

KONDOTEC REPORT

(Year Ended March 31, 2019)

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 was designed in order to have more stakeholders gain a better understanding of our Group. For that purpose, we have made various efforts to disseminate our business model in an easy to understand way by referencing the International Integrated Reporting Framework while also considering SDGs. 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, all

from the General Affairs Division, which is a unit responsible for IR and CSR, and the Sales Headquarters. Moreover, the report outlines our efforts to go forward with our conventional management and business activities in mind, while taking into account perspectives for three directions of ESG, which have been attracting attention over the past few years, paying attention to SDGs, and striving to further increase the corporate value of the Company.

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. TECBUILD 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	670 Consolidated:906 (As of March 31, 2019)
Capital stock	2,666 million yen (As of March 31, 2019)
Listed stock market	Tokyo Stock Exchange (First Section)
Business areas	<ul style="list-style-type: none"> Manufacturing, procurement, sale and rental 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. 47 operating sites Sanwa Denzai Co., Ltd. 13 operating sites KONDOTEC INTERNATIONAL (THAILAND) CO.,LTD. CHUOH GIKEN Co., Ltd. TECBUILD CO., LTD. 20 operating sites (As of March 31, 2019)
Factories	4 factories in Japan

History

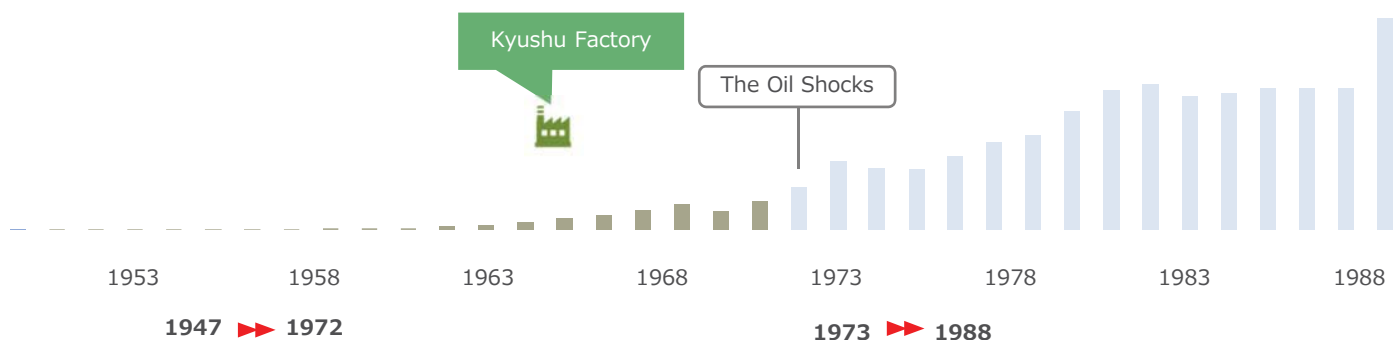
Over 60 Years of the Company's History

- 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 of 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.

2019 [Consolidated]

Net sales **57,828** million yen
 Network **82** operating sites
 Number of Employees **906** members



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 operating sites, 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

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



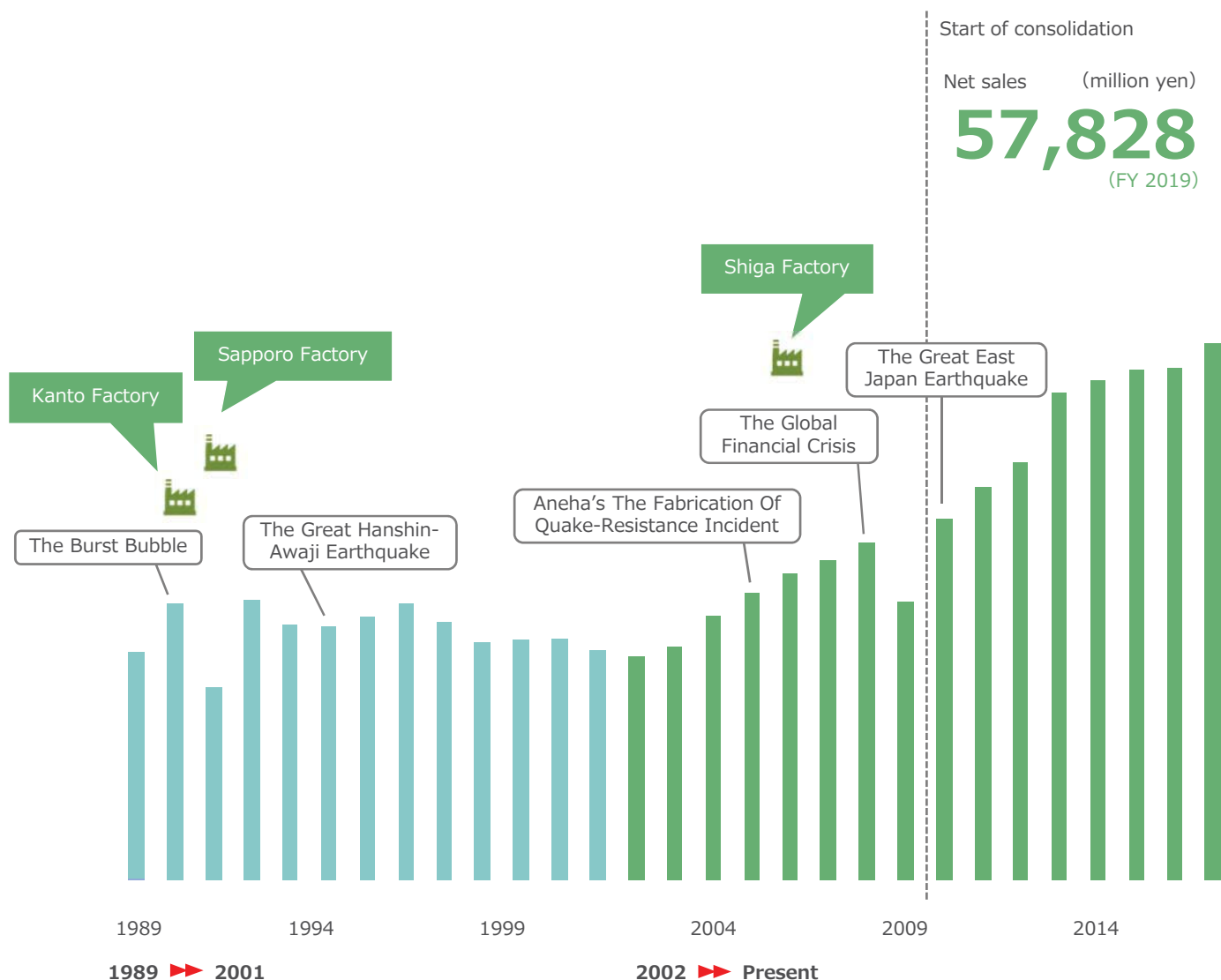
Turn buckles



Wire ropes



Screws



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.

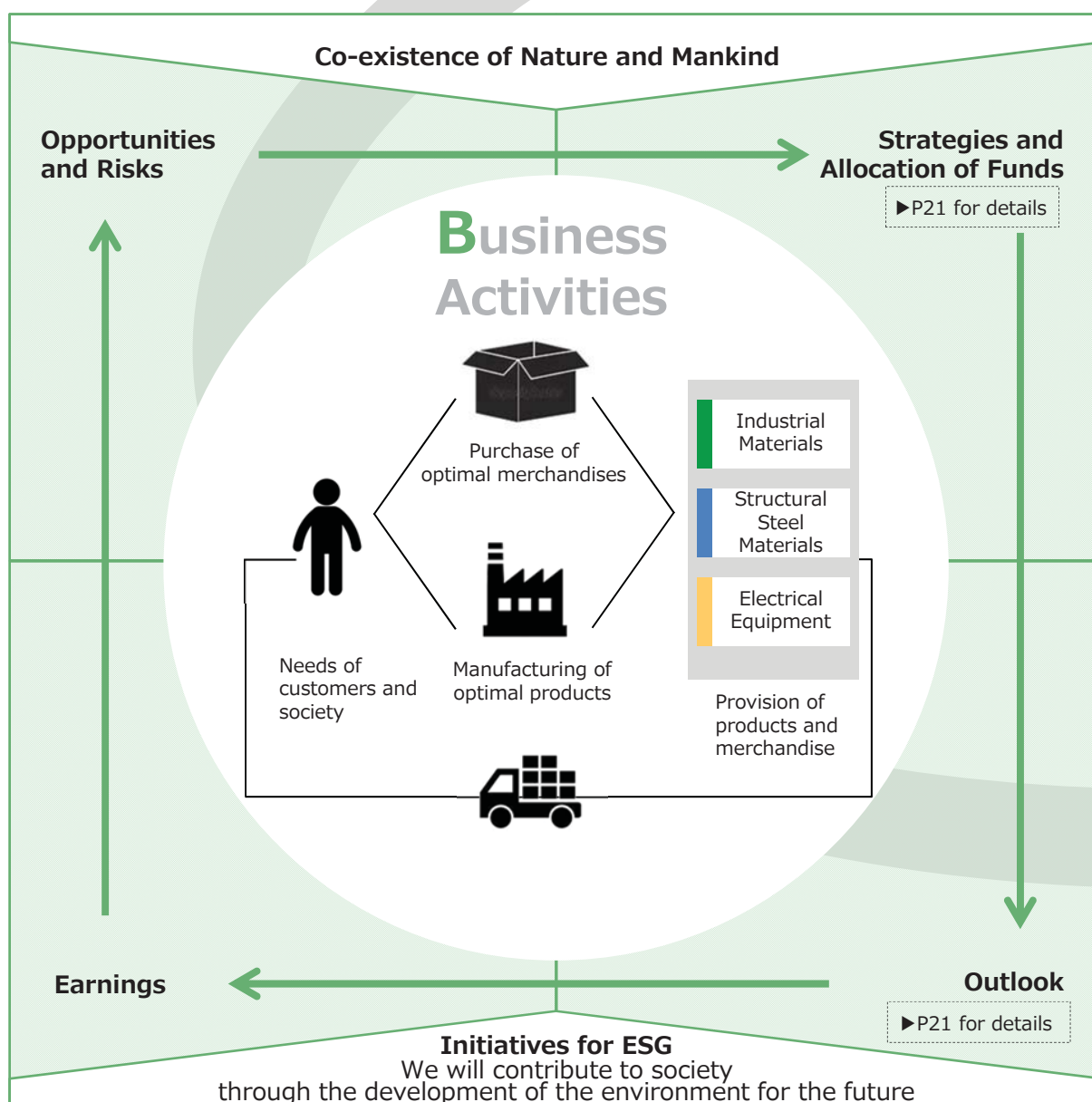
Business Expansion, Entering a new stage by M&A

- 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.
- 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)
- 2017** Opened E-commerce Group
- 2019** Purchased the business from Mechatro Engineering Co., Ltd.
Acquired shares of TECBUILD CO., LTD. to make the company a consolidated subsidiary.
Completed Shiga Factory No. 2 Plant.

Value Creation Process

Input

F inancial capital	Total cash and deposits: 10,133 million yen (FY 2019)
M anufacturing capital	Number of domestic production factories: 4 place Increase in non-current assets for replacement of production facilities in the manufacturing division: 284 million yen Increase in non-current assets for expansion of factory buildings: 395 million yen (FY 2019)
I ntellectual capital	Establishment of R&D Department in Kyushu Factory, patents, Utility model, design registrations, trademark registrations already acquired
H uman capital	Employees: 906 people (consolidated) Holders of internal certified qualification "Lifting equipment advisor": 45 people ▶P49 for details
S ocial capital N atural capital	Customers: about 24,700 companies (only for KONDOTEC INC., Sanwa Denzai Co., Ltd.) Subsidiaries: 4 companies, Items handled: about 50,000 items, Operating sites in Japan: about 80 offices



Impact

Realization of safe and secure society

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.

Output

Relevant Sector	Products and Merchandise, Service, Initiative
<div>Industrial Materials</div> <div>► P13 for details</div>	<ul style="list-style-type: none"> ○ Widely provides infrastructure-related materials required for social activities ○ Transactions with not only construction-related industry but also various industries ○ Expansion of the handling of environment-related merchandise ○ Provides LED/solar power related merchandise ○ Operating site opening plan according to the needs communities
<div>Structural Steel Materials</div> <div>► P15 for details</div>	<ul style="list-style-type: none"> ○ Selects locations for operating site to enable co-existence with local communities ○ Inventories in warehouses of each operating site for quick delivery of necessary materials at the time of disasters
<div>Electrical Equipment</div> <div>► P17 for details</div>	<ul style="list-style-type: none"> ○ Acquisition of ISO14000 ○ Manufacturing of high-quality products by automated production lines and image processing technologies ○ Management of factory wastewater ○ Appropriate storage and disposal of used oil in the factory ○ Efforts to restrain CO2 emissions from transportation
<div>Manufacturing division</div> <div>► P19 for details</div>	<ul style="list-style-type: none"> ○ Meeting on complaints, information sharing ○ Enhancement of catalogues ○ Safety measures for employees
<div>Group Company Headquarters</div>	

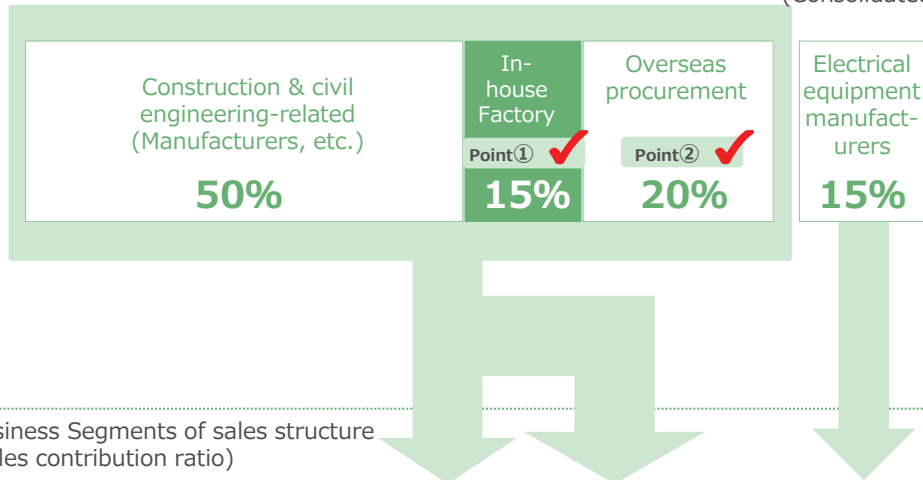
Outcome

Values KONDOTEC provides to society
Co-existence and development with local communities
Recovery/reconstruction of disaster-stricken areas
Contribution to the environment
Improvement in customer satisfaction
Relevant S D G s
<div>3 GOOD HEALTH AND WELL-BEING</div> <div>4 QUALITY EDUCATION</div> <div>7 AFFORDABLE AND CLEAN ENERGY</div> <div>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</div> <div>11 SUSTAINABLE CITIES AND COMMUNITIES</div> <div>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</div> <div>13 CLIMATE ACTION</div> <div>15 LIFE ON LAND</div>

Business Model

Suppliers

(Consolidated)



Point 1 ✓

manufacturer function in net sales

Approximately **40%**
 ※In-house manufactured products and OEM products

Point 2 ✓

Overseas procurement includes products manufactured in local OEM factories.

