ Four growth strategies

KONDOTEC is taking 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.

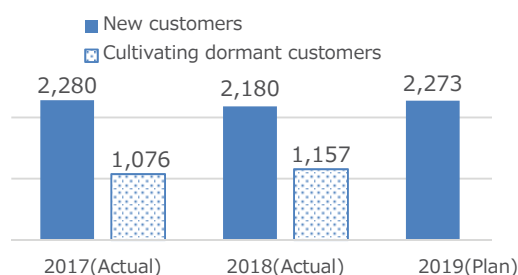
In addition, we exploit a yearly average of 10 dormant customers per sales representative and these activities form the source for 20,000 sales customers.

▶ P8 Strength in 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. 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,

Net sales (million yen)



we make use of Akinaga Factory Co., Ltd.'s manufacturing technologies.

We will continue to develop and cultivate merchandise with even higher added value in order to offer such merchandise.



YOKE Industrial Corp.'s eye bolt (Yellow Point Series)



ALPS-mark iron pulley

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.

Furthermore, we also issue product catalogs specific to certain sectors and customers, such as those on lifting equipment, materials to prevent

damage from wildlife, and agricultural equipment, in addition to the general product catalog containing products and merchandise with high customer needs.



Catalog of lifting equipment



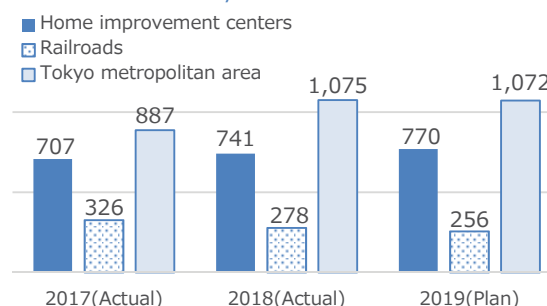
Catalog of materials to prevent damage from wildlife, and agricultural equipment

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)



Risks

• 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.

• 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.

* Response to the risks ▶ P8 Strength in customers

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

■ 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 company 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.

Risks

Problems in pursuing business due to unexpected events may occur, including changes in political or legal environments, as well as economic turmoil in countries such as China and Thailand.

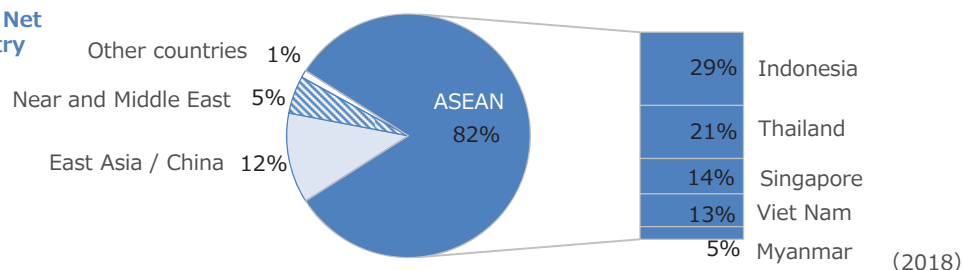
Moreover, a substantial change in foreign exchange markets may affect earnings and the financial situation of the KONDOTEC group.

KONDOTEC INC. and overseas expansion

While the planned figure for net sales from overseas business in the year ending March 31, 2019 is 366 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.

Percentage of Net Sales by country



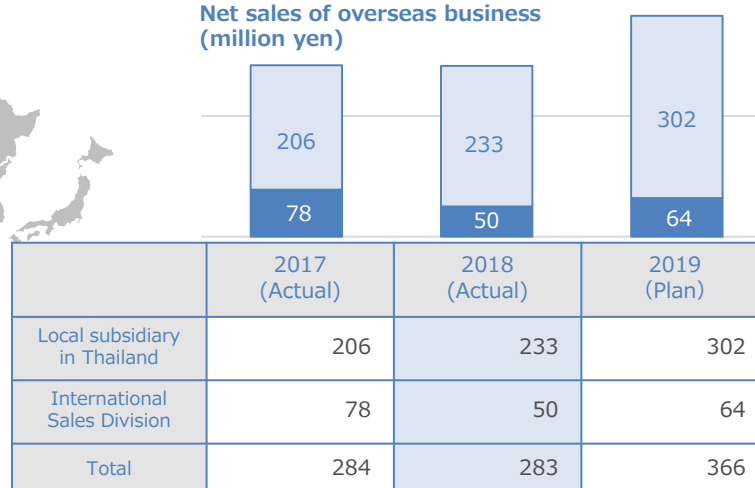
Subsidiary in Thailand

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



KONDOTEC INTERNATIONAL (THAILAND)

Net sales of overseas business (million yen)



*Amounts of inter-company transactions are not included.

Toward accelerating the growth of the present's KONDOTEC (Organic) and the future's KONDOTEC(Non-core)

■ 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.

Moreover, we strive to expand sales of highly value-added products and improve corporate value in the medium to long term by concluding a business/capital alliance in February 2018 with

N-PAT Co., Ltd., which manufactures and sells construction hardware centered on "Post-construction anchors" and "Inserts"

Risks

A substantial change in economic conditions and unexpected events may affect the financial position of the KONDOTEC group, although we examine the acquisition of companies and capital/business alliances using multiple indicators and standards, while considering the market environment, etc., we are placed in.

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

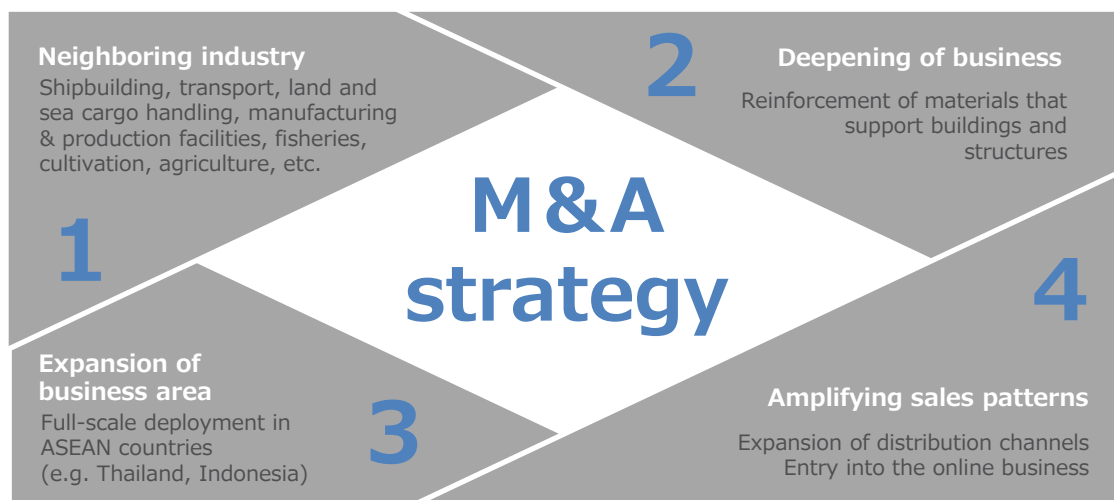
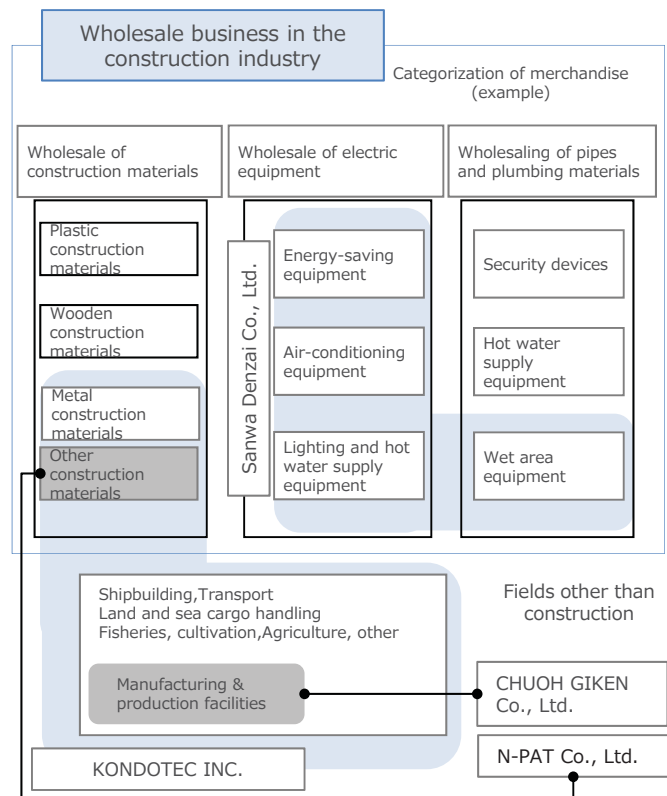
Pursue M&A with material manufacturers, etc.
Actual case: CHUOH GIKEN Co., Ltd.

③ Expansion of business area

Pursue M&A with companies that maintain overseas sites to promote business area expansion

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.



Interview with General Manager of Management Headquarters

■ To Become a Company Where Everyone Believes in Growth



Tomoya Ando
Became General Manager of Management Headquarters in 2007
General Manager of Management Headquarters and
Manager of General Affairs Division, Director of Sanwa
Denzai Co., Ltd. and Director of CHUOH GIKEN Co., Ltd.

With more than 10 years having passed since you assumed the post of General Affairs Manager of KONDOTEC Inc. in 2007, have you seen any changes in these 10 years?

First, since 2008, we have strengthened the recruitment of women for main career track for university graduates in our company. Women in general management positions were rare 10 years ago but are now a matter of course. Moreover, these 10 years have seen a lot of changes in work styles as well.

Regarding our business track record, we made Sanwa Denzai, Co., Ltd., a subsidiary, to be the first Consolidated subsidiary in 2010, and we were changed from a designated stock on the Tokyo Stock Exchange 2nd section to the Tokyo Stock Exchange 1st in the following year. These two were big changes. Presumably because of this experience, we were able to make CHUOH GIKEN Co., Ltd. a subsidiary in 2014. In terms of sales, net sales in FY2008 were 31,442 million yen, operating income 1,786 million yen and profit 1,114 million yen. FY2018 saw net sales of 52,811 million yen, operating income of 3,537 million yen, and profit of 2,523 million yen, growing to nearly double. We are proud of this growth rate, compared to the growth rate for net sales of 1.2 times in 12 years from FY1996 when we were first listed on the Osaka Stock Exchange to FY2008.

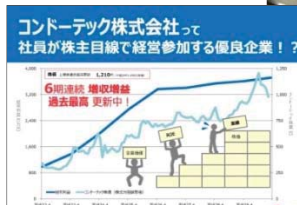
Moreover, we have been focusing on "Improvement of Corporate Value" along with the improvement in earnings. Incorporating the stock split in 2012, our closing price rose from 500 yen on March 30, 2007, to 939 yen on March 30, 2018, with the Company's market capitalization of 26,300 million yen and a profit ranking of 1,214th among listed companies. If the ranking in profit is the measure indicating corporate value (market capitalization), the market capitalization for a 1,214th ranking should be 48,500 million yen with the stock price 1,732 yen in that case. As you can see we still have much room for growth.

I see. Speaking of the improvement in corporate value, the title of the IR document for individual investors this fiscal year was impressive. With what intention did you use such a title?

You are referring to the catchphrase "KONDOTEC Inc. is an excellent company where employees participate in management from the perspective of shareholders", right? This document was prepared by employees in their fourth year at the Company.

The participation rate for our employee shareholders association is about 79%, which is outstandingly high compared to the average of 40% for listed companies. Moreover, in addition to participation in the shareholders association, we have introduced the Board Benefit Trust (BBT) and the Employee Stock Ownership Plan trust to provide stock with the objective of increasing the motivation of employees to improve earnings, and offering directors and employees opportunities to own our company stock. Not only are there many opportunities for acquisition, the shareholding ratio of our directors, employees, and former employees is 17%, far exceeding the average of 1% for listed companies. Presumably, one of the reasons for this is that former employees in particular know well we have never reduced dividends since our listing and have been extending our record of increasing dividends, and thus many people own our stock for pensions. I believe these figures are made possible by the conviction of directors, employees, and former employees on the growth of the company. This company is not well known by the general public. I think it is my important mission to engage in public relations so that many people will understand the attractiveness of KONDOTEC Inc. In terms of dividends, while fully taking into account both consolidated operating results and the consolidated dividend payout ratio, we have the basic policy of distributing dividends to shareholders continuously and stably, targeting a dividend on equity (DOE) ratio of 2.5% or higher going forward. We would like to conduct management in accordance with the policy.

The Company participates in IR events for individual investors every year.



Hand out for this fiscal year.
Eye-catching title attracted attention.

■ Meeting Expectations with Capital Allocation

— In addition to DOE, you have included ROE (Return on Equity) as a management indicator in the Medium-term Management Plan.

That's right. Our capital policy stands on two key components; "capital efficiency target" and "shareholder return target." ROE will become a major management indicator in promoting initiatives in view of ESG as well going forward. We aim for an ROE of 10% or higher by striving to improve capital efficiency as well as working to

strengthen our financial position and take other steps to enhance our earnings capability in pursuing strategic investment by M&A and other means, as well as actively expanding business investment aimed at growth.

With operating cash flows of 8,400 million yen and funds on hand of 9,893 million yen at the moment, we are making investment for growth focusing on (1) investment in people, (2) capital investment, and (3) strategic investment (table below), with the following results:

			Budget	Actual (Recent 3 years)	
Operating CF 8,400 million yen (*1)	Investment for growth	Investment in people	Transformation of lump-sum retirement allowance to defined-benefit corporate pension plan	1,200 million yen	No actual pay-ment
		Capital investment	Equipment replacement, introduction of new equipment to factories, etc.	2,800 million yen	1,979 million yen
		Strategic investment	Execution of M&A	3,600 million yen	(*2)
Funds on hand 9,893 million yen	Shareholder return	Dividends	Stable and continuous dividends	2,300 million yen	1,864 million yen

(*1) Temporary increase in contributions due to the transformation of lump-sum retirement allowance to defined-benefit corporate pension plan is not included.

(*2) While we acquired CHUOH GIKEN Co., Ltd. during the period, the amount is not disclosed.

Senior Executive Director Tomoya Ando

Biography

June 2007	After serving as Manager of Nakanoshima Branch of MUFG Bank, Ltd., became Manager of General Affairs Division of KONDOTEC								
	[History before joining the Company]								
	<table> <tr> <th>Period</th><th>Details</th></tr> <tr> <td>About 10 years</td><td>Banking operations in general (Counter, marketing, loan, etc.)</td></tr> <tr> <td>About 10 years</td><td>Securities operations in general (Primary, support for stock-offering, cross-shareholding, portfolio management, securities subsidiary management, etc.)</td></tr> <tr> <td>About 10 years</td><td>Management in general (serving as Branch Manager at 5 branches of 3 banks in 3 areas of Tokyo, Nagoya and Osaka)</td></tr> </table>	Period	Details	About 10 years	Banking operations in general (Counter, marketing, loan, etc.)	About 10 years	Securities operations in general (Primary, support for stock-offering, cross-shareholding, portfolio management, securities subsidiary management, etc.)	About 10 years	Management in general (serving as Branch Manager at 5 branches of 3 banks in 3 areas of Tokyo, Nagoya and Osaka)
Period	Details								
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About 10 years	Management in general (serving as Branch Manager at 5 branches of 3 banks in 3 areas of Tokyo, Nagoya and Osaka)								
Subsequent period	Executive Director, General Manager of Management Headquarters, Manager of General Affairs Division of the Company								
	Senior Executive Director, General Manager of Management Headquarters, Manager of General Affairs Division of the Company								
	To the present (concurrently serving as Part-time Director of Subsidiaries)								

Improving corporate value

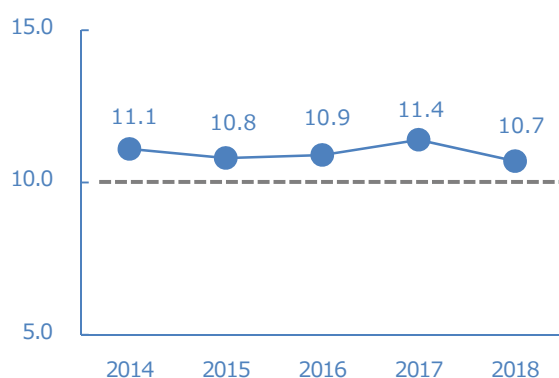
■ Capital policy

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.

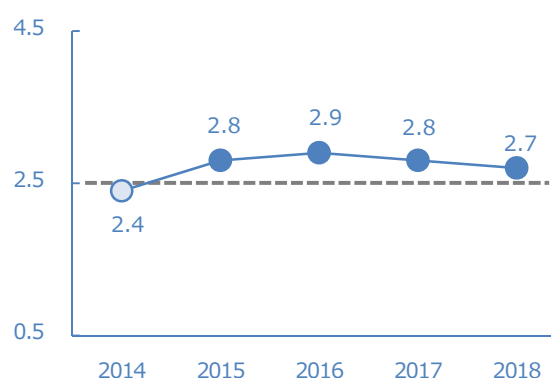
Actual ROE (%)

Target: **10% or more**



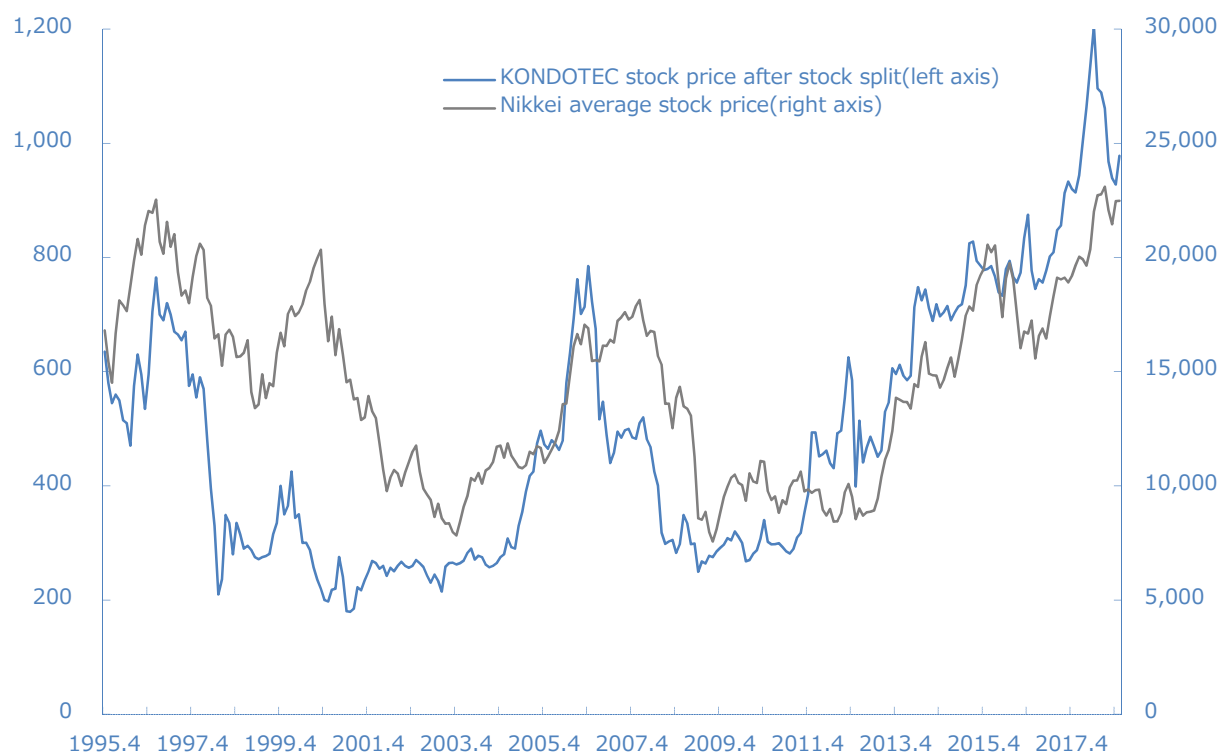
Actual DOE (%)

Target: **2.5% or more**



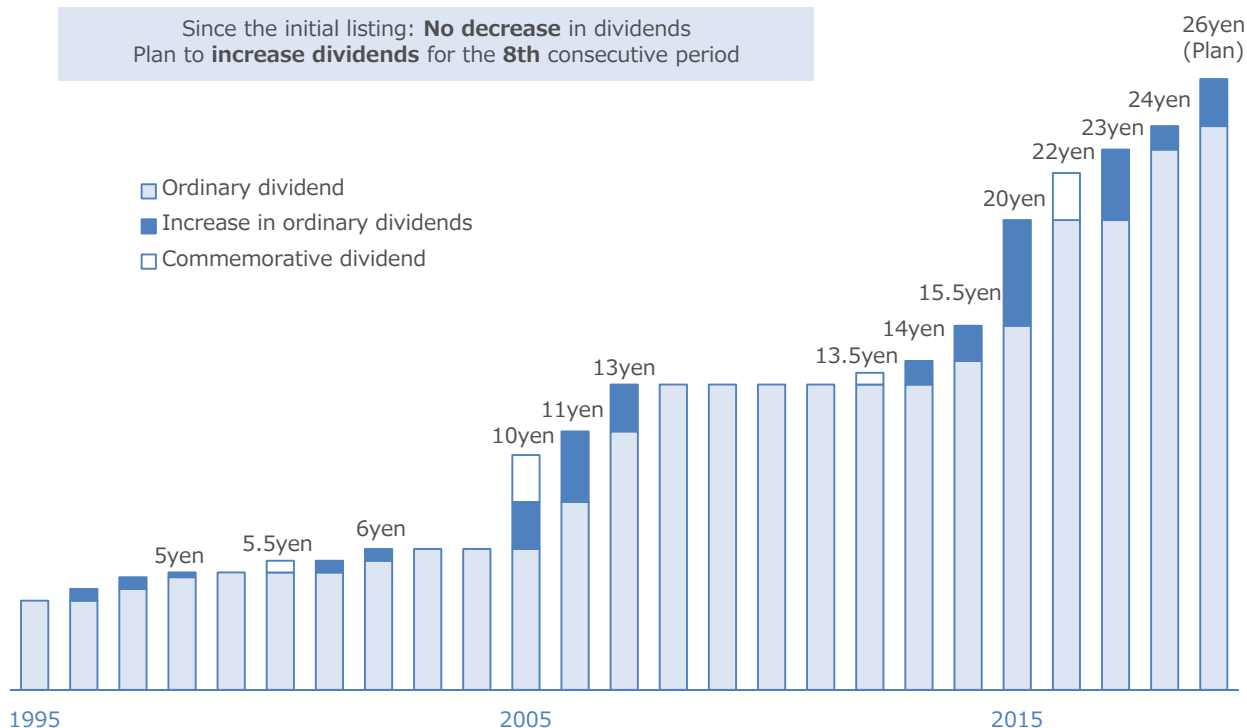
The target ROE of 10% or higher can be achieved if profit increases 10% every year. Moreover, the target DOE of 2.5% or higher can be achieved if profit and dividends increase 10% every year (Equity capital is assumed to be increased by the amount of profit in the previous year).

Transition of stock price (Yen)



Transition in dividends

Since the initial listing: **No decrease** in dividends
Plan to **increase dividends** for the **8th** consecutive period



■ Cancellation of Treasury Stocks

While owning treasury stocks to implement flexible capital measures in response to changes in the management environment, the Company cancelled treasury stocks to increase shareholders' profit through the decrease in the total number of shares issued.

Shares cancelled	Common shares of the Company
Cancellation date	June 1, 2018
Number of shares cancelled	700,000 shares (Ratio to the total number of shares issued before cancellation: 2.50%)

■ Dividend yield

Closing price on March 30, 2018: **939 yen**

Dividend yield	2.6%
Dividend yield including shareholder incentives	~3.5%

■ 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.