Point 3 ✓

Number of customers by business segments

Total

Approximately **24,700** customers (2019)

61 % Industrial Materials

20 % Structural Steel Materials

19 % Electrical Equipment

Point 4 ✓

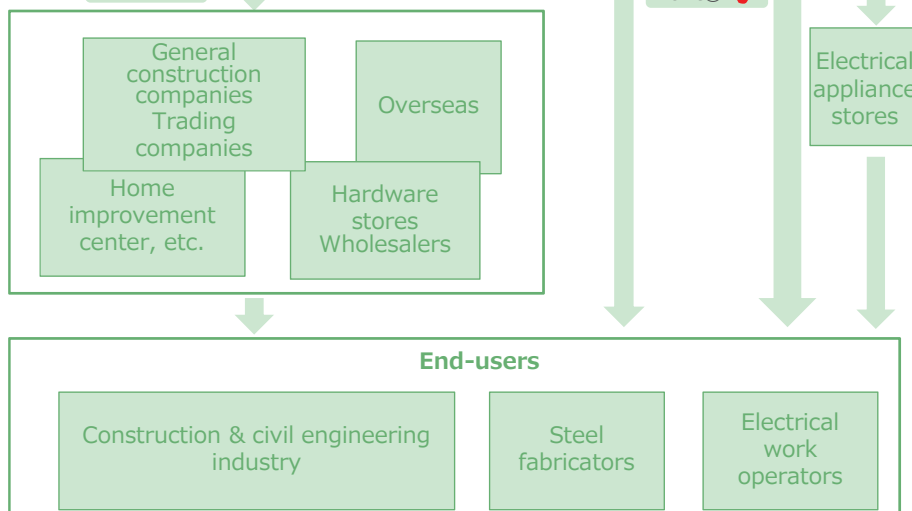
We provide direct sales of Structural Steel Materials and Electrical Equipment to some end-users

Point 5 ✓

Demand for products and merchandise

Public **23%**
 Private **77%**

Customers



Demanders
 [Entire infrastructure]

Point 5 ✓



■ Strength (1): Strength in procurement

Characteristics

- Many suppliers
- Handling not only domestic goods but also imported ones
- Establishment of in-house 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

■ 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: Holding of the Safety and Health Committee⇒P55, Safety driving initiative⇒P55

■ 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⇒P56
Four growth strategies and Periphery-strengthening growth

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 portfolio 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 ⇒ P21-P22 and P25- P28)

Materiality

In engaging in corporate activities, we recognize that management promoting responses to ESG (environment, social 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, 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's 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.



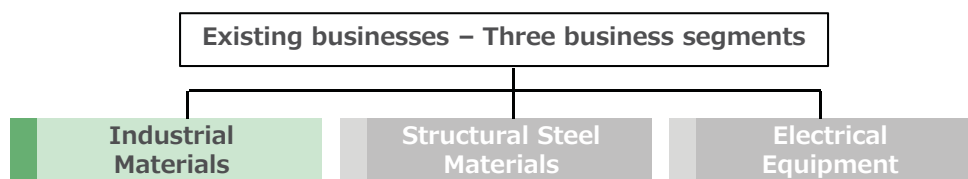
Decision on materiality (key issues) and ESG Basic Policy

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.37 and after what we are doing and the content we will focus on going forward according to the ESG Basic Policy.

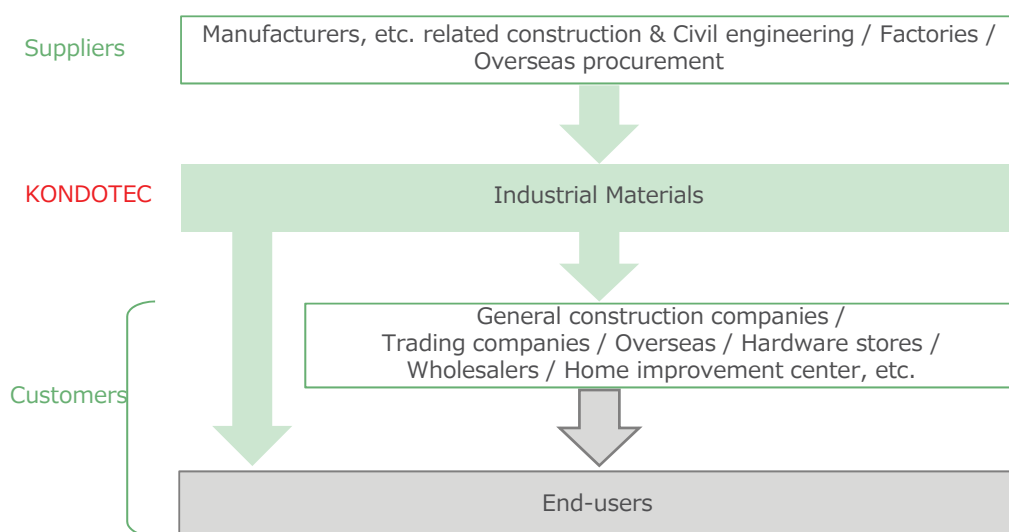
ESG	Materiality		Relevant SDGs
Environment	(1) Provision of the optimal products and merchandise for environmental measures	Products and merchandise handled by the Company (Presentation of environment related products and merchandise)	   
	(2) Business activities paying attention to the environment	Initiatives for environmental protection and energy-saving	 
		Management of emissions (material balance)	 
Social	(1) Product liability/quality assurance	Quality control of products and merchandise	        
		Stance for security and safety	
	(2) Procurement and provision of high-value-added products, merchandise and services	Provision of better products and merchandise for customers	
	(3) Communication with shareholders and investors	Engagement with shareholders	
	(4) Appropriate information disclosure and security	Stance for information disclosure	
		Information security measures	
	(5) Co-existence with local communities	Operating site opening plan	
		Response to disasters and contributions to them	
	(6) Safety measures and work-style reform	Risk control for disasters and others	
		For employees' health, safety and hygiene	
Governance	(7) Human resource development and diversity	Policy on human resource development	 
		Diversity	
		Employee benefits	
	(1) Strengthening of corporate governance	Corporate governance	
	(2) Thorough compliance	Compliance Basic Policy	

Business Report



■ Industrial Materials

With the retail hardware business at the core, we manufacture, procure, sell and rental civil engineering and construction materials, machinery and equipment. Of the subsidiaries, KONDOTEC INTERNATIONAL (THAILAND) CO., LTD. , CHUOH GIKEN Co., Ltd. and TECBUILD CO., LTD. ^{*1} are included.

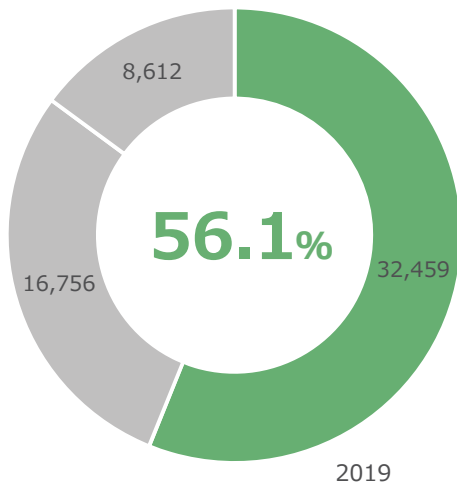


Number of operating sites	KONDOTEC INC. 30 operating sites (Subsidiaries) KONDOTEC INTERNATIONAL (THAILAND) CO., LTD. CHUOH GIKEN Co., Ltd. TECBUILD CO., LTD. 20 operating sites
Number of customers	Approximately 15,000 companies
Number of new customers* ²	1,609 customers
Net sales of new customers* ²	1,164 million yen
Characteristics	<ul style="list-style-type: none"> • Wide range of products and merchandise handled; stable performance • Earnings driver

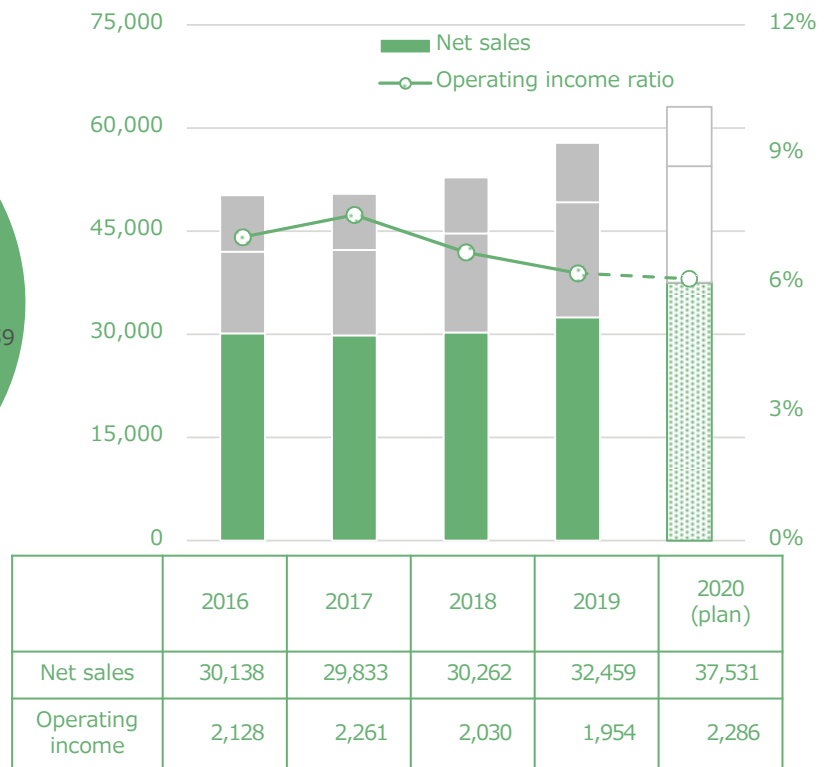
^{*1} TECBUILD CO., LTD. is included in the consolidated results only for BS in FY 2019, and for both BS and PL from FY 2020.

^{*2} 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, 2019

Segment sales came to 32,459 million yen (+7.3% year on year) on strong sales of construction and civil engineering products, such as metal fittings for woodframe homes, scaffolding material, screws, worksite material, tarpaulins, and flexible container bags, backed by robust demand in the domestic construction market. In terms of profit, gross profit ratio decreased due to a certain limit to passing on the increased production costs and procurement

costs to selling prices as the competition with other companies in the same business over acquiring orders remained severe. In addition, selling, general and administrative expenses increased, in particular freightage expenses and personnel expenses. Consequently, operating income came to 1,954 million yen (-3.7% year on year).

Initiatives Going Forward

To capture 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, in expectation of redevelopment construction work in urban areas, increase in the demand for infrastructure maintenance, expansion of online sales, and expansion of the development of infrastructure in the ASEAN region overseas among others.

Initiatives we must take toward achieving further

growth include expanding sales of new products and merchandise, strengthening the sales structure in the Tokyo metropolitan area and the Kyoto-Osaka-Kobe area, increasing the number of items listed on EC sites and developing foreign employees.

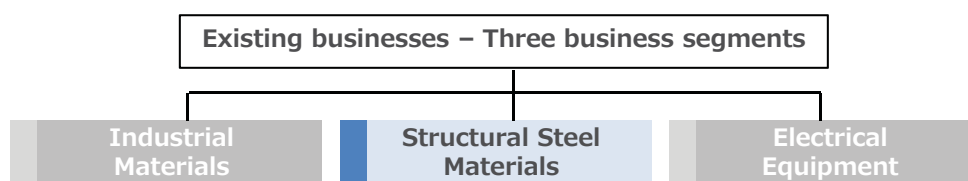
By taking these initiatives, we aim to achieve our targets for the year ending March 31, 2020, which are net sales of 37,531 million yen and operating income of 2,286 million yen.

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
While having been increasing the procurement of imported merchandise from overseas, such as China,

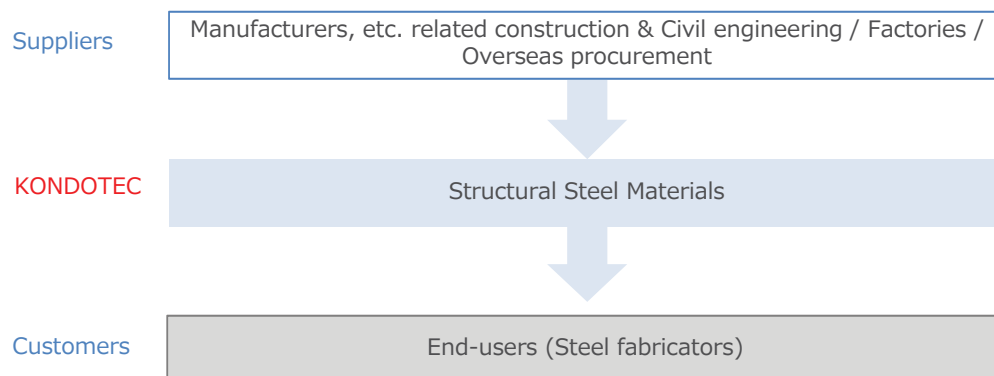
for the purpose of selling competitive merchandise, the segment is currently procuring about 90% of them from China. Accordingly, there is a possibility that securing merchandise will become difficult, because the pursuit of business by the suppliers is greatly influenced by U.S.-China trade friction, changes in statutory regulations in China and others. 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



■ Structural Steel Materials

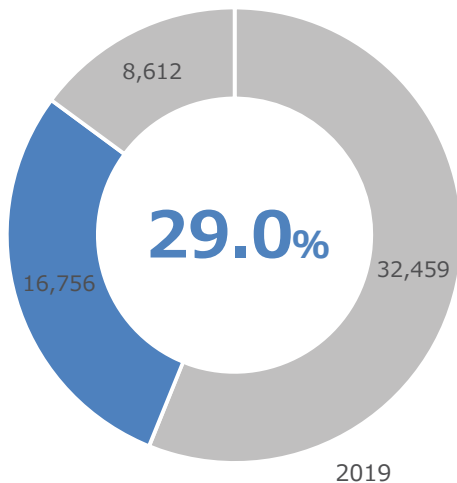
We manufacture, procure, and sell construction-related materials for steel fabricators.



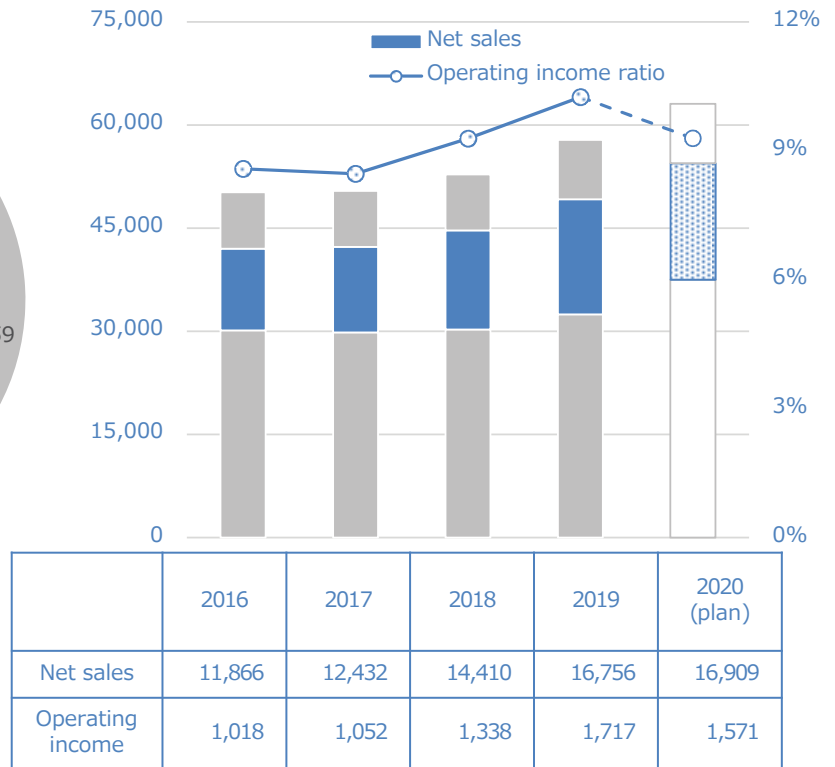
Number of operating sites	KONDOTEC INC. 17 operating sites
Number of customers	Approximately 5,000 companies
Number of new customers*	692 customers
Net sales of new customers*	1,219 million yen
Characteristics	<ul style="list-style-type: none"> • Operating performance increases/decreases in connection with the demand for steel frames • High percentage of in-house manufactured products • High market share

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

Percentage of Total Sales per business segment
(million yen)



Changes in Net Sales (million yen)



Overview of the Year Ended March 31, 2019

Segment sales came to 16,756 million yen (+16.3% year on year) on firm sales of steel flame materials, screws, braces supported by robust demand from accommodation facilities for overseas tourists and medium and low-rise buildings, such as distribution warehouses and factories. In terms of profit, in addition to the improvement in gross profit ratio due to the

progress in passing on the increase in manufacturing costs and procurement costs to selling prices, as a result of efforts to absorb the increase in selling, general and administrative expenses, in particular freightage expenses and personnel expenses, by increased revenue, operating income came to 1,717 million yen (+28.4% year on year).

Initiatives Going Forward

In expectation of capital investment against the background of favorable corporate earnings, such as redevelopment construction work in urban areas and large-scale distribution warehouses, as well as the likely continuation of the trend for outsourcing anchoring construction work due to labor shortages, we 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 opening new operating

site, hiring construction managing engineers, strengthening sales to large steel fabricators and strengthening sales of major products, centered on factory products.

By taking these initiatives, we aim to achieve net sales of 16,909 million yen for the year ending March 31, 2020. For operating income, we plan on 1,571 million yen mainly due to the expected increase in various costs such as manufacturing costs and freightage expenses.

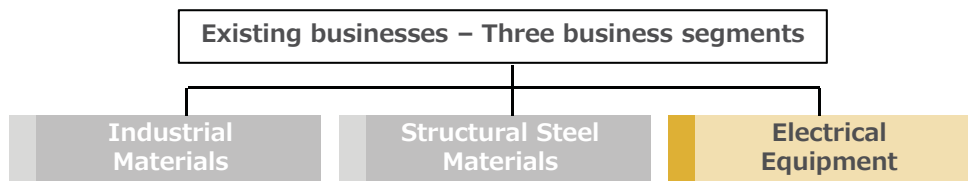
Risks

- 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.

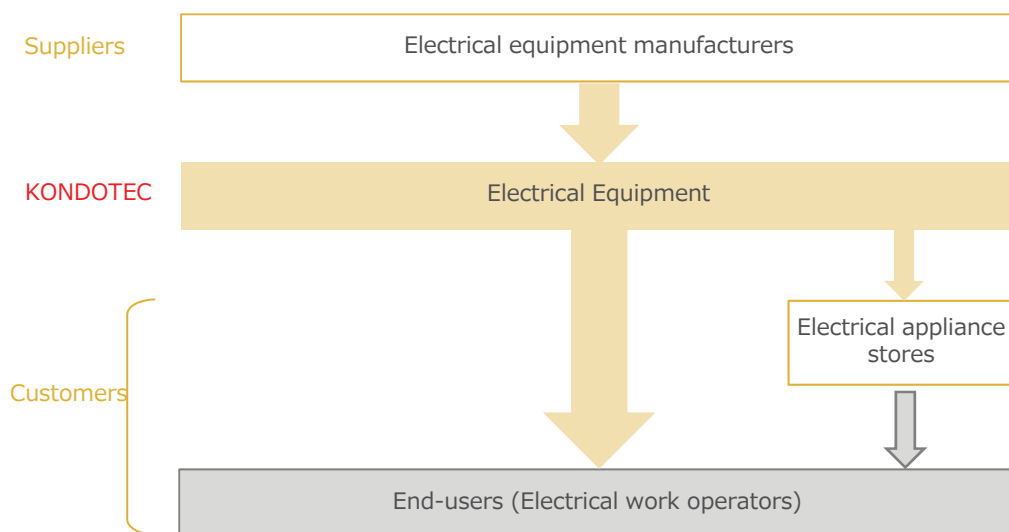
- Dependence on public investments and private capital investments

▶ P14 Risks



■ Electrical Equipment

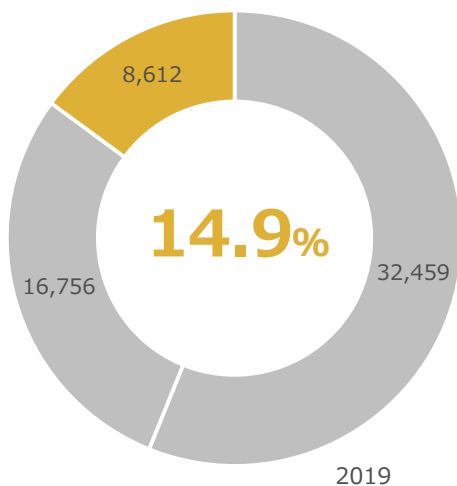
We procure and sell electrical equipment to electrical work operators engaged in construction of houses, buildings, facilities, factories and other structures and to electrical appliance stores. This business is handled by a consolidated subsidiary, Sanwa Denzai Co., Ltd.



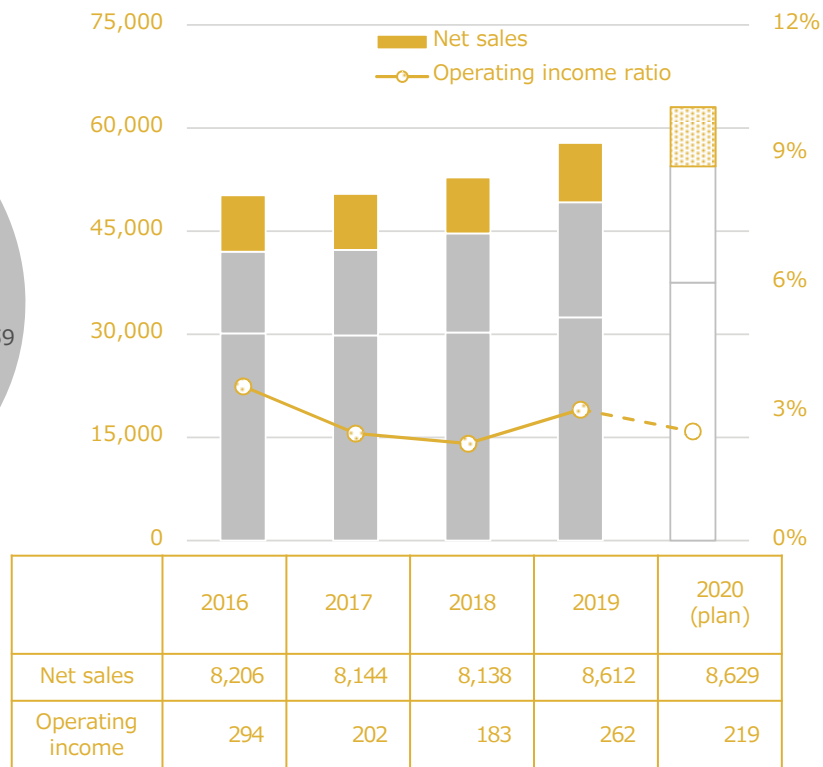
Number of operating sites	(Subsidiary) Sanwa Denzai Co., Ltd. 13 operating sites
Number of customers	Approximately 4,700 companies
Number of new customers*	352 customers
Net sales of new customers*	577 million yen
Characteristics	<ul style="list-style-type: none"> • Merchandise handled are mainly electrical 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, 2019

Segment sales came to 8,612 million yen (+5.8% year on year) on firm sales of air conditioners due to high temperatures across the country and on an increase in orders related to detached housing and condominiums, despite falling demand related to solar power generation due to a decline in feed-in tariff. In terms of profit, operating income came to 262 million yen (+42.9% year on year). This was attributable in

part to efforts to absorb the increase in selling, general and administrative expenses centered on personnel expenses by increased revenue, in addition to the improved gross profit ratio through efforts to engage in marketing conscious of profit margins and reducing procurement cost while the severe competition with other companies in the same business over acquiring orders continued.

Initiatives Going Forward

Given the projection that housing construction will decline in the long term due to a decreasing birthrate and population while factory facilities projects and renovation projects were expected to be solid, we will make efforts to integrate the marketing for housing-related facilities and systems, housing manufacturers, and construction materials as well as attract new customers, to ensure bringing in orders and increasing net sales.

To achieve incremental growth, we will increase human resources in charge of factories,

strengthen the structure of divisions for housing-related facilities and systems, housing manufacturers, and construction materials, enhance merchandise handled, and widen areas for distribution.

By taking these initiatives, we aim to achieve our targets for the year ending March 31, 2020, which are net sales of 8,629 million yen and operating income of 219 million yen, taking into account a reactionary fall from a year earlier when air conditioners sold well.

Risks

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

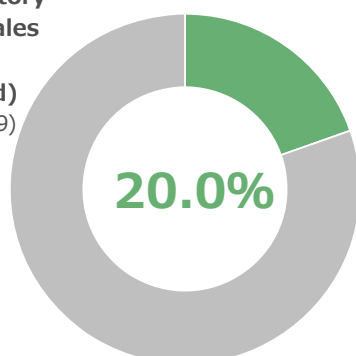
- Price competition

▶ P16 Risks

■ Functions as a manufacturer (Roles of factories)

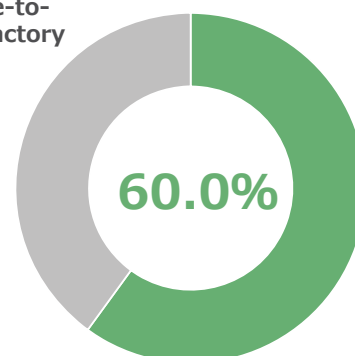
With a view to promoting a local community-oriented sales structure, the Company, as a wholesale company with a manufacturing division, maintains four factories in Japan and makes an effort to pay careful attention to customer feedback in distributing products.

Percentage of factory products to net sales of KONDOTEC (non-consolidated) (2019)



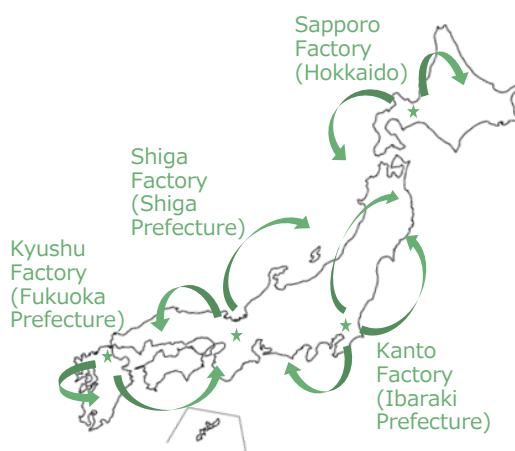
The majority of the Company's products are **made-to-order products** that require high-level precision and short-term delivery. This prevents encroachment from overseas and leads to achieving a high profitability.

Percentage of 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.

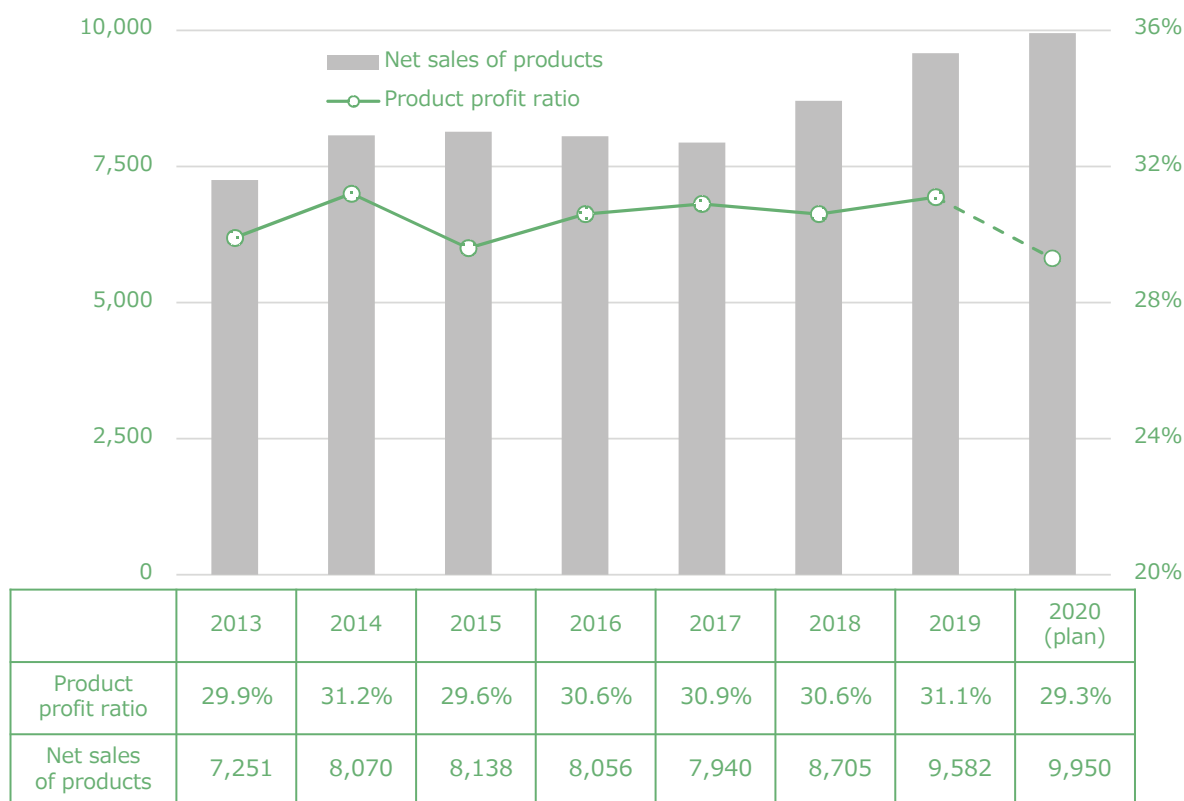
Pursuing the safety of products

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.