FINANCIAL DATA

Financial Information

Consolidated Financial Highlights

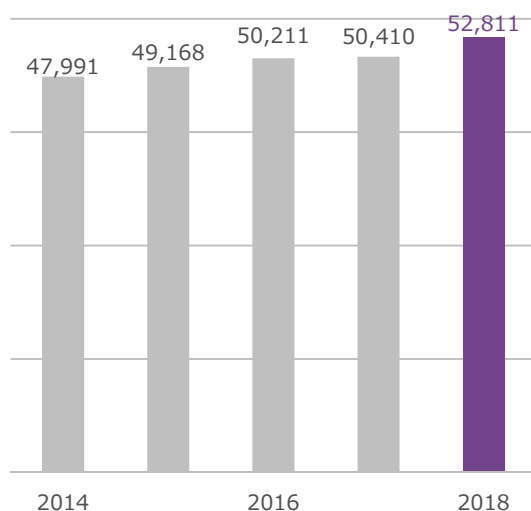
	2014	2015	2016	2017	2018	2018
■ Results of Operations(million yen and Thousand U.S. dollars)						
Net sales	¥47,991	¥49,168	¥50,211	¥50,410	¥52,811	\$497,098
Ordinary income	3,368	3,408	3,544	3,614	3,655	34,403
Profit attributable to owners of parent	1,992	2,098	2,239	2,497	2,523	23,750
Capital investment	679	403	842	695	423	3,983
Depreciation	418	449	405	438	423	3,985
*1 EBITDA	3,784	3,860	3,910	4,052	4,079	38,397
■ Financial Position (million yen and Thousand U.S. dollars)						
Total assets	¥34,481	¥35,186	¥34,645	¥36,524	¥39,313	\$370,041
Net assets	18,783	20,231	21,102	22,719	24,745	232,923
Interest-bearing debt	806	636	508	501	500	4,712
■ Cash Flows(million yen and Thousand U.S. dollars)						
Cash flows from operating activities	¥1,887	¥1,818	¥1,945	¥2,737	¥2,429	\$22,868
Cash flows from investing activities	(660)	828	(829)	(646)	(506)	(4,771)
Cash flows from financing activities	(389)	(699)	(1,092)	(1,032)	(703)	(6,624)
Cash and cash equivalents, end of year	5,636	7,626	7,594	8,660	9,893	93,120
■ Per Share Information(Yen and U.S. dollars)						
Profit attributable to owners of parent per share	¥72.13	¥75.91	¥81.01	¥93.29	¥94.25	\$0.88
Net assets per share	679.27	730.49	774.18	846.59	922.62	8.68
Dividend per share	15.50	20.00	22.00	23.00	24.00	0.22
■ Financial Indicators						
Ordinary income margin (%)	7.0	6.9	7.1	7.2	6.9	
Profit attributable to owners of parent margin (%)	4.2	4.3	4.5	5.0	4.8	
*2 ROE (%)	11.1	10.8	10.9	11.4	10.7	
*3 ROA (%)	6.1	6.0	6.4	7.0	6.7	
*4 Equity ratio (%)	54.4	57.4	60.8	62.1	62.8	
DOE (%)	2.4	2.8	2.9	2.8	2.7	
*5 Current ratio (%)	170.1	187.6	205.8	212.4	219.9	
*6 D/E ratio (%)	4.3	3.1	2.4	2.2	2.0	
*7 Fixed ratio (%)	53.6	48.5	48.0	45.6	42.4	
Ratio of retained earnings to total assets (%)	44.1	46.4	51.9	54.4	55.4	
■ Stock Price Index						
Stock closing price (Yen)	¥718	¥786	¥834	¥933	¥939	
Price earnings ratio (Times)	10.0	10.4	10.3	10.0	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 of average two years
 *4 Equity ratio = (Net assets - Subscription rights to shares - Non-controlling interests) / Total assets

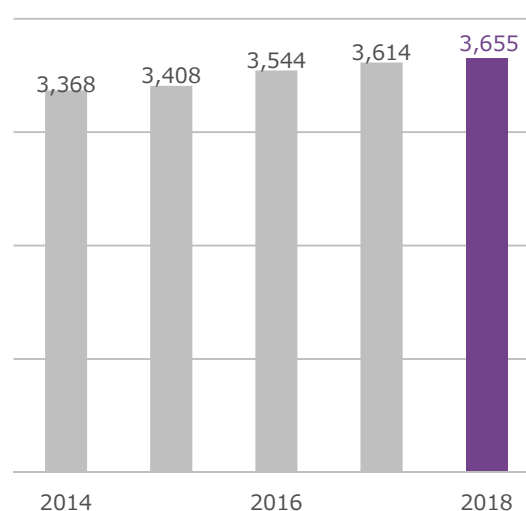
*5 Current ratio = Current assets / Current liabilities
 *6 D/E ratio = Interest-bearing debt / (Net assets - Subscription rights to shares - Non-controlling interests)
 *7 Fixed ratio = Non-current assets / (Net assets - Subscription rights to shares - Non-controlling interests)

Consolidated Financial Performance

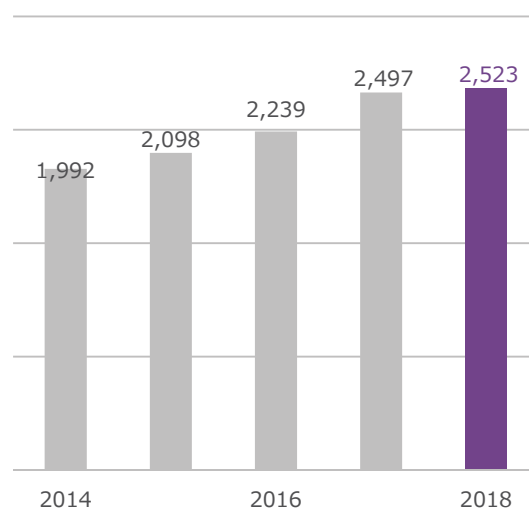
■ Net sales (million yen)

52,811 million yen**4.8 % UP**

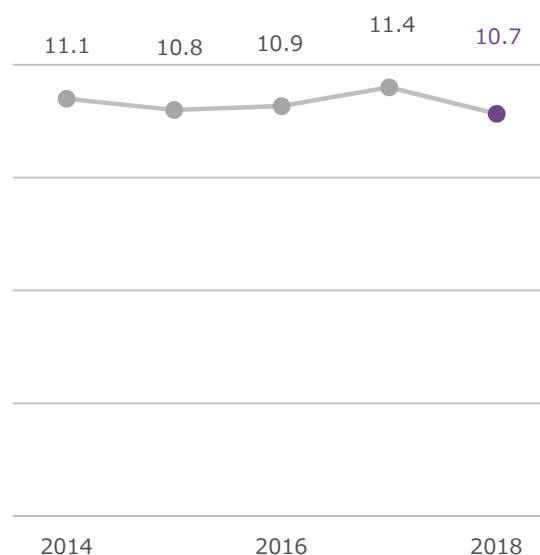
■ Ordinary income (million yen)

3,655 million yen**1.1 % UP**

■ Profit attributable to owners of parent (million yen)

2,523 million yen**1.0 % UP**

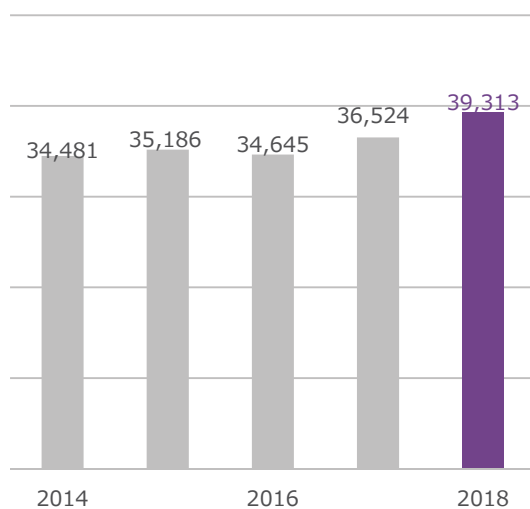
■ Return on Equity (ROE) (%)

10.7 %**0.7 point DOWN**

■ Total assets (million yen)

39,313 million yen

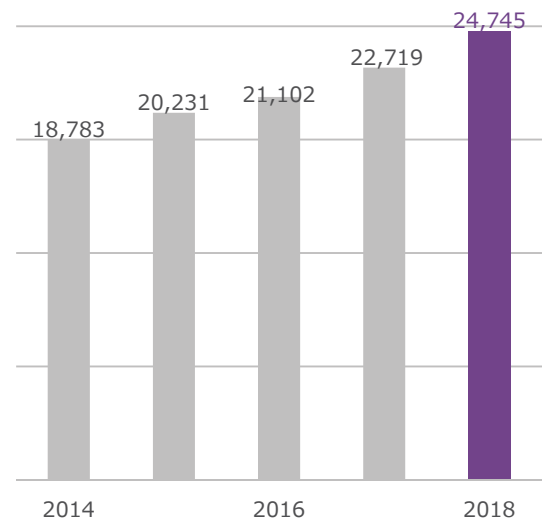
7.6 % UP ↗



■ Net assets (million yen)

24,745 million yen

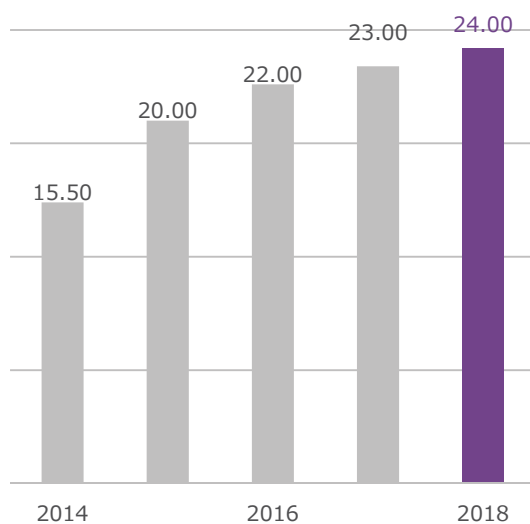
8.9 % UP ↗



■ Dividend per share (Yen)

24.00 yen

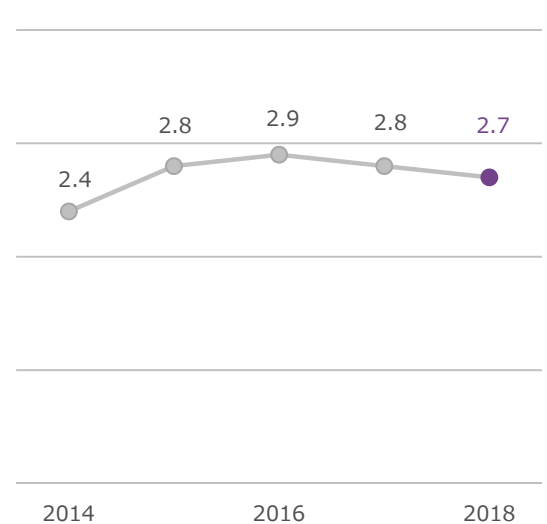
1 円 UP ↗



■ Dividend on Equity ratio (DOE) (%)

2.7 %

0.1 point DOWN ↘



Environment Social Governance

Environment / Social / Governance

From the Establishment of Corporate Identity (CI) to ESG Basic Policy

KONDO IRON WORKS Co.,Ltd. which started as a private concern, changed its company name in 1989, almost 30 years ago. While it was a time when the concept of ESG has yet to be born, our corporate identity was established with the wish to “Be a company which continues to develop regardless of how society and the economy change, and which is indispensable for society.” The spirit remains the same today, and is inherited in the ESG Basic Policy.



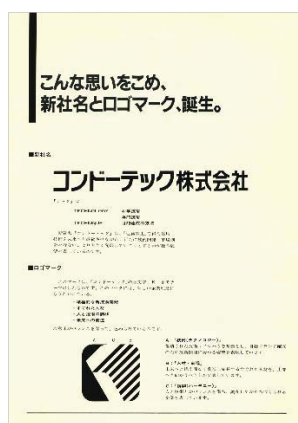
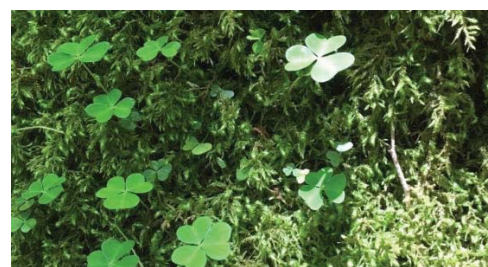
■ Logo

This logo uses the first letter of KONDOTEC “K” as the motif, implying the following meaning expressed in the corporate philosophy:

Proactive development of new technologies		This shape of placing the foot firmly on the ground and aiming for further ascendance expresses our stance of striving to develop new technologies to establish our own brand based on the accumulated technologies and know-how.
Harmony of people and technologies		This expresses a company that is formed from the balance and harmony between people and technologies. It also expresses the harmony and trust among employees, between companies and with surrounding local communities.
Excellent human resources and progress into the future		The uprising vector expresses excellent human resources who make progress and grow continuously into the future. It expresses the movement of their strong aspiration working on proactive development of new technologies and leading to further development.

■ Corporate Color [Deep green]

Green trees, the color of whose leaves in hills and fields keep deep green without change through four seasons and thus has been regarded as a “happy color” since ancient times. Their leaves of deep green create oxygen through photosynthesis benefiting the whole world. The Company has selected “deep green” as its corporate color because we also strongly wish to be a company that continues to develop regardless of how society and the economy change, and which is indispensable for society.



KONDO News ・ CI special issue (extra edition)



Example of CI used (mailed items, seals)



Company badge worn

ESG Basic Policy Outline

The figure shows the targets to be achieved and their issues in each ESG area.

In identifying the materiality of the Company, we considered the relationship with 17 SDGs goals to sort out materiality.

	Materiality		Current specific initiatives
Environment	(1) Provision of optimal products and merchandise for environmental measures	Products and merchandise handled by the Company (Presentation of environment-related products and merchandise)	Sale of eco-related merchandise, LED/solar power related merchandise
	(2) Corporate activities paying due consideration to the environment	Environmental protection and Energy-saving initiatives	Implementation of energy-saving measures (switch to LED lighting, reduction of electricity usage by 10%) Implementation of cool/warm biz Installation of solar power generation facilities Implementation of forest preservation activities and cleaning activities Implementation of plastic bottle caps collection activities Participation in "Fun to Share"
			Submission of the regular report to the Ministry of the Environment every year
		Management of emissions (material balance)	
Society	(1) Product liability and quality assurance	Quality management of products and merchandise	ISO9001 acquisition, compliance with JIS and other industry standards Implementation of quality inspection by various inspection organizations Establishment of the Quality Management Section in our factories Sale of highly safe products and merchandise Establishment of the meeting on complaints to share information
		Stance for security and safety	Clear description in catalogues of usage methods, points to note and disposal standards Introduction of internal training and the lifting equipment advisor system
	(2) Communication with shareholders and investors	Involvement with shareholders	Participation in IR events for individual investors Implementation of share buy-back Implementation of IR meetings with institutional investors Holding of briefings for institutional meeting twice a year
			Preparation of the integration report in English Implementation of IR meetings with overseas investors
	(3) Appropriate information disclosure and security	Stance for information disclosure	Upload of disclosure documents on the Company website Disclosure in CG report
		Information security measures	Management of customer/shareholder information Management of employees' personal information
	(4) Co-existence with local communities	Operating site opening plan	Selection of possible areas to capture demand Selection of the site for opening operating site paying due consideration to the nuisance for neighbors
	(5) Safety measures and work style reform	Measures for preventing risks such as disasters	Introduction of the risk control manual Transfer of the core system to the data center Introduction of dual head offices system
		For employees' health and safety/health	Work style reform Reduction of collection by sales staff (promotion of transfer to Densai) Reduction of internal documents and review of approval authority Implementation of regular health check-ups and stress checks Installation of toilets for women Implementation of counter-measures for heatstroke at factories
			Monthly regular safety patrols Holding of Safety and Health Committee
	(6) Human resource development and diversity	Policy on human resource development	Implementation of regular annual training Award (reward) system for operating sites and individuals according to sales results
		Diversity	Implementation of fair recruitment Maternity leave/childcare leave/support for returning to work, recruitment of foreign students studying in Japan, and creation of track & field club
		Employee benefits	Employee shareholders association system Introduction of the Employee Stock Ownership Plan (ESOP) and the performance-based stock option
Governance	(1) Reinforcement of corporate governance	Corporate governance	Evaluation of the effectiveness of the Board of Directors Prevention of the manifestation of potential costs by the development of governance system
	(2) Thorough compliance	Basic Policy on Compliance	Compliance action guideline Thorough checks on anti-social forces before transaction Formulation of a compliance manual, and implementation of employee education Information exchange and development of communication system between police and the companies (Membership in Osaka Prefecture Business Defense Council and the Business Defense Council in the jurisdiction of Nishi Police Station)

We will solve the issues of each materiality in management going forward to realize a sustainable society.

Future issues	Relevant SDGs
Acquisition of ISO14000 Expansion of products and merchandise with due consideration to the environment	    
Switch at operating sites which have not switched to LED lighting Purchase of environment-friendly products for office supplies Budgeting of expenses for environmental measures Manufacturing of products paying more consideration to the environment	
Establishment of specific reduction plan of CO2 emissions (environmental vision) Introduction of EMS	
Continuous provision of products/merchandise with high market value Increase and securing of personnel who can do marketing of technologies based on accurate knowledge	      
Consideration of exposure to various media such as newspapers and commercials to improve name recognition	
Disclosure of Q&As at briefing meetings	
Enhancement of IR documents in English Development of personnel who are fluent in English	
Consideration of facilitating financial settlement operations (Disclosure within one month of the settlement date)	
Establishment of a nominating committee, transition to a Company with Audit and Supervisory Committee	
Increase in the ratio of Outside Directors and Audit & Supervisory Board Members, and improvement in the effectiveness of internal audit	
Implementation of specific measures against cyber attacks	
Formulation and promotion of operating site opening plan according to the needs of communities	
Examination of the effectiveness of the risk control manual	
Improvement in the usage rate of paid leave, and reinforcement of the management system for employees' working hours Securing personnel for sections in need of man power	
Some operating sites have unisex toilets	
Decrease in industrial accidents at factories and in sales offices	
Introduction of more appropriate personnel evaluation, and spread of the self declaration system for transfer request, etc.	
Increase in female managers and recruitment of handicapped persons	
Acquisition of <i>Kurumin</i> (next generation support certification), establishment of a day-care center, and improvement in the ratio of taking maternity leave/childcare leave and returning to work	
Development of the awareness about stock price of the Company through the implementation of internal IR	
Consideration of the introduction of a third-party organization for the effectiveness evaluation Further reinforcement of the governance system	 
Securing of manpower, simplification of operations, and clarification of annual rules	

WE ARE KONDOTEC

KONDOTEC VISION

FINANCIAL DATA

ENVIRONMENT

SOCIAL

GOVERNANCE

SUPPLEMENT

ENVIRONMENT

Environmental Policy

Since its foundation in 1953, KONDOTEC has created and co-existed with future environmental value and engaged in business activities paying due consideration to the environment for the realization of a sustainable society, while contributing to the creation of an affluent society through the enhancement of social infrastructure by providing products and merchandise to various industries over a half century.

1. We will comply with legal regulations and matters agreed on by the Company for the environment regarding business activities, products and services
2. We will endeavor to reduce environmental burdens, reduce environmental pollution risks, and protect biological diversity and ecological systems by saving energy and resources, promoting recycling, reducing waste, reducing the consumption of chemical substances and engaging in green procurement.
3. We will continue to improve our activities by utilizing the environmental management system, setting environmental targets to achieve the Environmental Policy, conducting evaluations on environmental performance, and reviewing them regularly.
4. We will thoroughly inform all employees of the Environmental Policy and endeavor to conduct necessary education and enlightenment activities to engage in environment conservation activities.

Provision of Optimal Products and Merchandise for Environmental Measures

- Expansion of the handling of environment-related merchandise
(Presentation of products and merchandise)

Eco mold N 10



Eco Mark certification no.: 11 110 005
NETIS registration no.: CG-120003-A

This is a water soluble concrete form releasing agent that uses vegetable oil based raw materials. It can be safely used with less adhesion of concrete than oil-based merchandise.

Hand soap Eco-pro



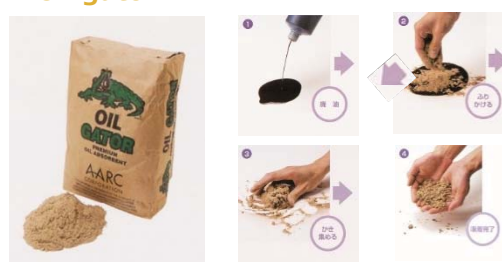
With the heightened movements especially in the U.S. and Europe to eliminate microbeads (plastic particles in facial cleansers, etc.), this is constituted of highly biodegradable and environment-friendly natural scrubs originating from wood.

Oil hunter



This is an eco-mark certified oil absorption mat using recycled materials. It is used for the disposing of oil at the time of marine pollution caused by oil spills and at factories which use oil.

Oil gator



This is a powder oil absorbent using 100% natural cellulose. With the addition of microbes capable of dissolving mineral oil and nutritional supplements, it can work as a material for improving soil.

Environment-friendly Corporate activities

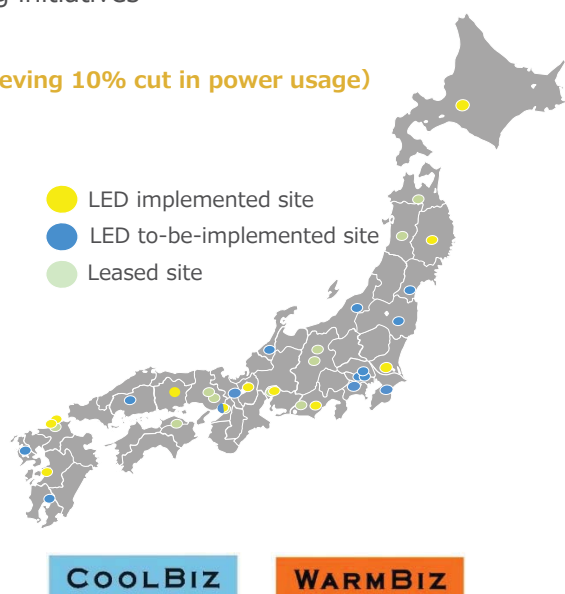
■ Environmental protection and Energy-saving initiatives

Energy-saving initiatives (LED installations, Achieving 10% cut in power usage)

In 2015, we completed installing LED lighting in factories and are currently in the process of installing LED lighting in our operating sites. 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.

KONDOTEC promotes transparency of power usage by making the monthly power usage information open to all operating sites 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 operating sites by 10% year on year and have been updating energy-saving activities daily.

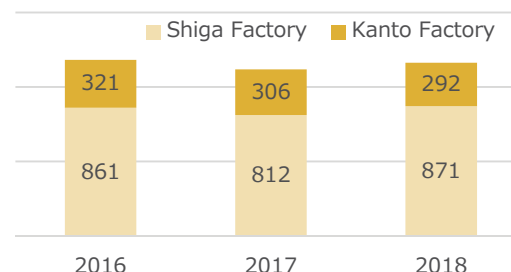


Installing Solar power generation

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 Structural Steel 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)



Forest preservation activities and Cleaning 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.

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.



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.



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.”



Controlling emissions (Material balance)

■ Energy consumption comparison

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. *KONDOTEC non-consolidated

	2014	2015	2016	2017	2018	Change in 5-year average consumption rate
Year-on-Year change (%)	98.5	103.6	98.2	105.6	98.2	101.3

■ 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 four factories are used.

INPUT

Raw materials	Iron and steel	33,077 t
	Coating material	79.2m ³
Energy	Electricity	5,826千kWh
	Natural gas	0m ³ ·N or PJ
	LPG	62 t
	Diesel fuel	7kℓ
	Kerosene	21kℓ
	Heavy oil	2kℓ
Irrigation water	Water	5,504m ³



OUTPUT

Production	Iron & steel products	32,458 t
Air emission	CO ₂	2,625 t
Industrial waste/byproduct	Recycled volume	2,128 t
	Amount of outsourced disposal	129 t
Drainage	Water	5,504m ³

* FY 2018

<Expenditure relating to environmental protection>

Kyusyu Factory : Cost for preventing water pollution
→ Oil-water separator tank cleaning, improvement investment and oil leakage investigation (8,530 thousand yen)

Kanto Factory : Cost of prevention of air pollution (including acid rain abatement)
→ Installing Oil-mist collector(239.5 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. (59,247 thousand yen)



Column for a small break

Petit column delivers information on initiatives and characteristics of KONDOTEC that we have been unable to include in our reports, etc. After learning these, you can feel KONDOTEC more closely...well, maybe.