▶ P47

Transition of Product Profit Ratio (million yen)



■ Initiative to improve productivity

In April 2019, we newly started operating No. 2 Factory on the premises of our Shiga Factory (Hino-cho, Gamou-gun, Shiga).

To improve productivity, we will actively introduce labor saving and optimize the manufacturing process.

■ Towards the provision of highly value-added products

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 previously had a business relationship with them. In January 2019, furthermore, we newly established "Mechatro Laboratory" within our organization by purchasing business from

Mechatro Engineering Co., Ltd., which designed and manufactured equipment for labor-saving and image processing. We will strive to improve productivity of our products by utilizing the know-how of these two companies and provide highly value-added products using excellent technologies.

▶ P48

Company Profile of CHUOH GIKEN Co., Ltd.

Location	1164-7 Ikedera, Kora-cho, Inukami-gun, Shiga
Paid-in capital/Shareholders	45 million yen / 100% by KONDOTEC
Business areas	Design and manufacture of various machine devices, labor-saving equipment and transport, including industrial machinery and electronic parts for automobiles and household appliances

Businesses purchased from Mechatro Engineering Co., Ltd.

Business areas	Design and manufacturing of labor-saving, image processing equipment, various inspection equipment, and inspection tools
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Top Message



To Be A Company That Evolves in the Age of Change

The history of KONDOTEC is one of responding to the needs of customers and society.

With a spirit based on our corporate philosophy, we will continue to meet stakeholders' expectations.

**President and Representative Director
Katsuhiko Kondo**

■ The spirit that has been passed on

The Company had been engaged in assembling and producing hardware for vessels, mainly shackles, wire rope clips, etc., since its 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 demand for construction increased, with the development and change of the Japanese economy, which shifted major products and merchandise handled from sea to land, the Company established operating sites with inventories in major cities across Japan. In such a way, responding to the times, we have established a sales system to deal with various customer needs and responded to customer requests with quick delivery, selling approximately 50,000 items to diverse industries. KONDOTEC has continuously been able to grow, because we have been able to change our business according to changing times.

Our corporate philosophy incorporates the three major themes of "nurturing of our employees," "innovative and pioneering way" and "contribution to the creation of an affluent society." "To realize a safe and secure society," each one of our employees has been engaged in business activities in an innovative and pioneering way at the Company.

We have more than one way.

It is important to think without giving up.

With this feeling in mind, we will design our business model to remain as a company to evolve in the age of change without breaking away from the spirit of our corporate philosophy.

■ The Age of Change

The year 2019 saw the regnal year changed to Reiwa, heralding a new era. Last year was one with more natural disasters than usual including typhoons, earthquakes, and severe rainstorms. Accordingly, the Company group dealt with the demand for reconstruction and disaster prevention. Moreover, with the Tokyo Olympic and Paralympic Games one year away, development of related facilities and infrastructure is at its peak, sharply increasing the demand for construction. In the Kansai region, furthermore, with the decision to host the Osaka Expo in 2025, demand, which had previously dipped, seems to be skyrocketing with the need for integrated resort facilities among others. The Company group will strive to expand the existing businesses with the arrival of the new era so that we can contribute to this positive environment. On the other hand, the shortage of materials is an issue which has manifested itself in industries

related to the Company group since around 2018. Moreover, we also have a labor shortage issue in the construction industry, which is regarded as a medium to long-term risk. Taking these into account, we will need to change and evolve our business model more than before. Going forward, there are expected to be many fields – including disaster prevention, infrastructure development, new construction projects, and labor-saving facilities – for which the *raison d'être* of the Company will be showcased. Regarding these elements as new opportunities, we will engage in growth strategies and financial strategies.

■ Initiatives for Net Sales of 100 Billion Yen

KONDOTEC has two sides: a manufacturer and a wholesale company. Fusing these two has been generating not simply two, as a result of one plus one, but infinite expansion, leading to the realization of sustainable growth.

As a manufacturer

We will focus on improving quality and developing new products, considering that demand for standardized products will shift online in the midst of a further increase in online penetration. For example, to launch high-value-added products in the market, we pursued M&A for CHUOH GIKEN Co., Ltd., which designs and manufactures labor-saving equipment and manufacturing machines among others, in 2014, and purchased the business with excellent technologies such as image inspection technology from Mechatro Engineering Co., Ltd. in 2019. In addition, the Company newly established the Quality Assurance Department to further improve confidence in the Company's existing products.

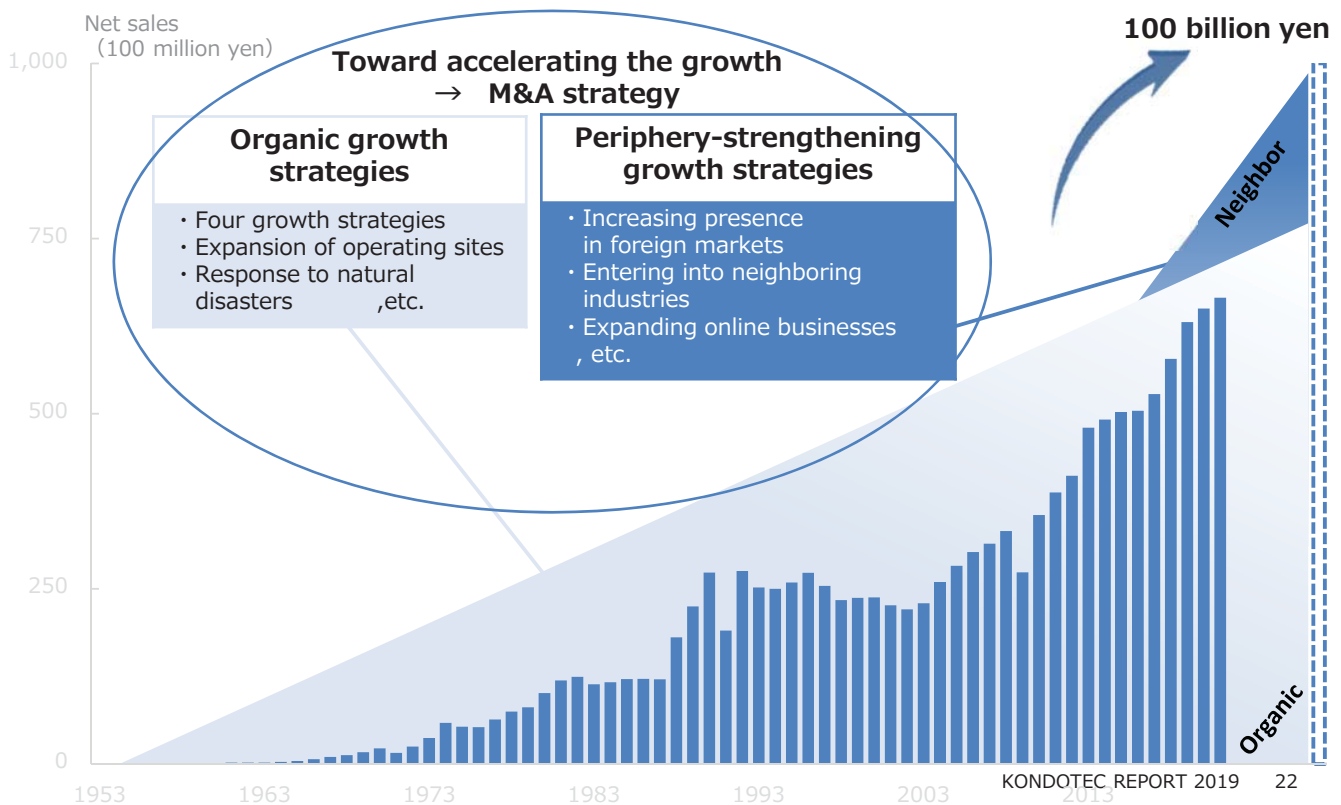
Growth strategy

The Company divides the growth strategies into two: organic growth strategies and periphery-strengthening 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, periphery-strengthening growth strategies are to strengthen those other than the existing businesses, which is advocated as strategies for a possible new earnings driver aiming for a further leap forward. Furthermore, to accelerate growth by organic growth strategies and periphery-strengthening strategies, we will strive to expand business fields aggressively through M&A strategies. As a result, we will increase revenue by around 5% per annum while completing some M&A projects, aiming for net sales of 100 billion yen in the 2020s.

Three segments

Currently, the Company group has three segments. The first one is industrial materials, which sells industrial materials such as products and merchandise to various industries including construction and distribution related, cultivation and fishery materials and agricultural materials. The second one is structural steel materials, which supplies materials to steel fabricators processing construction frameworks such as distribution warehouses and factories. The third one is electrical equipment, which delivers solar power and LED lights, air-conditioners, electric wires, switches, etc., to electrical work operators. We will work out specific strategies, taking into account the environment of these individual segments.

Going forward, for industrial materials, we will engage in expanding sales of new products and merchandise as well as nurture foreign employees, in response to the external environment including the increase in demand for infrastructure maintenance, expansion of online sales, and the increase in infrastructure development in the ASEAN region overseas. For structural steel materials, we will open new operating sites and employ construction managing engineers among others in response to the increase in construction of large properties such as distribution warehouses, the continued trend of outsourcing anchor construction, etc., due to labor shortages. For electrical equipment, we will increase personnel in charge of factories, strengthen the structure of divisions for housing-related facilities and systems, housing manufacturers, and construction materials among others, in response to the external environment such as factory facility projects and renovation projects which are expected to move solidly.



KONDOTEC

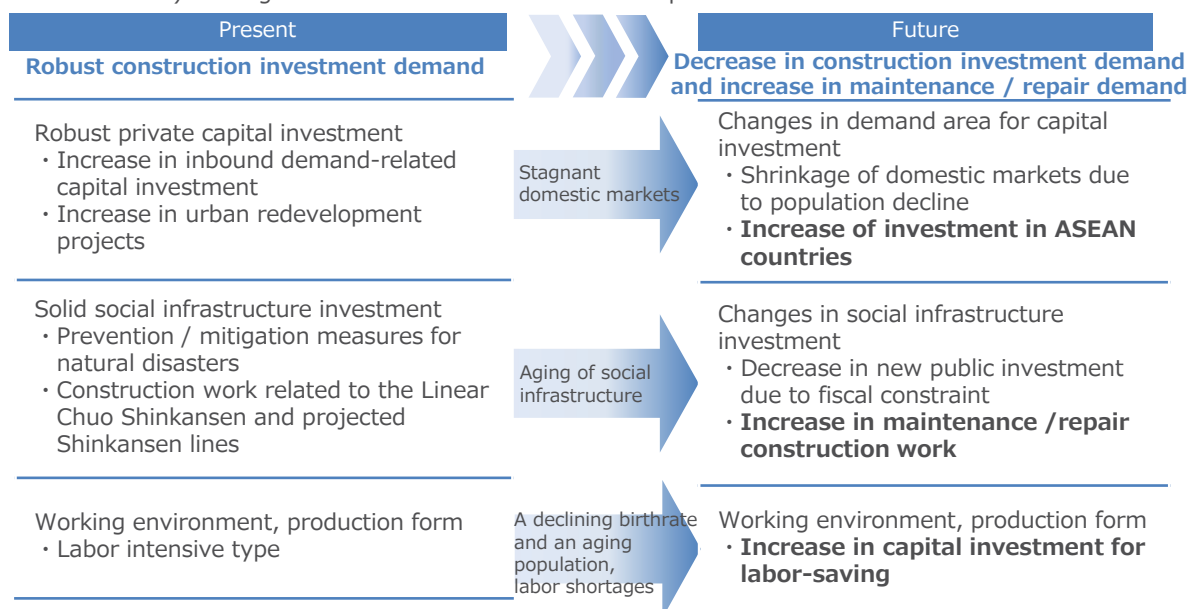
VISION

Growth strategy of
KONDOTEC

Medium-term Management Plan

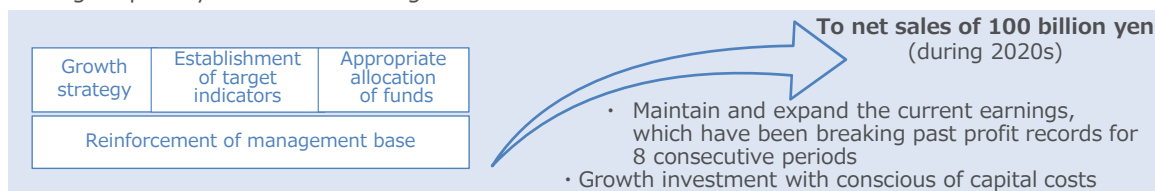
■ Recognition of the Business Environment

The company's business environment is expected to remain favorable in the foreseeable future thanks to support from inbound demand and urban redevelopment projects. However, it also expects changes, such as a gradual decline in demand from domestic construction spending (a key driver of its existing core businesses) and higher demand for maintenance and repairs.



■ Basic Policy

To respond to opportunities and risks which change according to changes in the business environment, we will strive for sustainable growth and improvement in long-term corporate value by investing in areas expected to grow (overseas, maintenance and repair, and labor-saving) in addition to enhancing our earnings capability further for existing core businesses.



■ Financial Target

《Long-term target》

During 2020s

Net sales(Consolidated)

100 billion yen

《Medium-term Target》

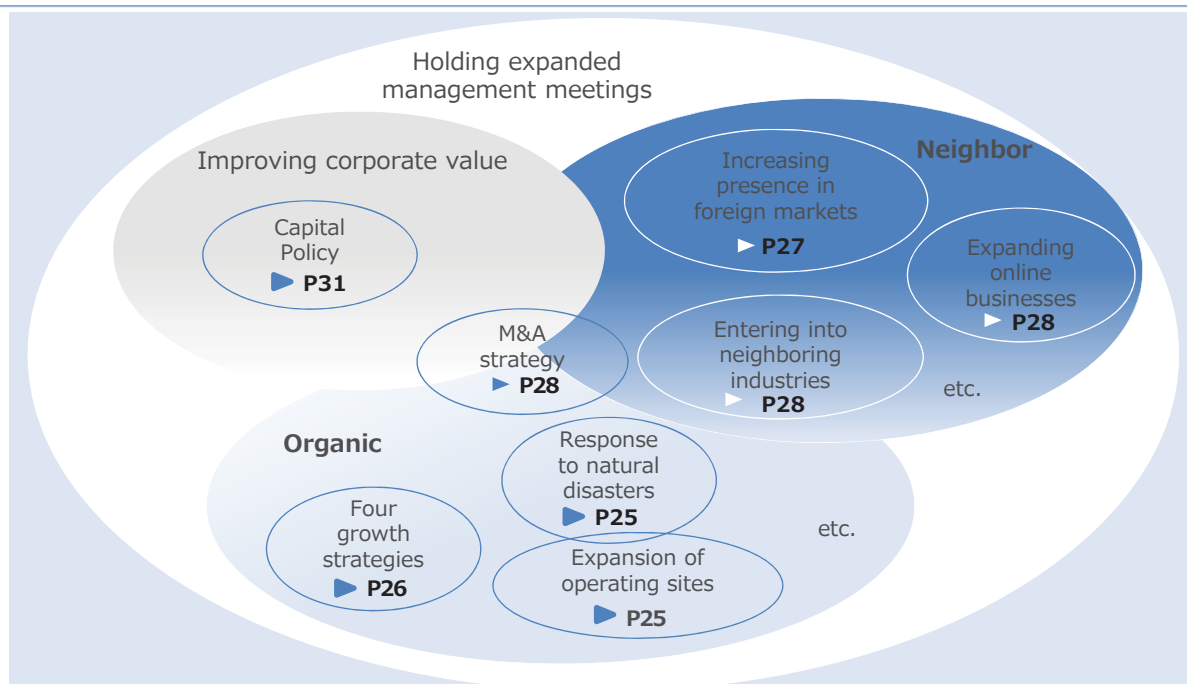
We will aim to achieve increase in net sales and income by financial target based on the Existing sales structure

Consolidated target (million yen)	2019 (Actual)	2020 (Plan)	2021 (Plan)	2022 (Plan)
Net sales	57,828	63,070	65,010	66,570
Operating income	3,907	4,010	4,180	4,300
Ordinary income	4,023	4,080	4,240	4,370
Profit attributable to owners of parent	2,748	2,760	2,840	2,920

*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. 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

▶ P10 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. ▶ P54

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

▶ P10 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.

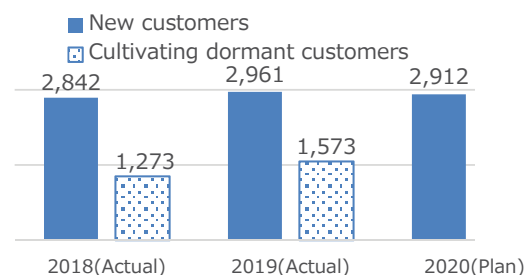
▶ P8 Strength in customers

② Offer of new products and merchandise

For the purpose of developing new merchandise, joint New Products and Merchandise Committee meetings are held between the sales division and the manufacturing division periodically to discuss requests from customers and proposals for improvement.

We have adopted imported products and merchandise including the Yellow Point series from Yoke Industrial Corp., which is a lifting equipment manufacturer in Taiwan, as well as developing the KT suspension balance in 2018 (Manufacturing by Kyushu Factory of the

Net sales (million yen)



Company).

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



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



The KT suspension balance

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



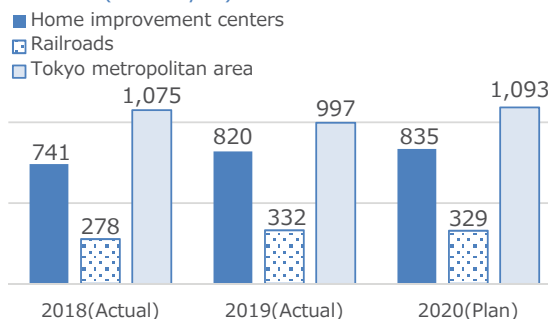
Catalog of materials to prevent damage from wildlife, and agricultural equipment

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 (Periphery-strengthening)

■ 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.

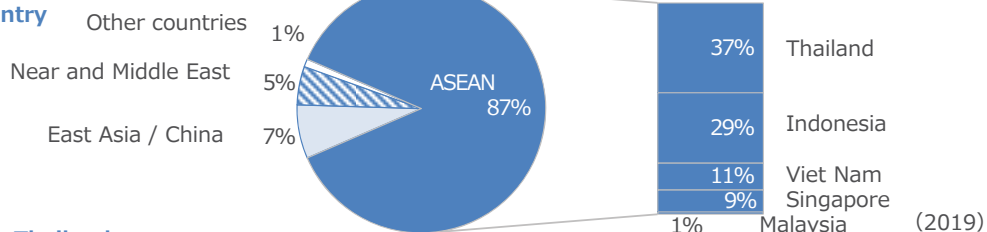
Moreover, a substantial change in foreign exchange markets may affect earnings and the financial position of the KONDOTEC group.

KONDOTEC INC. and overseas expansion

While the planned figure for net sales from overseas business in the year ending March 31, 2020 is 353 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



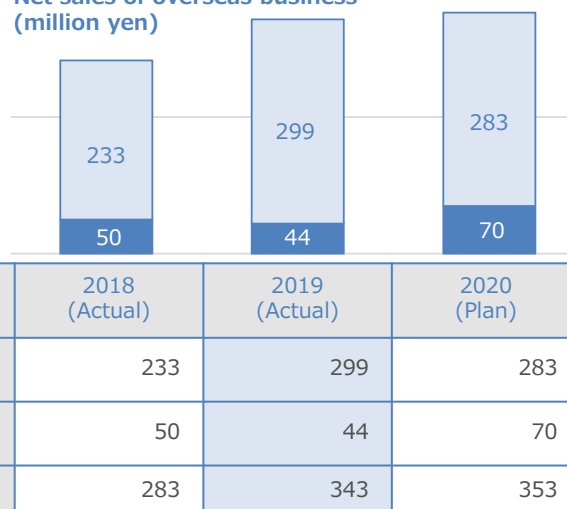
Subsidiary in Thailand

Company name	KONDOTEC INTERNATIONAL(THAILAND) CO.,LTD.
Location	Bangkok, Thailand
Date established	November 1, 2012
Paid-in capital	102 million baht (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(Periphery-strengthening)

■ 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, in January 2019, we purchased labor-saving and image processing equipment businesses from Mechatro Engineering Co., Ltd. to strengthen the labor-saving field, aiming to provide high-value-added products, and purchased TECBUILD Co., LTD. in February 2019 to strengthen the maintenance/repair field. Going forward, we will continue endeavoring to

improve medium to long term corporate value taking into account M&A strategies for growth by strengthening peripheries, such as entering into neighboring industries and expanding online businesses.

Risks

A substantial change in economic conditions and unexpected events may affect earnings and 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

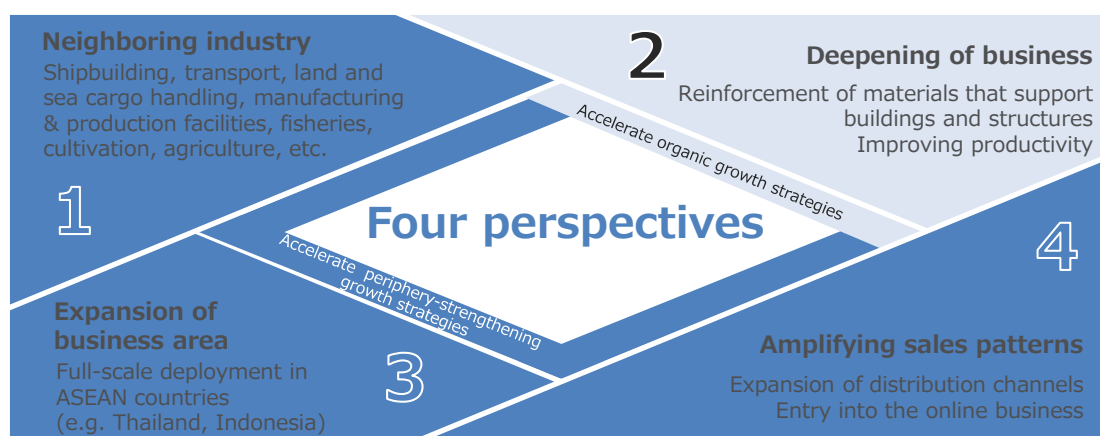
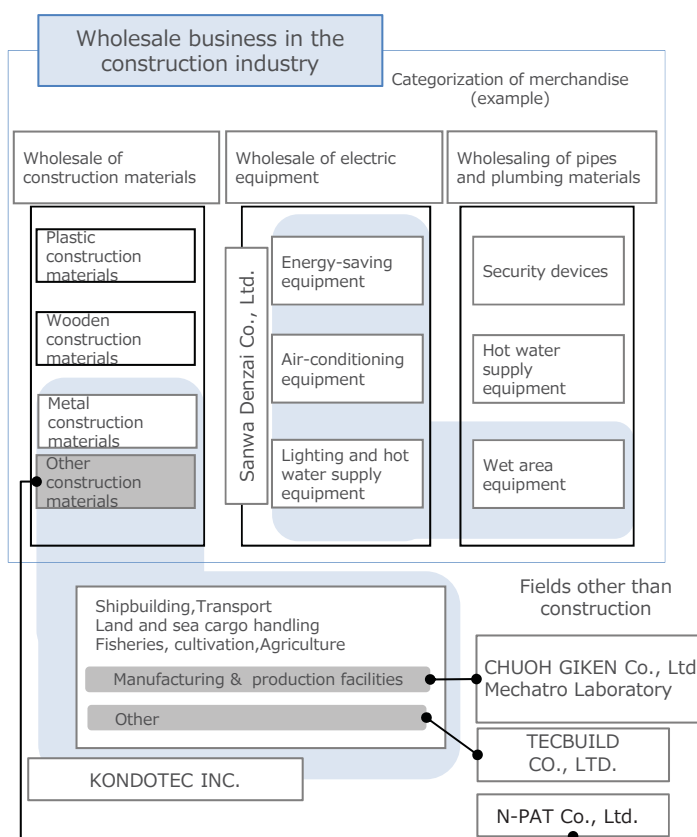
Pursue M&A with material manufacturers, etc.
Actual case: CHUOH GIKEN Co., Ltd.
TECBUILD Co., LTD.

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.



Financial Strategies

■ Improving corporate value and financial strategies

To improve corporate value, the Company considers it necessary to improve profitability, improve capital efficiency and optimize finance. In particular, we place importance on dividend policy and appropriate allocation of funds to optimize finance.

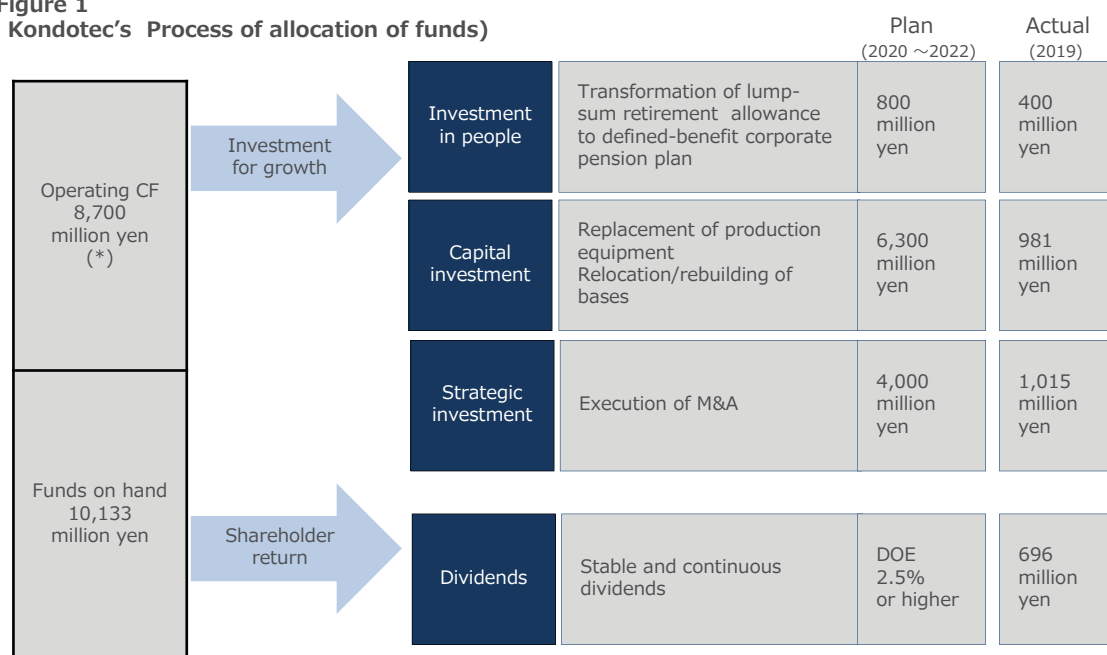
In terms of dividend policy, while fully taking into account both consolidated operating results and the consolidated dividend payout ratio, we have the basic policy of distributing dividends to shareholders continuously and stably, targeting a dividend on equity (DOE) ratio of 2.5% or higher. The Company has never reduced dividends since our listing. While we could have reduced dividends at the time of the Lehman Shock, since our profit was stable, we adopted the policy of stable dividends, using DOE as the indicator.

Please refer to Figure 1 for the allocation of funds. We make growth investments while being conscious of capital costs as well as stable shareholder returns, aiming to maintain highly efficient capital.

For the improvement of capital efficiency, the Company places importance on capital costs, which are targeted at 6.1% for the year ending March 31, 2020.

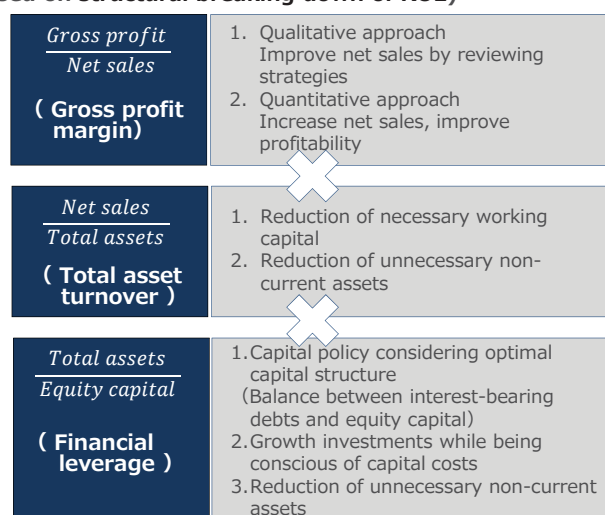
As a result of these initiatives, an improvement in ROE will be required. Accordingly, we aim for an ROE of 10% or higher as the capital efficiency target, aiming to improve ROE from the perspective of Figure 2, which structurally breaks down ROE.

(Figure 1
: Kondotec's Process of allocation of funds)



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

(Figure 2 : Initiatives based on structural breaking down of ROE)



■ Message from Chief Financial Officer (General Manager of Management Headquarters)



Tomoya Ando
Senior Executive Director, General Manager of Management Headquarters and Manager of General Affairs Division of the Company

After serving as Manager of Nakanoshima Branch of MUFG Bank, Ltd., he became Manager of General Affairs Division of KONDOTEC in 2007. At the Bank, he spent about ten years, respectively, in banking operations in general (counter, marketing, loans, etc.), securities operations in general (primary, support for stock-offering, cross-shareholding, portfolio management, securities subsidiary management, etc.) and management in general (serving as branch manager at five branches of three banks in three areas of Tokyo, Nagoya and Osaka). After joining the Company, he served as Executive Director, General Manager of Management Headquarters and Manager of General Affairs Division of the Company before assuming his current position. (He is concurrently serving as Part-time Director of Subsidiaries.)

Three elements essential for sustainable growth

It has been 12 years since I assumed the post of General Manager of Management Headquarters. I believe there are three creative areas for Management Headquarters: namely, IR, M&A and recruitment. Each one of them is an essential element for the sustainable growth of the Company.