Famous event at 3pm?! Radio exercise at head office

For safety reasons, radio exercise has been done at our factories and Delivery Division (delivery offices). Actually, at Management Headquarters as well, radio exercise has been done by everyone (about almost 30 people) in the office, including the President, at 3pm from about 10 years ago. By introducing moderate exercise at Management Headquarters, where people mainly do desk work, it refreshes the feeling of the employees and helps to improve operational efficiency.



As it is conducted in the office and jaunty music can be heard in the adjacent reception room or over the phone, it sometimes becomes a topic with customers.

Employee's "faces" are delivered! Monthly Kondo News

We have been issuing a printed paper called "Kondo News" since 1984 and delivering it to employees, their families and counter-parties. A popular feature of Kondo News is the page with the profiles of people at each office. The character of each person stands out with their elaborate comments along with the employee's faces. It is one of things people in and outside the company enjoy, with some customers having remarked that they feel closer to us.



Every day is for exercise

Famous stairs at Head Office.

Osaka Head Office is a four-story building owned by the Company, which was constructed in 1974. This building is famous (?) for its long stairs up to the fourth floor! President's office and Management Headquarters office are located on the fourth floor. Successive directors and employees

have been walking up these stairs, which are still in use now, and the leg muscles of not only our employees but also customers visiting us get training every day. This spirit of using things with care is precisely the KONDOTEC spirit. Please visit Head Office when you come to Osaka.



SOCIAL

Product Liability and Quality Assurance

As a wholesale company with a manufacturing function, we strive to provide security and safety to customers through the maintenance of the quality of products and merchandise we handle, as well as the development and improvement of products.

This section presents our quality management system and the education conducted for our employees on the knowledge of products and merchandise regarding safety.

■ Quality Control of products and merchandise

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 in an effort to increase safety of products.

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



ISO9001 certification



Break testing machine in Manufacturing Headquarters

Acquisition of certification of JIS and industry group

Regarding external standards for products manufactured in-house, we are producing products in compliance with the standards of various industries, including the acquisition of the Japanese Industrial Standard (JIS) certification (see table on the right). Scaffolding chains was awarded the first certification from the Scaffolding and Construction Equipment Association of Japan.

Regarding products other than those from our directly operated factories (OEM products), our technology service staff or purchase section staff visits OEM contractors in Japan and abroad to give technical instruction.

Moreover, our Directors serve as committee members of industry groups such as the Construction Turn Buckle Council of Japan and Anchor Bolt Manufacturer Association, etc., indicating their responsibility to comply with product standards by participating as committee members.

Standard certification list for products manufactured in-house

JIS no.	Product name
JIS A 5540	Turnbuckle for building
JIS A 5541	Body of turnbuckle for building
JIS B 1220	Set of anchor bolt for structures
JIS B 2809	Wire ropes-Grips for rope or wire strand
Standardization body name	Product name
Scaffolding and Construction Equipment Association of Japan	Suspension chain
Scaffolding and Construction Equipment Association of Japan	Suspension chain clamp
Japan Cross Laminated Timber Association	Compound screw bolt nut M20

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.

■ Stance for Security and Safety

We believe that by providing knowledge about handling when we provide products and merchandise to customers, they can use them more securely and safely. For that purpose, we prescribe the handling methods in the comprehensive catalogue and pamphlets, etc., issued by the Company, and clearly describe the matters to note and the standards for disposal. Moreover, for our employees to obtain the correct knowledge about products and merchandise, we offer many opportunities to learn by: conducting training on our core products of lifting equipment and temporary construction materials, steel related materials, and products manufactured in-house, and by holding study groups for new products by inviting suppliers (manufacturers), etc., among others.



↑ Examples of pages on usage method described in the "Lifting equipment catalogue" issued by the Company



Demonstration of assembly at the temporary construction materials training



Welding practice at steel material training



Study group by suppliers



Site visit during Kyushu factory training

Internally certified qualification "Lifting equipment advisor"

For the purpose of public relations for our corporate image as a lifting equipment manufacturer and improvement in employee knowledge of products and merchandise and abilities to propose and sell, we introduced the "Lifting equipment advisor" system as an internally certified qualification in 2015.

Employees can be qualified as a "Lifting equipment advisor" after internal safety/hygiene education, obtaining public qualifications, participating in internal three-day seminars, and

passing the written examination.

By the end of March 2018, 25 employees had become qualified as lifting equipment advisors, and engage in not only supplying lifting equipment but also providing their knowledge at operating sites across Japan.

Moreover, while technology service staff at Osaka/Tokyo head offices have been in charge of seminars on lifting equipment for people outside the Company, with lifting equipment advisors coming into existence study groups on lifting equipment can now be held all over Japan.

<Lifting equipment advisor Seminar schedule>

Internal seminar

- Lectures, practices, and examination at Kyushu factory (three days)

External seminar

- Slings skill seminar (three days)
- Slings operator safety/hygiene education (one day)
- Wire/rope safety inspection standards seminar (one day)



Lecture at Kyushu factory



Demonstration of actual lifting operation

Lifting equipment advisor Pass rate **62.5%**
(Including those who passed after retaking the test)

Communication 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 improvement 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.

■ Invigoration of the General Meeting of Shareholders

We regard the General Meeting of Shareholders as an important opportunity to communicate with shareholders, and in order to invigorate the General Meeting of Shareholders we strive to

have as many shareholders as possible participate, understand the Company, and secure a sufficient period for examining proposals for the Meeting.

Setting of the General Meeting of Shareholders by avoiding concentrated dates	The date of General Meeting of Shareholders is set to avoid the concentrated dates for many other general meetings of shareholders.
Earlier dispatch of convocation notice	Notice is dispatched 22 days before the Meeting
Disclosure of convocation notice before dispatch	Disclosed on the KONDOTEC website 29 days before the Meeting
Other	For the Company to be fully understood, we visualize the reporting items on power points in the explanation.

■ 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.

Track records of dialogue with institutional investors

Event	Frequency
Individual meetings	29 (total)
Acceptance of interviews by telephone	3
Company briefings for analysts (Tokyo)	2
Company briefings for securities companies (Osaka)	1

(FY 2018)

Actual coverage

IwaiCosmo Securities	Rating : New A
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(May 2018)

Actual participation in IR events for individual investors

Name	Visitors to our booth
Nikkei IR/Investment Fair2017 (held in August)	490 people
Tokyo Stock Exchange IR Festa 2018 (held in March)	570 people

(FY 2018)



(Left) Briefing in booth at Nikkei IR/Investment Fair2017
(Right) Company briefing at Tokyo Stock Exchange IR Festa 2018
(Presentation by President)

IR information disclosure on KONDOTEC website



(Left)
Company information is presented on the KONDOTEC website in an easy-to-understand way

(Right)
Business report issued biannually

URL(IR) <http://www.kondotec.co.jp/ir/index.html>

TOPICS

The Company's website was selected by

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

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



Appropriate Information Disclosure and Security

■ Information Disclosure

Basic policy on information disclosure

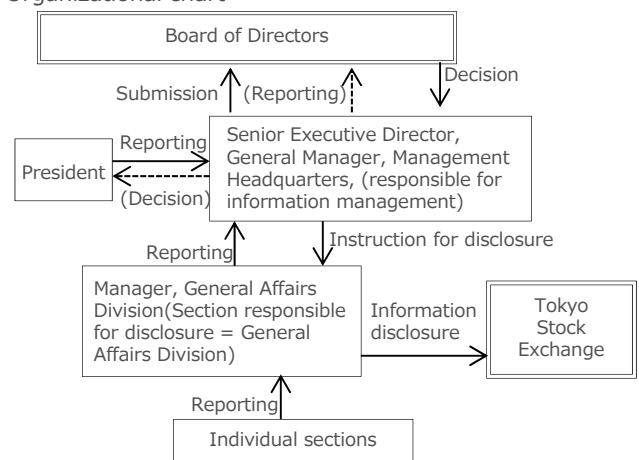
KONDOTEC has established the “Internal Information Management Regulations” for appropriate disclosure of company information, and endeavors to disclose information quickly and fairly in accordance with the Companies Act, Financial Instruments and Exchange Act, and other laws and regulations, etc., stipulated by stock exchanges (hereinafter referred to as the “Timely Disclosure Rules”).

Moreover, even for information not falling under various laws and regulations and Timely Disclosure Rules, we disclose information quickly and fairly if information is deemed to widely affect the judgement of people in society, including stakeholders.

Method of timely disclosure

- (1) We will disclose the information falling under Timely Disclosure Rules by TDnet provided by the Tokyo Stock Exchange, as well as disclose to news organizations such as relevant press clubs.
- (2) Even for information not falling under Timely Disclosure Rules, if information is deemed to widely affect the judgement of people in society including stakeholders, we will disclose it by TDnet provided by the Tokyo Stock Exchange, as well as disclose to news organizations such as relevant press clubs.
- (3) We will upload the disclosed information on KONDOTEC website without delay.

Organizational chart



■ Information Security Measures

KONDOTEC has Computer System Section in the company that manages the security situation and the status, etc., of system operations for business on a daily basis, and reports to the General Manager, Management Headquarters overseeing the General Affairs Division.

Moreover, we have decided on the internal regulation “Information System Risk Management Manual” organizing information system operations, and review it when appropriate.

Co-existence with Local Communities

■ Operating site Opening Plan

Currently, KONDOTEC has 46 operating sites. Among sales activities areas, a precondition for selecting areas for operating site openings is that the area should be far away and have prospects for increased sales. We have expanded areas for operating site openings by way of branching out from relatively large-scale operating sites (branch class).

KONDOTEC makes sure to establish warehouses to store inventory at operating sites. Because we

make deliveries, as for the location of operating sites, we select places near expressway ICs, or industrial parks that are unlikely to affect neighboring residents in terms of noise and traffic.

As for personnel, while several employees from branch operating sites are transferred at the time of a new operating site opening, we recruit several local people to help create employment in the community.

Safety Measures and Work Style Reform

■ Security Measures for Employees

We hold Safety and Health Committee at head office and factories once a month in an effort to prevent work-related accidents, while conducting safety patrols by employees.

Moreover, work for products and merchandise inventories and shipment is indispensable to realize quick delivery, which is our strength, in addition to driving company cars for sales activities on a daily basis. In order to improve the safety of delivery by employees driving not only company cars but also medium-sized trucks, as part of our “zero traffic accident movement,” we issue a company-wide alert to all operating sites in the event of an accident, as well as notifying the number of traffic accidents on an annually accumulated basis to all operating sites every month, even if there are no accidents. In addition, for operating sites where an accident occurred, we mount safe driving support devices on all company cars, and after the installation we manage the driving situation of each driver and submit the monthly “driving assessment” to head office and thus endeavor to improve safe driving.

Using G sensor and GPS, the safe driving support devices gives a warning by voice guidance to the driver on the spot each time a dangerous driving (sudden braking, speeding, etc.) is detected, and a notifying mail of dangerous driving will be delivered to head office.

↓ Internal documents for safe driving warnings



Posting for safe driving in offices as well

■ Work Style Reform and Work-Life Balance

We aim to create a corporate culture where employees can have “a fulfilling individual life and involvement in society,” while promoting work style reform to enable them to do “worthwhile and high-quality work” efficiently.

In 2014, we conducted training for all supervisors aiming for more efficient operations and less overtime work, and have been promoting work style reform since then, on the condition of improved earnings. Since 2017, we have been engaged in reform for efficient operations by reviewing various operational rules, led by head office.

As an indicator to realize appropriate work-life balance, we have established a paid vacation acquisition target for the whole company, and internally publish the figures for each section to promote the acquisition.



Training for supervisors



Paid vacation acquisition target for the whole company

Period	Whole company acquisition target	Actual result
April 1, 2016 – end March 31, 2017	Target not set	42.8%
April 1, 2017 – end March 31, 2018	Acquisition rate of 40% or higher	48.9%
April 1, 2018 – end March 31, 2019	Acquisition rate of 50% or higher	(in progress)
April 1, 2019 – end March 31, 2020	Acquisition rate of 60% or higher	(plan)
April 1, 2020 – end March 31, 2021	Acquisition rate of 70% or higher	(plan)

Human resources development and Diversity

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.

Meanwhile, for mid-management-level employees 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.

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 improve corporate value of the Company in the medium-and-long term.

In 2008, we introduced E-Ship® (Japanese versing ESOP), and it was reported in the Nihonkeizai Shimbun newspaper as planning to distribute about 100,000 yen per person on a simple average in 2012 at the end of the first period. As of 2008, KONDOTEC was the 4th in Japan for the introduction of E-Ship® handled by NOMURA SECURITIES CO., LTD

Incentives given to date

	Number of shares acquired	Number of shares granted				
Date	2013.9.10	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Number of shares	125,000 shares	16,500 shares	25,600 shares	20,200 shares	32,400 shares	23,400 shares
Eligible persons		48 persons	48 persons	47 persons	57 persons	55 persons

Childbirth by employees and spouses

In order for employees and spouses of KONDOTEC to give birth and raise children with peace of mind, we have prepared a handbook compiling child-raising-related laws and various internal systems so that employees can freely view and obtain it from the internal portal site. We present various systems including shortened working-time program which can be taken until a child reaches 3rd year in primary school, which is longer than what is legally mandated, and clarify the contact point for consultation and thus endeavor to have employees engage in childbirth and child-raising with the peace of mind and prevent them from resigning. From April 2015 to June 2018, eight people took childcare leave and six of them returned to work and are currently working.



Handbook for Childbirth and Return to Work

	Those who newly took childcare leave during the period	Those who took childcare leave during the period	Those who returned to work during the period	Remarks
2018.4.1 ~ present	1 person	5 persons	3 persons	At June-2018
2017.4.1 ~ 2018.3.31	2 persons	5 persons	1 person	
2016.4.1 ~ 2017.3.31	3 persons	3 persons	0 person	
2015.4.1 ~ 2016.3.31	1 person	2 persons	2 persons	

■ 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 lively.

To create a platform on which diverse human resources can take leading roles

Appointment of human resources

Establishment of working environment/structure

Skills development

■ Non-discriminatory hiring policy and Support for diversification of employment formats

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 in an effort to widen female appeal.

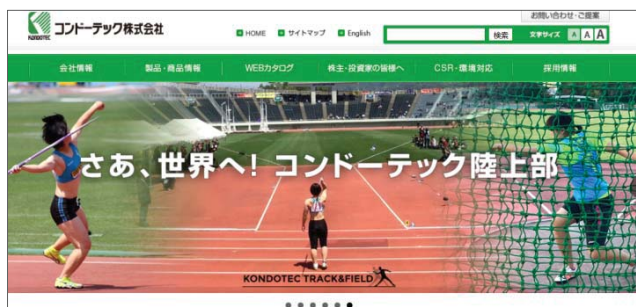
Male-female ratio of new employees with main career track in the last five years and home countries of international students

Year of employment	Male	Female	Total	Nationality of international students (other than Japan)
April-2018	12 persons	6 persons	18 persons	Korea
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

Appointment of a female director 1 out of 13



Activities of the track & field club



We have established the KONDOTEC track & field club, and currently two employees are training daily with the aim of participating in the 2020 Tokyo Olympic games. Moreover, we have established a track & field club page on our website to report their activities. One of the members has been selected as a certified athlete for the Olympic games for two consecutive years since the system was created in FY2018.

← The Website of the track & field club

G OVERNANCE

Basic concept to Corporate Governance

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 (BBT (=Board Benefit Trust))
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.

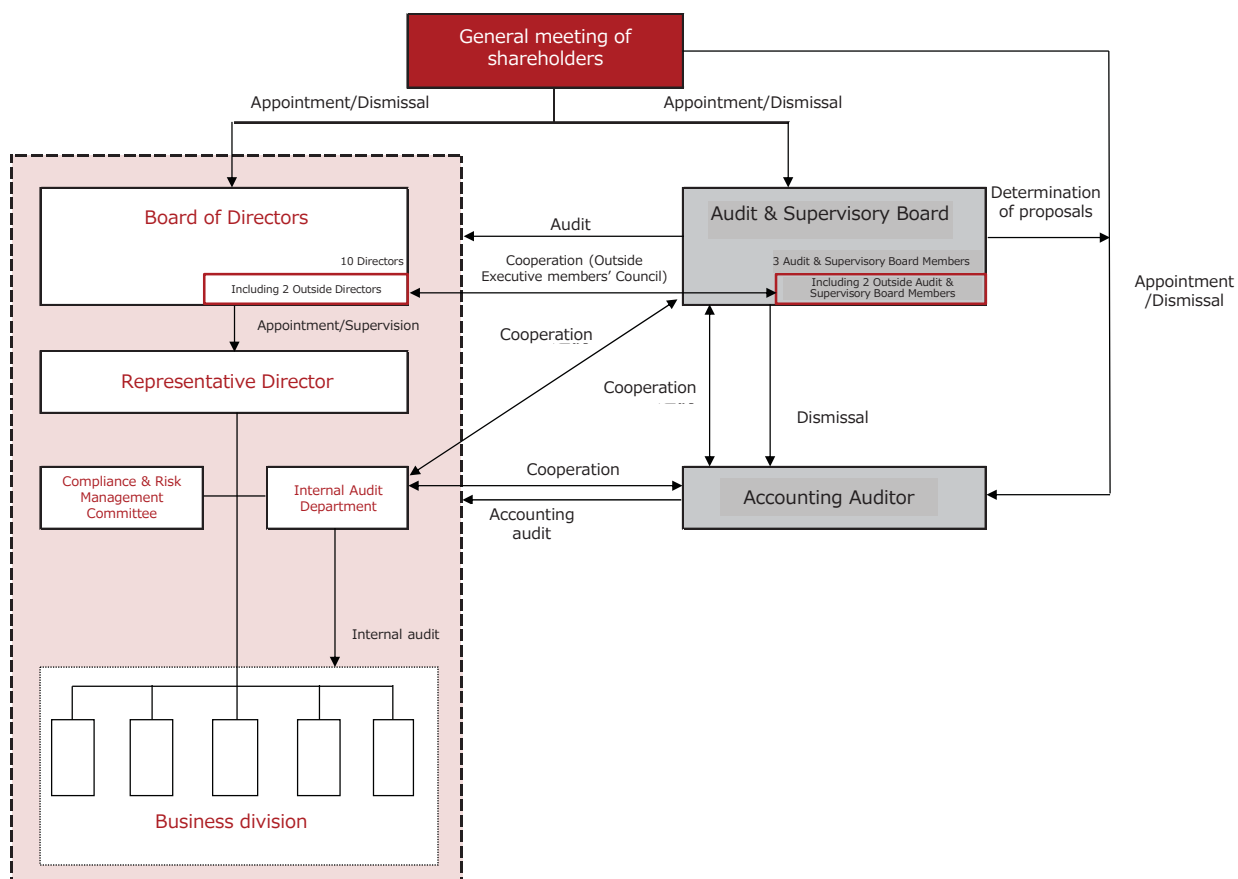
The Audit & Supervisory Board comprises three Audit & Supervisory Board Members, including one full-time Audit & Supervisory Board Member and two part-time Audit & Supervisory Board Members (Outside Audit & Supervisory Board

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 June 26, 2018

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.		108
Senior Executive Director	Tomoya Ando	General Manager, Management Headquarters and Manager, General Affairs Division Director, Sanwa Denzai Co., Ltd. Director, CHUOH GIKEN Co., Ltd.		64
Executive Director	Shigeru Hirata	General Manager, Sales Headquarters		121
Director	Masahiko Yano	Manager, Development Sales Division; Manager, Homecenter Group; and Manager, E-commerce Group		30
Director	Yasuhiro Toki	Manager, Purchasing Division		18
Director	Hiroyuki Yada	Manager, Western Japan Sales Division and Manager, Business Strategy Department		12
Director	Akira Takagi	General Manager, Manufacturing Headquarters and Manager, Kyusyu Factory		8
Director (Part-time)	Haruo Miya	(In charge of manufacturing)		34
Outside Director	Michiko Kanai	Attorney-at-law (Oh-Ebashi LPC & Partners partner) Outside Audit & Supervisory Board Member, Sankyo Seiko Co., Ltd. Outside Director, IDEC CORPORATION	○	1
Outside Director	Masashi Yamato	Professor at Graduate School of Law, Kansai University	○	0
Full-time Audit & Supervisory Board Member	Norio Nishida	Audit & Supervisory Board Member, Sanwa Denzai Co., Ltd. Audit & Supervisory Board Member, CHUOH GIKEN Co., Ltd.		16
Outside Audit & Supervisory Board Member	Yoshinobu Muratsuji	Attorney-at-law (Wellbright Law Office partner)	○	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	○	2

■ 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

66th term (April 1, 2017 to March 31, 2018)

Position	Name	Board of Directors (12 board meetings)	Audit & Supervisory Board (13 board meetings)
Outside Directors	Michiko Kanai	Attended 12 meetings (100%)	—
	Masashi Yamato	Attended 10 meetings (100%) *Attended all 10 meetings since taking office at June 27, 2017	—
Outside Audit & Supervisory Board Members	Yoshinobu Muratsuji	Attended 11 meetings (92%)	Attended 13 meetings (100%)
	Masaharu Nakagawa	Attended 12 meetings (100%)	Attended 13 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 2018, 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 2018.

1. Period: April 2018 to May 2018
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 evaluated that the effectiveness of the Board of Directors was secured as a whole, there were some opinions that the Board of Directors should appropriately discuss and audit the plan for succession of representative director and that remunerations for management should be further discussed.
We would like to continue to make improvements based on these opinions.

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 improvement 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, 2018, we held 6 issues of cross-held shares worth 39 million yen in book value and 482 million yen in market value, equivalent to 0.1% and 1.2% respectively of total assets of 39,313 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 Internal Information Management Regulations, which set forth rules on communicating important facts and internal information, and performs accordingly in managing information.

■ Whistle-blowing system

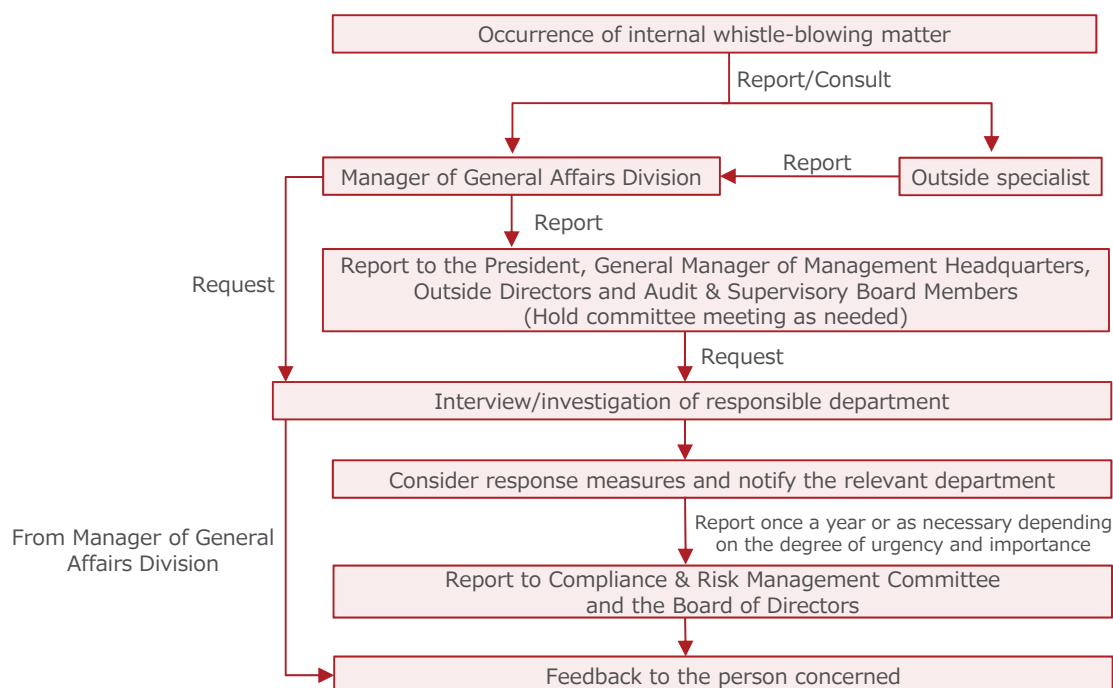
KONDOTEC has formulated internal regulations on whistle-blowing and put in place two points of contact for whistle-blowing inside and outside the company. The Company's whistle-blowing system is such that when whistle-blowing occurs, the Manager of General Affairs Division, which is the internal point 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.