IR

IR is essential to improve corporate value. The Company ranks 1,253rd in profit among listed companies. If the ranking in profit is the measure indicating corporate value (market capitalization), the market capitalization for the 1,253rd rank should be 39,663 million yen, with a stock price of 1,455 yen. But we have not achieved, as the Company's market capitalization is 27,420 million yen and the stock price is 1,006 yen (as of March 29, 2019). Going forward, we will continue disseminating the attractions of the Company through IR, aiming to achieve the properly evaluated corporate value.

The rise in the stock price has the aspect of acting as an incentive for employees. The participation rate for our employees 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 employees 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. Precisely because each one of our employees is striving to improve earnings while being conscious of the stock price, we aim to tackle IR sincerely.

For IR, the Company participates in IR events for individual investors every year, with mainly young employees, who are the future of the Company, proactively explaining about the Company. For institutional investors, in addition to briefings, we visit them individually; however, we feel we are not visiting enough of them compared to other listed companies. If any institutional investors have some interest in the Company after seeing this integrated report, please do not hesitate to contact us.

M&A

We believe we need M&A as a means to accelerate the growth of the Company. While we

list four perspectives as the M&A strategy, we can increase profitability if the M&A target is a manufacturer for business succession; and we can develop new sales channels if it is a company with overseas bases (see page 28 for details).

Since M&A is a strategic investment for sustainable growth, we should be careful about its execution; nonetheless, it is essential looking at the future of the Company. We will continue considering M&A going forward.

Recruitment

For the sustainable growth of the Company, we need reform which corresponds to changing times. Although it is not straightforward to change the corporate system right away, a company will change if employees there change. Recruitment is important for that purpose. We believe that if a company recruits good personnel who will lead future growth, with the growth of such personnel, the company will also grow and change in 10 or 20 years.

In recruitment activities, I always participate in company information sessions, explain the growth strategy of the Company by myself, and look at the "face" of each person. The Company has been conducting year-round recruitment for several years, without limiting itself to new graduates. As a result, we see many personnel with various careers and experiences joining the Company. Moreover, the Company has been increasingly recruiting brothers/sisters or acquaintances of employees in recent years. This is generally called referral recruitment, a method of letting employees make referrals for personnel, although we are not adopting referral recruitment intentionally or proactively. Seeing our employees living enthusiastic and happy lives, people around them seem to become interested in the Company and come to its information sessions. Needless to say, we interview them fairly without recruiting them only because they are acquaintances of employees.

While it has become difficult to recruit due to labor shortages, I do not think we can recruit many good students by improving employment conditions (salaries and benefits), or enhance the ability to recruit. All current students have their own unique senses. My theory is that we will have many applicants as a matter of course if we are the "Company which shows growth prospects for the future" and the "Company where employees are working enthusiastically." In other words, I believe the motivation of employees supports the growth of a company.

Improving corporate value

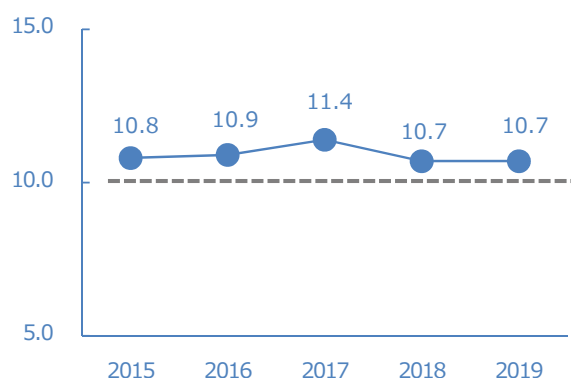
■ Capital policy

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. Moreover, capital cost based on actual figures in the fiscal

year ended March 31, 2019 is set at 6.1%; we are also paying attention to exceed this capital cost. 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 (%)

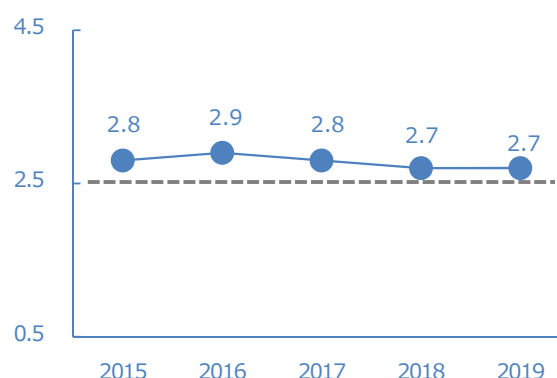
Target: **10% or higher**



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%

Actual DOE (%)

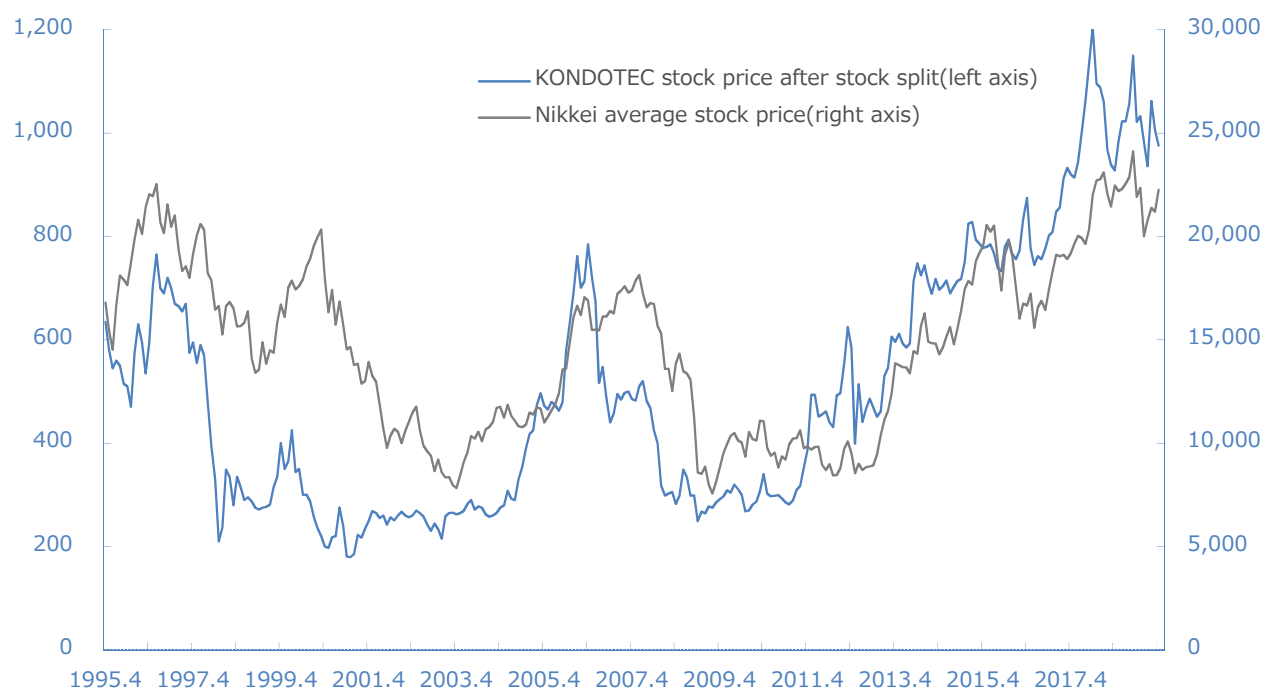
Target: **2.5% or higher**



every year (Equity capital is assumed to be increased by the amount of profit in the previous year).

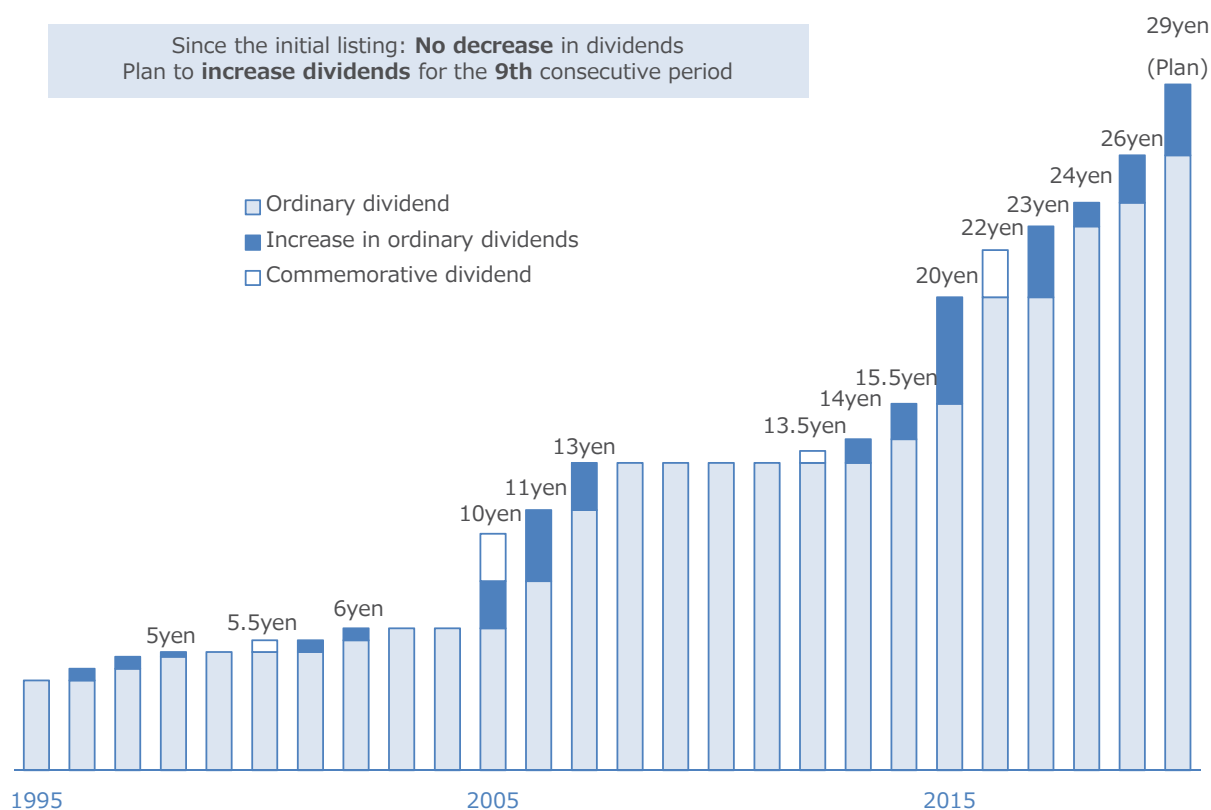
Capital cost (Based on actual figures in 2019) **6.1%**

Transition of stock price (Yen)



Transition in dividends

Since the initial listing: **No decrease** in dividends
Plan to **increase dividends** for the **9th** consecutive period



■ Acquisition and Cancellation of Treasury Stocks

The Company acquires treasury stocks to implement flexible capital measures in response to changes in the management environment, and considers the cancellation of treasury stocks as necessary to increase shareholders' profit.

Latest actions

2016	Acquisition of 956,000 shares of treasury stocks
2018	Cancellations of 700,000 shares of treasury stocks

■ Dividend yield

Closing price on March 29, 2019: **1,006 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

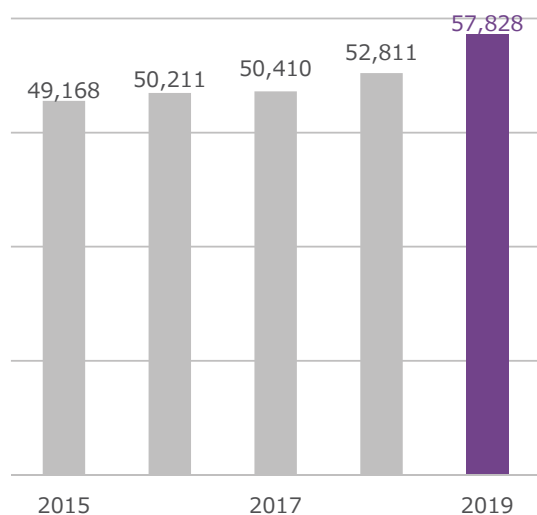
	2015	2016	2017	2018	2019	2019
■ Results of Operations (million yen and Thousand U.S. dollars)						
Net sales	¥49,168	¥50,211	¥50,410	¥52,811	¥57,828	\$521,024
Ordinary income	3,408	3,544	3,614	3,655	4,023	36,253
Profit attributable to owners of parent	2,098	2,239	2,497	2,523	2,748	24,764
Capital investment	403	842	695	423	981	8,844
Depreciation	449	405	438	423	404	3,645
※1 EBITDA	3,860	3,910	4,052	4,079	4,425	39,868
■ Financial Position (million yen and Thousand U.S. dollars)						
Total assets	¥35,186	¥34,645	¥36,524	¥39,313	¥43,820	\$394,812
Net assets	20,231	21,102	22,719	24,745	26,756	241,073
Interest-bearing debt	636	508	501	500	853	7,693
■ Cash Flows (million yen and Thousand U.S. dollars)						
Cash flows from operating activities	¥1,818	¥1,945	¥2,737	¥2,429	¥2,699	\$24,318
Cash flows from investing activities	828	(829)	(646)	(506)	(1,551)	(13,981)
Cash flows from financing activities	(699)	(1,092)	(1,032)	(703)	(915)	(8,247)
Cash and cash equivalents, end of year	7,626	7,594	8,660	9,893	10,133	91,302
■ Per Share Information (Yen and U.S. dollars)						
Profit attributable to owners of parent per share	¥75.91	¥81.01	¥93.29	¥94.25	¥102.65	\$0.92
Net assets per share	730.49	774.18	846.59	922.62	996.99	8.98
Dividend per share	20.00	22.00	23.00	24.00	26.00	0.23
■ Financial Indicators						
Gross profit margin (%)	21.1	21.2	22.2	21.5	21.6	
Ordinary income margin (%)	6.9	7.1	7.2	6.9	7.0	
Profit attributable to owners of parent margin (%)	4.3	4.5	5.0	4.8	4.8	
※2 Total asset turnover (%)	141.2	143.8	141.7	139.3	139.1	
※3 Financial leverage (Times)	1.7	1.6	1.6	1.6	1.6	
※4 ROE (%)	10.8	10.9	11.4	10.7	10.7	
※5 ROA (%)	6.0	6.4	7.0	6.7	6.6	
※6 Equity ratio (%)	57.4	60.8	62.1	62.8	61.0	
DOE (%)	2.8	2.9	2.8	2.7	2.7	
※7 Current ratio (%)	187.6	205.8	212.4	219.9	200.9	
※8 D/E ratio (%)	3.1	2.4	2.2	2.0	3.2	
※9 Fixed ratio (%)	48.5	48.0	45.6	42.4	47.1	
Ratio of retained earnings to total assets (%)	46.4	51.9	54.4	55.4	53.3	
■ Stock Price Index						
Stock closing price (Yen)	¥786	¥834	¥933	¥939	¥1,006	
Price earnings ratio (Times)	10.4	10.3	10.0	10.0	9.8	