The number reported was two cases in FY 2018. Regarding the filed cases, we dealt with them appropriately by conducting internal investigations, while paying due consideration to privacy.

Whistle-blowing system flow



Remuneration of Executive members

■ Remuneration of Directors and Audit & Supervisory Board Members (April 1, 2017 to March 31, 2018)

Position	Number of persons paid	Amount of payment (Thousand yen)
Directors	11 persons	201,886
Audit & Supervisory Board Members	3 persons	22,440
Total	14 persons	224,327

(Notes)

1. The amount paid to Directors and Audit & Supervisory Board Members includes 21,285 thousand yen paid to Outside Executive members (three Outside Directors and two Outside Audit & Supervisory Board Members).
2. The number of Directors to whom payment is made includes Outside Director who retired from office as of the conclusion of the 65th ordinary general meeting of shareholders held on June 27, 2017.
3. The payment to Directors includes 4,906 thousand yen for the expenses of remuneration concerning the subscription right to shares as stock-linked compensation and 17,758 thousand yen for the expenses of the performance-based stock compensation plan, Board Benefit Trust (BBT) in the current fiscal year.

■ 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, a performance-based stock

compensation plan, "Board Benefit Trust (BBT)", was introduced based on a resolution at the 65th ordinary general meeting of shareholders held on June 27, 2017, for the purpose of increasing incentives for Directors (excluding Outside Directors) and Executive Officers of the Company to contribute to the improvement of medium to long term earnings and corporate value. 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.

SUPPLEMENT

Supporting Materials

Stock information As of March 31, 2018

■ 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

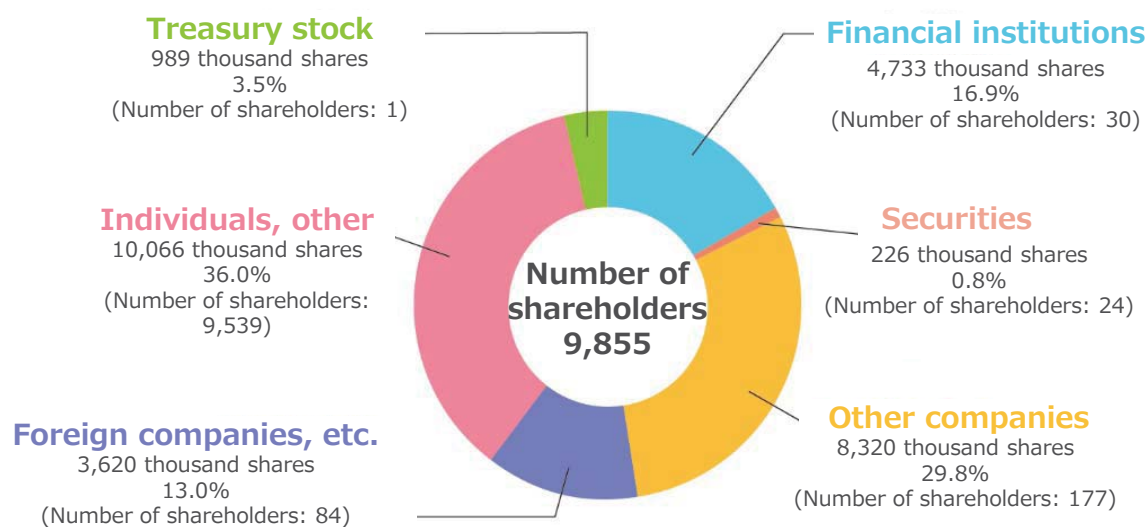
■ Major shareholders

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)	1,576	5.9%
KONDOTEC employees shareholders association	1,343	5.0%
Osaka Small and Medium Business Investment & Consultation Co., Ltd.	1,247	4.6%
F-planning INC.	900	3.3%
Japan Trustee Services Bank, Ltd. (trust account)	857	3.2%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	753	2.8%
Jummi Kondo	752	2.8%
The Master Trust Bank of Japan, Ltd. (trust account)	736	2.7%
Toto Kosan INC.	676	2.5%

*1 989 thousand shares of treasury stock (excluding 56 thousand shares in the ESOP trust account and 145 thousand shares in the BBT trust account) are not included in the above "Major shareholders."
Percentage is calculated with treasury shares excluded.

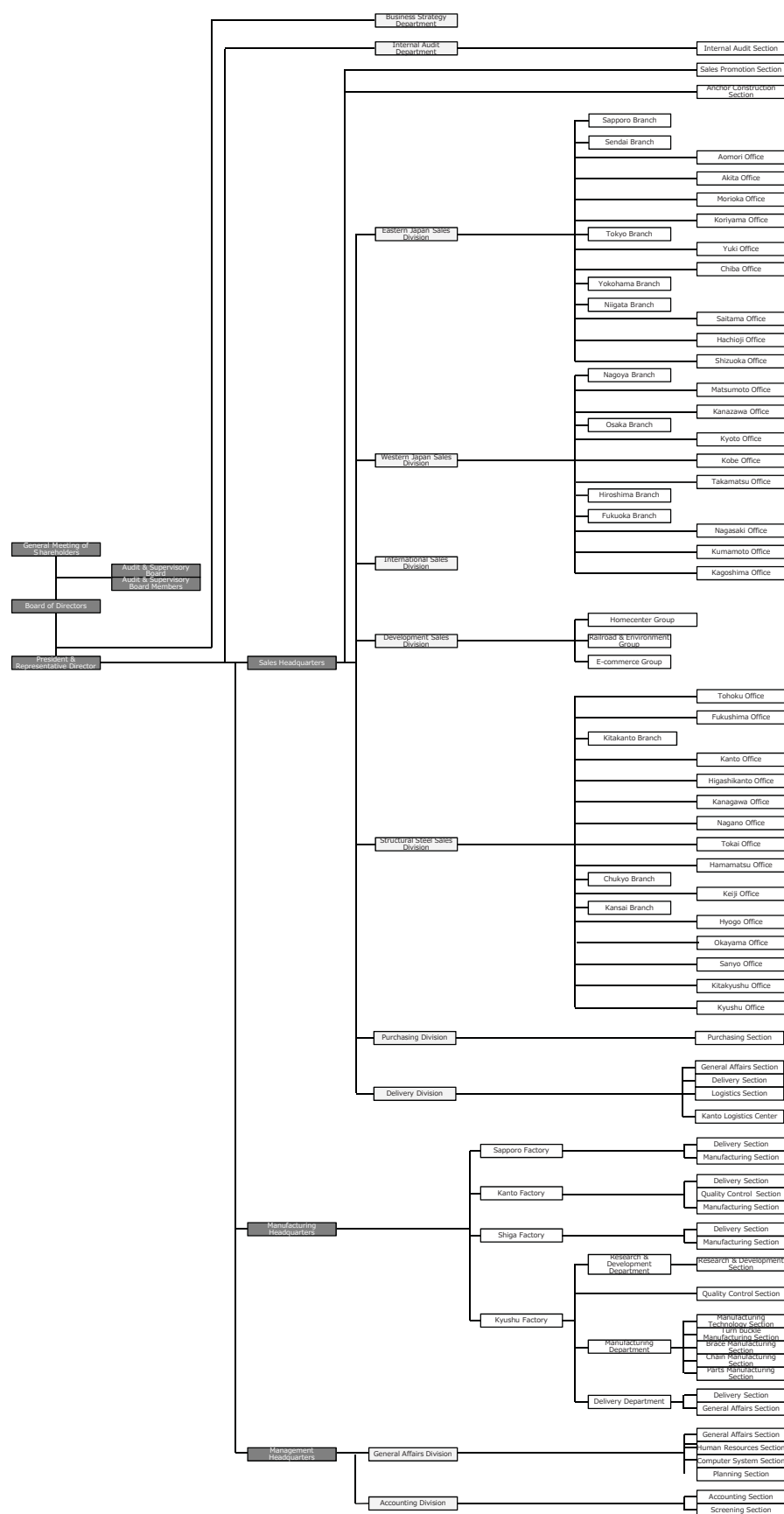
*2 The Bank of Tokyo-Mitsubishi UFJ, Ltd., changed its name to MUFG Bank, Ltd., as of April 1, 2018.

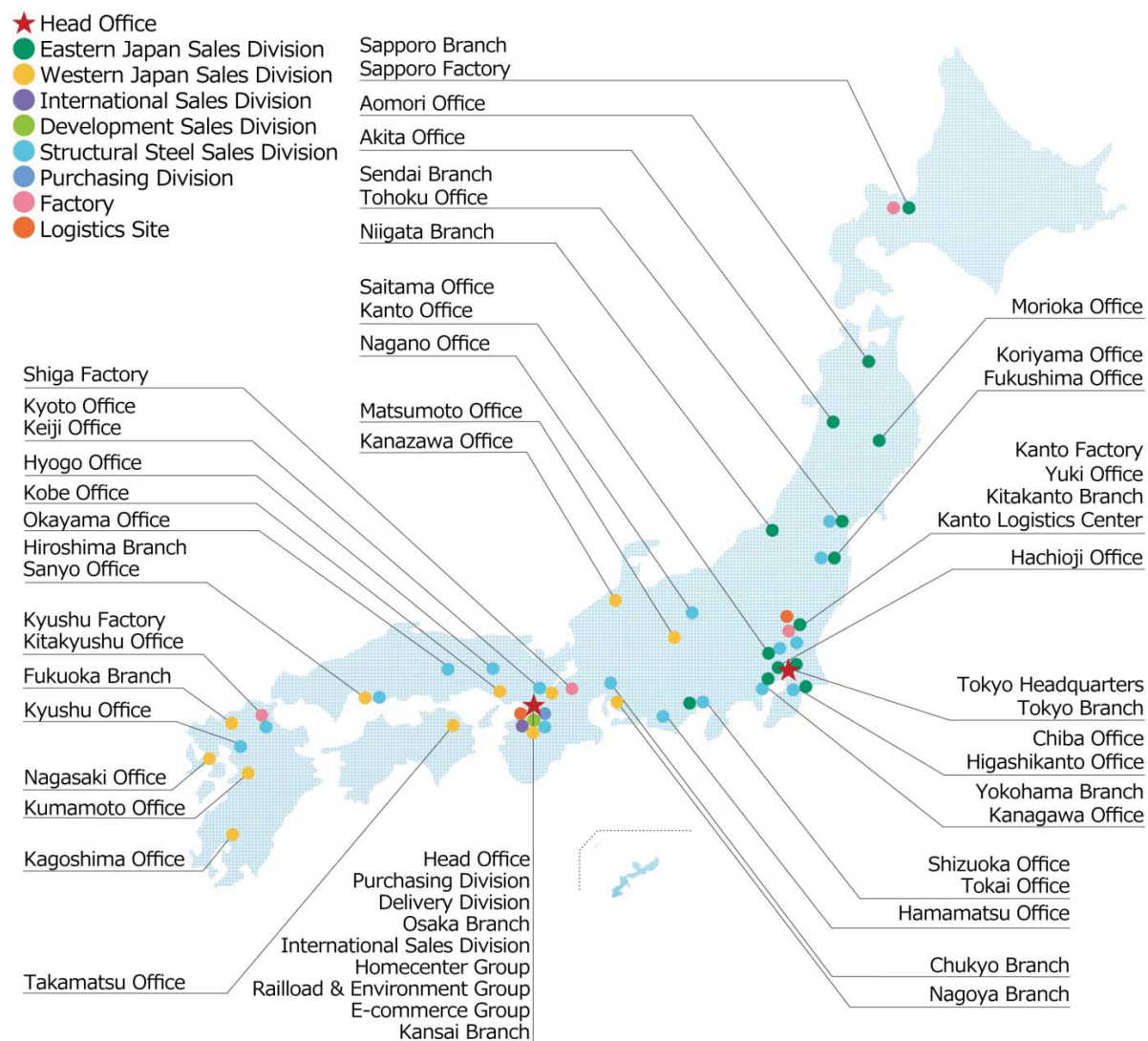
■ Stock distribution by shareholder category