※1 EBITDA = Income before income taxes + Interest expenses + Depreciation
 ※2 Total asset turnover = Net sales / Total assets of average two years
 ※3 Financial leverage = Total assets / (Net assets - Subscription rights to shares - Non-controlling interests)
 ※4 ROE = Profit attributable to owners of parent / (Net assets - Subscription rights to shares - Non-controlling interests)
 ※5 ROA = Profit attributable to owners of parent / Total assets of average two years

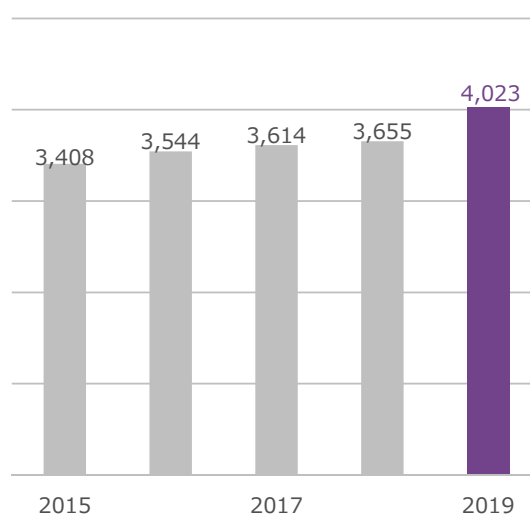
※6 Equity ratio = (Net assets - Subscription rights to shares - Non-controlling interests) / Total assets
 ※7 Current ratio = Current assets / Current liabilities
 ※8 D/E ratio = Interest-bearing debt / (Net assets - Subscription rights to shares - Non-controlling interests)
 ※9 Fixed ratio = Non-current assets / (Net assets - Subscription rights to shares - Non-controlling interests)

Consolidated Financial Performance

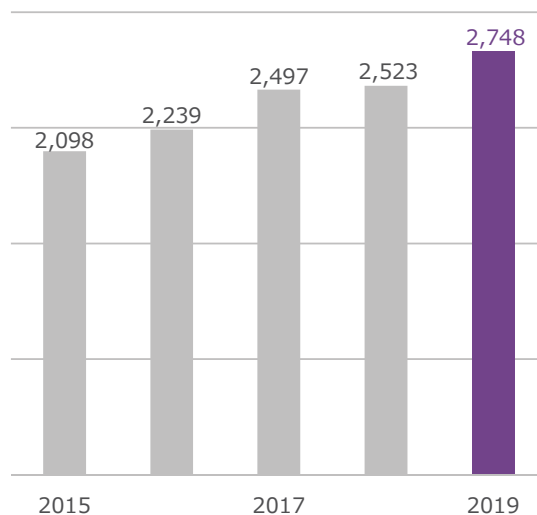
■ Net sales (million yen)

57,828 million yen**9.5 % UP**

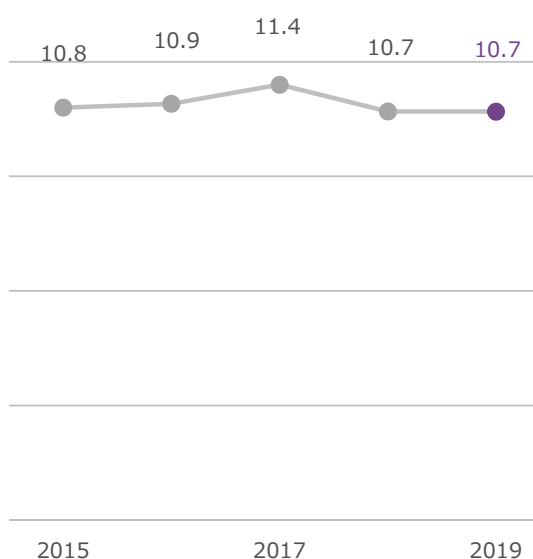
■ Ordinary income (million yen)

4,023 million yen**10.1 % UP**

■ Profit attributable to owners of parent (million yen)

2,748 million yen**8.9 % UP**

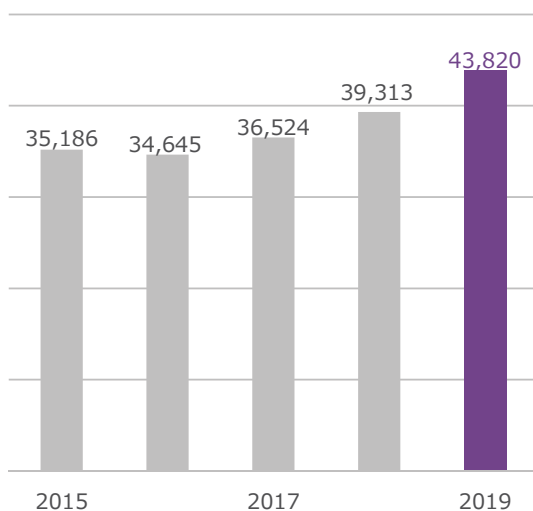
■ Return on Equity (ROE) (%)

10.7 %**±0.0 point**

■ Total assets (million yen)

43,820 million yen

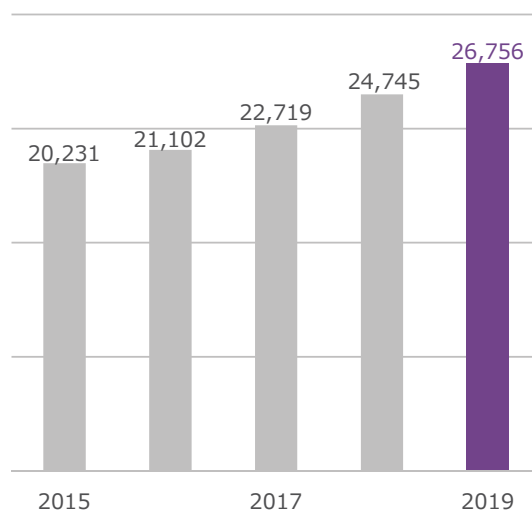
11.5 % UP ↗



■ Net assets (million yen)

26,756 million yen

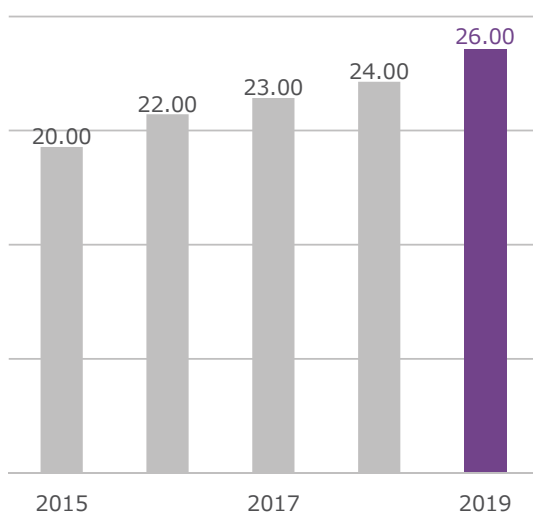
8.1 % UP ↗



■ Dividend per share (Yen)

26.00 yen

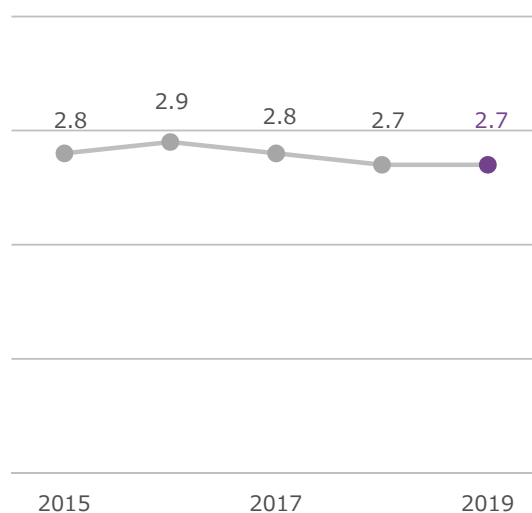
2 yen UP ↗



■ Dividend on Equity ratio (DOE) (%)

2.7 %

± 0.0 point →



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.



Example of CI used (mailed items, seals)





















Company badge worn











ESG Basic Policy Outline (1)

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		Relevant SDGs
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)	   
	(2) Business activities paying attention to the environment	Initiatives for environmental protection and energy-saving initiatives	       
		Management of emissions (material balance)	
Social	(1) Product liability and quality assurance	Quality control of products and merchandise	  
		Stance for security and safety	
	(2) Procurement and provision of high-value-added products, merchandise and services	Provision of better products and merchandise for customers	  

ESG Basic Policy Outline (2)

	Materiality		Relevant SDG s
Social	(3)Communication with shareholders and investors	Engagement with shareholders	
		(Engagement with shareholders)	
	(4)Appropriate information disclosure and security	Stance for information disclosure	 
		Information security measures	
	(5)Co-existence with local communities	Operating site opening plan	 
		Response to disasters and contributions to them	
	(6)Safety measures and work style reform	Risk control for disasters and others	 
		For employees' health, safety and hygiene	
	(7)Human resource development and diversity	Policy on human resource development	 
		Diversity	
		Employee benefits	
Governance	(1)Strengthening of corporate governance	Corporate governance	 
	(2)Thorough compliance	Compliance Basic Policy	

Current specific initiatives	Future issues
Participation in IR events for individual investors	Consideration of exposure to various media such as newspapers and commercials to improve name recognition
Implementation of share buy-back	
Implementation of IR meetings with institutional investors	
Holding of briefings for institutional investors	
Preparation of the integration report in English	Enhancement of IR documents in English
Implementation of IR meetings with overseas investors	Development of personnel who are fluent in English
Use of universal design font for deliveries to shareholders (for easy reading by everyone)	Preparation in English of the notice of convocation and business report for foreign investors
Upload of disclosure documents on the Company website	Consideration of facilitating financial settlement operations (Disclosure within 31 days of the closing date)
Disclosure in CG report	Establishment of a nominating committee, transition to a Company with Audit and Supervisory Committee
Management of customer/shareholder information	Increase in the ratio of Outside Directors and Audit & Supervisory Board Members, and improvement in the effectiveness of internal audit
Management of employees' personal information	Implementation of specific measures against cyber attacks
Selection of possible areas to capture demand	Formulation and promotion of operating site opening plan according to the needs of communities
Selection of the site for opening operating site paying due consideration to the nuisance for neighbors	Opening of operating sites in prefectures where there is no base
Possible to provide products and merchandise immediately even at the time of local disasters by having inventories at operating sites across Japan	Examination of the effectiveness of the risk control manual
Introduction of the risk control manual	
Transfer of the core system to the data center	
Introduction of dual head offices system	
Safe driving training for new employees	Further increasing the consciousness about safe driving
Introduction of telematics	Decrease in the number of traffic accidents
No accident campaign	
Sharing of accident reports, warning for the whole company	
Confirmation of the license by monthly vehicle reports	
Bringing the "Traffic accident handling card" when driving company cars	
Decision on policy to adopt safety devices for company cars such as automated brakes	
Introduction of the drive recorder for company cars	
Work-style reform	Improvement in the usage rate of paid leave, and reinforcement of the management system for employees' working hours
Reduction of collection by sales staff (promotion of transfer to Densai)	Securing of manpower
Reduction of internal documents and review of approval authority	
Digitalization of salary statement	
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	Decrease in industrial accidents at factories and in operating sites
Holding of Safety and Health Committee	
Implementation of regular annual training	Introduction of more appropriate personnel evaluation, and spread of the self declaration system for transfer request, etc.
Award (reward) system for operating sites and individuals according to sales results and President's Award etc.	
Online education freely available to all employees and assistance for expenses to acquire qualifications	
Non-discriminatory hiring policy	Increase in female managers and recruitment of handicapped persons
Maternity leave/childcare leave/support for returning to work, recruitment of foreign students studying in Japan, and creation of track & field club	Acquisition of Kurumin (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
Employee shareholders association system	Development of the awareness about stock price of the Company through the implementation of internal IR
Introduction of the Employee Stock Ownership Plan (ESOP) and the performance-based stock option	
Evaluation of the effectiveness of the Board of Directors	Reinforcement based on improvement proposals
Prevention of the manifestation of potential costs by the development of governance system	
Compliance action guideline	
Thorough checks on anti-social forces before transaction	
Formulation of a compliance manual, and implementation of employee education	Securing of manpower, simplification of operations, and clarification of annual rules
Information exchange and development of communication system between police and the companies	
Membership in Crime Prevention Association	

WE ARE KONDOTEC

VISION

KONDOTEC

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)

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.

Biodegradable high-performance alkaline cleaner Green sweeper



This is a biodegradable high-performance cleaner, water-soluble and phosphate-free, satisfying everything from cleaning power, environment to cost. It does not have a negative effect on metals, rubbers and plastics, either.

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.

Business Activities Paying Attention to the Environment

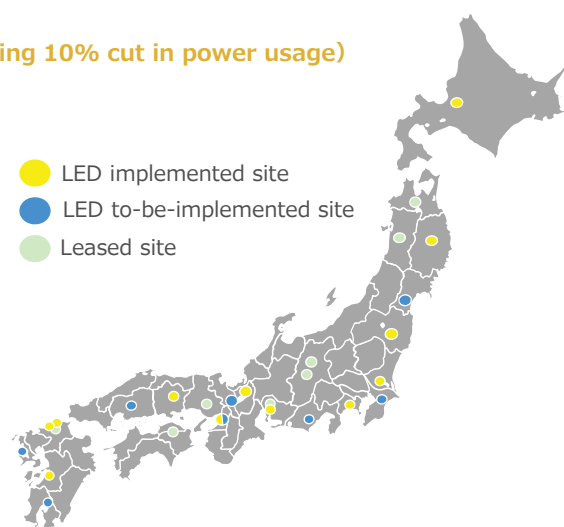
■ Initiatives for Environmental protection and Energy-saving initiatives

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.

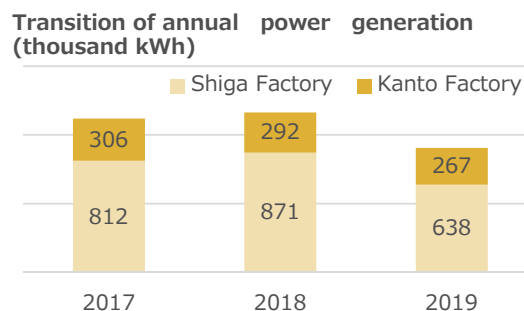
We promote transparency of power usage by making the monthly power usage information open to all operating sites and conducting analyses and comparisons of data. We have been updating energy-saving daily with a view to reducing power usage in our operating sites by 10% year on year.



Installing Solar power generation

Our 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 our Structural Steel Sales Division handle parts of solar power generation systems and frames respectively, and we pursue sales by leveraging synergistic effects.



Participation in environmental conservation activities

We clean neighboring areas and provides new recruits as volunteers for forest preservation as part of environment conservation activities, and has introduced cool biz and warm biz as part of energy-saving measures to realize a low carbon society.

Going forward, we will also take initiatives to increase interest in environmental measures while continuing business activities.



Quick delivery by four-factory structure and inventories at each operating site

We have established factories at four locations in Japan (Hokkaido, Ibaraki, Shiga and Fukuoka), with products ordered such as braces and anchor bolts produced at and shipped from the nearest factory to the customer. Using the four-factory structure, we reduce environmental burdens and transportation costs as well as deliver products quickly.