Organization Chart

As of April 1, 2018





Group Companies Sanwa Denzai Co., Ltd.(head office: Nishi-ku, Nagoya-shi) 13 offices
 KONDOTEc INTERNATIONAL(THAILAND) CO., LTD. (Bangkok, Thailand)
 CHUOH GIKEN Co., Ltd. (Inukami-gun, Shiga)

Consolidated Financial Statements

■ Consolidated Balance Sheet

(Thousand yen) (Thousand U.S. dollars)

	2017	2018	2018
Assets			
Current assets			
Cash and deposits	8,660,366	9,893,136	93,120
Notes and accounts receivable - trade	12,671,719	13,313,566	125,315
Electronically recorded monetary claims operating	838,076	1,218,400	11,468
Merchandise and finished goods	2,811,393	3,121,246	29,379
Work in process	207,541	233,822	2,200
Raw materials and supplies	338,616	393,946	3,708
Deferred tax assets	272,081	256,147	2,411
Other	399,482	431,697	4,063
Allowance for doubtful accounts	(7,697)	(10,707)	(100)
Total current assets	26,191,580	28,851,256	271,566
Non-current assets			
Property, plant and equipment			
Buildings and structures (net)	2,562,962	2,608,207	24,550
Machinery, equipment and vehicles (net)	795,914	693,553	6,528
Land	6,103,466	6,138,100	57,775
Other (net)	87,565	82,678	778
Total property, plant and equipment	9,549,908	9,522,539	89,632
Intangible assets			
Other	57,003	50,263	473
Total intangible assets	57,003	50,263	473
Investments and other assets			
Investment securities	336,639	575,021	5,412
Deferred tax assets	227,311	173,937	1,637
Other	176,955	157,074	1,478
Allowance for doubtful accounts	(14,509)	(16,884)	(158)
Total investments and other assets	726,397	889,149	8,369
Total non-current assets	10,333,309	10,461,952	98,474
Total assets	36,524,890	39,313,208	370,041

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	(Thousand yen)		(Thousand U.S. dollars)
	2017	2018	2018
Liabilities			
Current liabilities			
Notes and accounts payable - trade	3,355,033	3,285,287	30,923
Electronically recorded obligations – operating	6,438,356	7,246,006	68,204
Short-term loans payable	500,000	500,000	4,706
Income taxes payable	583,349	642,092	6,043
Provision for bonuses	577,250	524,038	4,932
Other	875,445	920,711	8,666
Total current liabilities	12,329,436	13,118,136	123,476
Non-current liabilities			
Deferred tax liabilities for land revaluation	178,749	178,749	1,682
Provision for stocks payment	–	17,758	167
Net defined benefit liability	1,242,691	1,198,511	11,281
Other	54,210	54,219	510
Total non-current liabilities	1,475,651	1,449,239	13,641
Total liabilities	13,805,088	14,567,376	137,117
Net assets			
Shareholders' equity			
Capital stock	2,666,485	2,666,485	25,098
Capital surplus	2,452,572	2,485,413	23,394
Retained earnings	19,868,122	21,760,388	204,822
Treasury stock	(894,279)	(970,535)	(9,135)
Total shareholders' equity	24,092,901	25,941,751	244,180
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	199,478	309,554	2,913
Deferred gains or losses on hedges	(16,622)	(16,555)	(155)
Revaluation reserve for land	(1,510,852)	(1,510,852)	(14,221)
Foreign currency translation adjustment	2,631	16,933	159
Remeasurements of defined benefit plans	(98,623)	(47,495)	(447)
Total accumulated other comprehensive income	(1,423,988)	(1,248,414)	(11,750)
Subscription rights to shares	50,888	52,494	494
Non-controlling interests	0	0	0
Total net assets	22,719,802	24,745,831	232,923
Total liabilities and net assets	36,524,890	39,313,208	370,041

■ Consolidated Income Statement

(Thousand yen) (Thousand U.S. dollars)

	2017	2018	2018
Net sales	50,410,789	52,811,705	497,098
Cost of sales	39,230,531	41,453,307	390,185
Gross profit	11,180,257	11,358,398	106,912
Selling, general and administrative expenses	7,664,201	7,820,819	73,614
Operating income	3,516,055	3,537,578	33,297
Non-operating income			
Interest income	442	476	4
Dividends income	4,147	5,898	55
Purchase discounts	140,839	138,354	1,302
Subsidy income	5,503	29,885	281
Miscellaneous income	21,162	25,110	236
Total non-operating income	172,094	199,726	1,879
Non-operating expenses			
Sales discounts	55,352	55,937	526
Interest expenses	813	906	8
Foreign exchange losses	5,733	12,469	117
Miscellaneous loss	11,414	12,963	122
Total non-operating expenses	73,314	82,277	774
Ordinary income	3,614,836	3,655,027	34,403
Extraordinary income			
Gain on sales of non-current assets	664	1,264	11
Gain on sales of investment securities	0	—	—
Total extraordinary income	664	1,264	11
Extraordinary loss			
Loss on sales of non-current assets	343	828	7
Loss on disposal of non-current assets	2,355	446	4
Total extraordinary loss	2,698	1,275	12
Income before income taxes	3,612,802	3,655,016	34,403
Income taxes - current	1,102,304	1,133,286	10,667
Income taxes - deferred	12,957	(1,535)	(14)
Total income taxes payable	1,115,261	1,131,751	10,652
Profit	2,497,540	2,523,264	23,750
Profit (loss) attributable to non-controlling interests	(0)	(0)	(0)
Profit attributable to owners of parent	2,497,540	2,523,264	23,750

■ Consolidated Statement of Comprehensive Income

	(Thousand yen)		(Thousand U.S. dollars)
	2017	2018	2018
Profit	2,497,540	2,523,264	23,750
Other comprehensive income			
Valuation difference on available-for-sale securities	49,621	110,075	1,036
Deferred gains or losses on hedges	(8,003)	67	0
Foreign currency translation adjustment	6,842	14,302	134
Remeasurements of defined benefit plans	49,271	51,128	481
Total other comprehensive income	97,731	175,574	1,652
Comprehensive income	2,595,271	2,698,838	25,403
(Breakdown)			
Comprehensive income attributable to owners of parent	2,595,271	2,698,838	25,403
Comprehensive income attributable to non-controlling interests	(0)	(0)	(0)

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■ Consolidated Statement of Changes in Shareholders' Equity

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

2018

(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	2,452,572	19,868,122	(894,279)	24,092,901	199,478	(16,622)
Changes of items during the period							
Cash dividends			(630,998)		(630,998)		
Profit attributable to owners of parent			2,523,264		2,523,264		
Purchase of treasury stock				(155,566)	(155,566)		
Disposal of treasury stock		32,840		79,309	112,150		
Net changes of items other than shareholders' equity						110,075	67
Total changes of items during the period	-	32,840	1,892,266	(76,256)	1,848,849	110,075	67
Balance at the end of the period	2,666,485	2,485,413	21,760,388	(970,535)	25,941,751	309,554	(16,555)

	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)	2,631	(98,623)	(1,423,988)	50,888	0	22,719,802
Changes of items during the period							
Cash dividends							(630,998)
Profit attributable to owners of parent							2,523,264
Purchase of treasury stock							(155,566)
Disposal of treasury stock							112,150
Net changes of items other than shareholders' equity	-	14,302	51,128	175,574	1,606	(0)	177,180
Total changes of items during the period	-	14,302	51,128	175,574	1,606	(0)	2,026,029
Balance at the end of the period	(1,510,852)	16,933	(47,495)	(1,248,414)	52,494	0	24,745,831

2018

(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	25,098	23,085	187,011	(8,417)	226,778	1,877	(156)
Changes of items during the period							
Cash dividends			(5,939)		(5,939)		
Profit attributable to owners of parent			23,750		23,750		
Purchase of treasury stock				(1,464)	(1,464)		
Disposal of treasury stock		309		746	1,055		
Net changes of items other than shareholders' equity						1,036	0
Total changes of items during the period	-	309	17,811	(717)	17,402	1,036	0
Balance at the end of the period	25,098	23,394	204,822	(9,135)	244,180	2,913	(155)

	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	(14,221)	24	(928)	(13,403)	478	0	213,853
Changes of items during the period							
Cash dividends							(5,939)
Profit attributable to owners of parent							23,750
Purchase of treasury stock							(1,464)
Disposal of treasury stock							1,055
Net changes of items other than shareholders' equity	-	134	481	1,652	15	(0)	1,667
Total changes of items during the period	-	134	481	1,652	15	(0)	19,070
Balance at the end of the period	(14,221)	159	(447)	(11,750)	494	0	232,923

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■ Consolidated Statement of Cash Flows

(Thousand yen) (Thousand U.S. dollars)

	2017	2018	2018
Cash flows from operating activities			
Income before income taxes	3,612,802	3,655,016	34,403
Depreciation	438,501	423,462	3,985
Share-based compensation expenses	45,409	30,148	283
Increase (decrease) in allowance for doubtful accounts	(19,775)	5,385	50
Increase (decrease) in provision for bonuses	43,059	(53,263)	(501)
Increase (decrease) in provision for stocks payment	–	17,758	167
Increase (decrease) in net defined benefit liability	(20,253)	29,386	276
Interest and dividends income	(4,590)	(6,375)	(60)
Interest expenses	813	906	8
Loss (gain) on sales of investment securities	(0)	–	–
Loss (gain) on sales of non-current assets	(320)	(435)	(4)
Loss on disposal of non-current assets	2,355	446	4
Decrease (increase) in notes and accounts receivable – trade	(542,158)	(1,033,534)	(9,728)
Decrease (increase) in inventories	(17,110)	(391,441)	(3,684)
Increase (decrease) in notes and accounts payable – trade	475,835	737,031	6,937
Increase (decrease) in accrued consumption taxes	(110,231)	18,160	170
Other	86,262	37,535	353
Sub-total	3,990,599	3,470,189	32,663
Interest and dividends income received	4,590	6,375	60
Interest expenses paid	(788)	(906)	(8)
Income taxes paid	(1,256,776)	(1,046,154)	(9,847)
Cash flows from operating activities	2,737,625	2,429,504	22,868
Cash flows from investing activities			
Purchase of property, plant and equipment	(629,656)	(455,043)	(4,283)
Purchase of investment securities	–	(80,000)	(753)
Other	(16,756)	28,094	264
Cash flows from investing activities	(646,412)	(506,948)	(4,771)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	(5,000)	–	–
Purchase of treasury stock	(418,902)	(155,566)	(1,464)
Proceeds from sales of treasury stock	11	83,607	786
Cash dividends paid	(608,476)	(630,772)	(5,937)
Other	324	(1,074)	(10)
Cash flows from financing activities	(1,032,043)	(703,805)	(6,624)
Effect of exchange rate change on cash and cash equivalents	6,524	14,019	131
Net increase (decrease) in cash and cash equivalents	1,065,694	1,232,769	11,603
Cash and cash equivalents, beginning of year	7,594,671	8,660,366	81,517
Cash and cash equivalents, end of year	8,660,366	9,893,136	93,120

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Editor's Note

The Integrated Report was prepared by a team of female project members same as last, our first Integrated Report, all from the General Affairs Division(HR Section, Planning Section and General Affairs Section), which is a unit responsible for IR and CSR, and the Sales Headquarters. Furthermore the members have diverse career backgrounds and knowledge, including having taken child care leave and experienced job rotations.

This time, to have a more in-depth description for the "ESG investment" information for which there were a lot of points for reflection last year, we discussed at the Board of Directors meetings what position such description is given, and in particular what is the most influential issue (materiality), gave priorities, and tried to describe it.

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



P ROJECT 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, 2017 through March 31, 2018
(Activities in April 2018 and thereafter are included in part.)
- ◆ Reporting organization
KONDOTEC INC. and its group companies
- ◆ Accounting standard
Japanese GAAP

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