For products and merchandise which can be stored as inventories, in addition to inventories at logistics centers, we keep a certain amount at warehouses established at individual operating sites so that we can respond to abrupt demand while realizing environmental burdens and cost reduction, and quick delivery.

■ Management of 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

	2015	2016	2017	2018	2019	Change in 5-year average consumption rate
Year-on-Year change (%)	103.6	98.2	105.6	98.2	98.0	99.9

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	32,883 t
	Coating material	101.5m ³
Energy	Electricity	5,821MWh
	Natural gas	0m ³ ·N or PJ
	LPG	71 t
	Diesel fuel	6kℓ
	Kerosene	20kℓ
	Heavy oil	9kℓ
Irrigation water	Water	5,909m ³



OUTPUT

Production	Iron & steel products	32,332 t
Air emission	CO ₂	2,891 t
Industrial waste/byproduct	Recycled volume	29,361 t
	Amount of outsourced disposal	27,558 t
Drainage	Water	5,909m ³

FY 2019

< Expenditure relating to environmental protection >

Kyusyu Factory : Replacement of No. 1 Factory Receiving Plant and No. 1,2 Transformer Substations (96,166 thousand yen)

Kanto Factory : Filter-type dust collector (8,238 thousand yen), switch to LED lighting (1,638 thousand yen)

Shiga Factory : Dust collector for collecting weld fumes (340 thousand yen), examination expense for acquiring ISO14001 certification 1st/2nd (966 thousand yen)

ISO14001:2015 Internal audit staff development seminar (12 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. (78,730 thousand yen)

Our website has been renewed substantially!

In March 2019, we changed the web design and site structure while adding new content to make the Company website "easier to see, use and understand."
Main renewals and URL after the renewal are as follows:



All pages are responsive design!

With the spread of smartphones, etc., we made all pages responsive design. As a result, they can be seen from smartphones, tablets, personal computers and all other terminals.

Further enhancement of products and merchandise information!

We enhanced the posted contents by adding pages for about 1,700 items so that you will further know information on products and merchandise we deal with.



New content "Technical Information" added!

To be a partner that can solve customers' "Problems!", we posted information on hanging work and other work, which are indispensable at construction sites, in addition to information on products which are generated by technologies of us.

▼ TOP page after renewal



Information of products and merchandise

▼ New content "Technical Information"



URL ► <https://www.kondotec.co.jp>

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 control 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 our factory and the section performs strength testing and inspections on a day-to-day basis in an effort to increase safety of products.

Furthermore, in April 2019, the "Quality Assurance Department" was newly established under Manufacturing Headquarters to bear the audit function for quality assurance.

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 procurement 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
Scaffolding and Construction Equipment Association of Japan	Suspension chain adjuster
Japan Cross Laminated Timber Association	Compound screw bolt nut M20

Response to complaints

In the event that a complaint is raised, we 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 our factory 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.

Technical strength through co-creation with group companies

Mechatro Laboratory (former Mechatro Engineering Co., Ltd.) came under KONDOTEC INC. by transferring of business in January 2019. We engage in product development and development of labor-saving lines by adding the technological strengths of Mechatro Laboratory to CHUOH GIKEN Co., Ltd. which is our group company. Thus far, CHUOH GIKEN Co., Ltd. has developed brace manufacturing lines in the factory and automated chain cutters for chain slings.

We will continue striving to improve the production capacity for the Company's products using synergies with group companies.

CHUOH GIKEN Co., Ltd.

This company has strengths in design and manufacturing of various machine devices, labor-saving equipment and transport devices etc., realizing labor-saving for the Company's factories.



Chain cutter

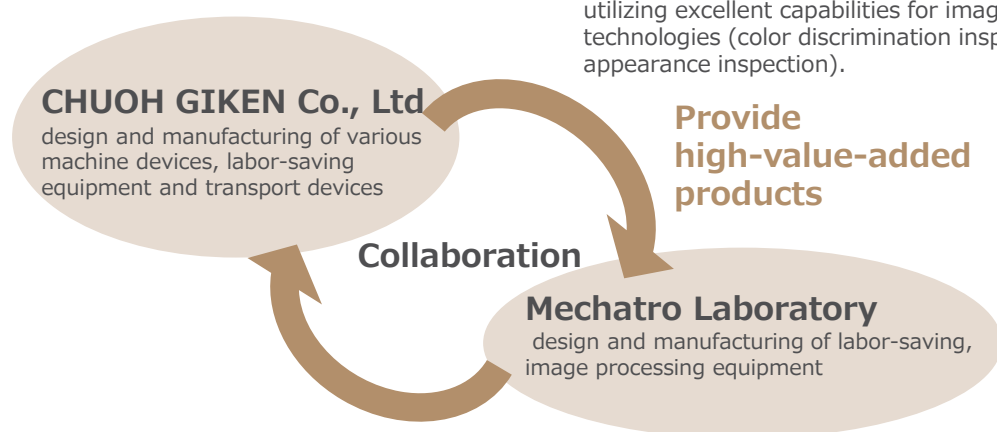


Pewag chain sling

Mechatro Laboratory

(former Mechatro Engineering Co., Ltd.)

This company has strengths in design and manufacturing of labor-saving, image processing equipment, various inspection equipment, and inspection tools among others. It is expected to improve the confirmation quality of factory products utilizing excellent capabilities for image inspection technologies (color discrimination inspection and appearance inspection).



■ 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

Implementing study groups for customers

In order for products and merchandise of the Company to be used safely, we host study groups across Japan responding to requests from various industry groups including customers. Technical service staff of the Company (belonging to Tokyo/Osaka head offices) become lecturers to provide information about safe lifting operations at study groups. We would like to contribute to our customers' efforts to create safe environments by letting as many people as possible understand about safety.



Voluntary quality control activities (QC activities)

We engage in quality control activities (QC activities) at every manufacturing division of factories for the purpose of improving quality control systems. We strive to develop an understanding about quality control throughout the whole factory by hosting presentations of activity results annually, to award divisions which make excellent presentations and share proposals for improvement through presentations among others.



Presentations of QC activities in Kyushu Factory

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 external safety/hygiene education, obtaining public qualifications, participating in internal three-day seminars, and passing the written examination.

By the end of March 2019, 45 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 Technical 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 **69.2%**
(Including those who passed after retaking the test)

Procurement and Provision of High-Value-added Products, Merchandise and Services

As a manufacturer and wholesale company, the Company develops and sells products and merchandise which satisfy customers. This section introduces initiatives of the Company to procure and provide products, merchandise and services.

■ Provision of Products, Merchandise and Services responding to Changes in the Times and Needs of Customers

In addition to providing necessary materials for the construction of hard infrastructure, the Company deals with materials for recovery/reconstruction used at the time of disasters and any other items needed at construction sites.

After its foundation, the Company sold hardware for vessels, and subsequently started dealing with construction materials during the high growth period; we currently provide more than 50,000 products and merchandise. At the New Merchandise Committee held every other month, sales staff propose to deal with new products and merchandise based on the needs of customers, generating numerous hot selling products and merchandise from the adopted proposals.

Moreover, we not only sell products and merchandise but also proactively disclose information and provide services on the Company website. Besides web catalogues and technical information, we will continue to not only sell products and merchandise but to also provide high-value-added services, such as disclosing software to support the selection of wire ropes according to the weight of lifted loads.



“Box Wall”
Flood protection system for severe local rainstorms



Wire rope selection software (Input result)

■ Cultivation of Suppliers and Efficient Purchase, Management and Delivery

To make bulk purchases of merchandise from suppliers, the Company has logistics center at two bases in Japan (Osaka and Ibaraki) as well as one base in China. We are reducing the cost of purchase by delivering in-demand merchandise to operating sites using in-house delivery systems after purchasing them in bulk from manufacturers in Japan and abroad, and storing in logistics center.

Moreover, we always take a stance of reviewing costs by having established the Delivery Division to constantly find better suppliers as well as concluding OEM production contracts with

manufacturers.

Furthermore, we can search on our own system for the status of inventories at distribution warehouses or individual operating sites. As a result, by grasping the status of inventories at our own sites in real time, we can measure the timing for our own sites to purchase inventories as well as immediately reply to inquiries from customers.

For deliveries, we have a system to deliver to customers safely and quickly by employees of the Company or cooperating companies.

■ Production Innovation through Capital Investment in Factories

We invest in production facilities based on the annual plan to improve quality and productivity at factories. In FY2019, we newly established a plant on the premises of Shiga Factory which realized labor-saving through the introduction of robots, aiming to promote work style reform and solve labor shortages.

At the new plant, we will improve productivity by changing the processes undertaken by workers manually to welding, transportation and assembly by robots. If productivity is improved, we plan to expand the system horizontally to other plants.

The Company's Medium-term Management Plan up to FY 2022 plans to make capital investments

of about 6.3 billion yen for the replacement of production equipment and relocation/rebuilding of bases.

Shiga Factory No. 2 Plant	
Address	341-50 Otani, Hino-cho, Gamo-gun, Shiga
Total floor area	About 4,095 m ²
Investment	About 440 million yen
Operation start date	April 1, 2019

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 28 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 by the

President and individual meetings, 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	22 (total)
Acceptance of interviews by telephone	3
Company briefings for analysts (Tokyo)	2
Company briefings for securities companies (Osaka)	1

(FY 2019)

Actual coverage

IwaiCosmo Securities	Rating : A
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(September 2018)

Actual participation in IR events for individual investors

Name	Visitors to our booth
Nikkei IR/Investment Fair2018 (held in August)	527人
Radio program for individual investors Appearance by President (to be aired in December)	-

(FY 2019)



Nikkei IR/Investment Fair2018

TOPICS

We aim to present IR information about the Company in an easy-to-understand way. ▶ Refer P53

The company's website was selected by

★Nikko IR as the excellent site

and by

★GOMEZ IR as an excellent company for three consecutive in the IR website rankings.



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

Appropriate Information Disclosure and Security

Information Disclosure

Basic policy on information disclosure

We have 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

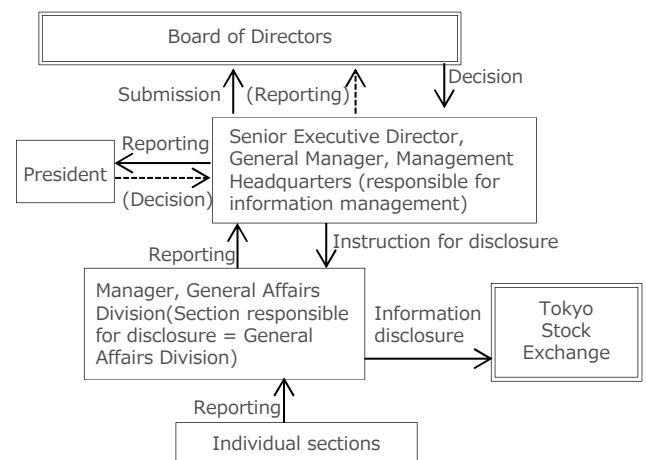
"Timely Disclosure Rules").

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 our website without delay.

Organizational chart



IR Information Disclosure on the Company Website

Besides timely disclosure materials, the Company posts the latest IR materials on the Company website, in addition to financial and earnings data, stock information, and information on IR

event participation.

With the aim of our website being used by more people, we will provide timely information while further enhancing the contents.



<https://www.kondotec.co.jp>

KONDOTEC

検索



Information Security Measures

We have 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, we have 47 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.

■ Response and contribution to disasters

With the inventories of necessary materials at the time of disasters at 47 operating sites across Japan, we have established a system to deliver necessary materials immediately even if the disaster is just local, thereby contributing to the security and safety of local communities.

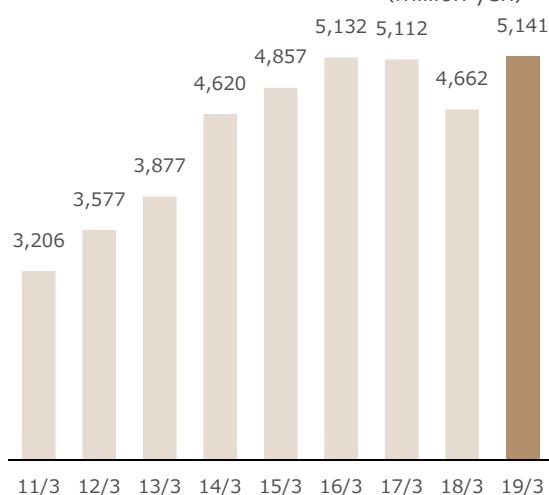
Examples of disaster-related merchandise

- [Flexible Container bag]
- [Tarpaulin, sandbag, etc.]
- [Net, sheet] and others

Examples for use of container bag

It is used in various scene such as transportation and storage of feed, fertilizer, resin pellets, industrial waste, etc., and as a large-size sandbag for rubble clearing, decontamination, and recovery work after disasters.

Net sales of disaster-related materials
(million yen)



Related merchandise

Flexible Container bag



Tarpaulin



Net, sheet etc.



[TOPIX: Response to “New Stage” Published by Ministry of Land, Infrastructure, Transport and Tourism

The Ministry of Land, Infrastructure, Transport and Tourism recognizes the apparent change in the way it rains as a “New Stage” and recommends taking disaster prevention/mitigation measures with a sense of crisis.

To respond to the “New Stage,” we will also focus on advance preparations to minimize damage.

Extraordinary climate in recent years

Heavy rains with hourly rainfall exceeding 50mm have increased across Japan, raining locally, intensively and severely → Recognized as a “New Stage”

Examples of weather conditions bringing disasters

July 2012 heavy rain in northern Kyushu	Heavy rainfall centered on northern Kyushu
August 2014 heavy rain	Heavy rainfall in a wide range of areas from west to east Japan (Landslide disaster occurred in Hiroshima Prefecture)
July 2018 heavy rain	Record-breaking heavy rainfall in a wide range of areas across Japan centered on west Japan

To respond to the “New Stage,” we need to **mitigate damage to infrastructures as much as possible** and **make advance preparations for early recovery.**

Safety Measures and Work Style Reform

■ Risk Control for Disasters and Others

We are taking the following initiatives to ensure the safety of employees and other relevant personnel, prevent the disruption of important operations of the Company and recover as quickly as possible after disruptions when an unexpected event such as a natural disaster occurs.

For employees

Establishment and dissemination of 'Rules of actions for initial response to a large earthquake, etc.'

For accomplishment of important operations

Transfer of the core system to the data center
Introduction of dual head offices system at Osaka and Tokyo.

■ For Employees' Health, Safety and Hygiene

We are taking the following initiatives to protect the safety and health of employees.
Representative matters in need of safety measures in conducting business activities include

receiving and shipping operations in warehouses, marketing activities, delivery of products and merchandise, and production activities in factories.

Category	Detail	
Marketing/ delivery	Implementation of safety driving training	Upon the increase in traffic accidents involving new employees who were not accustomed to driving company cars, we implemented safety driving training at the time of new employee training, reducing accidents involving young employees.
Marketing/ delivery	Implementation of no accident campaign	Sending warning notice to all operating sites when an accident occurs at other sites. Notifying monthly the cumulative number of accidents at all operating sites in the past year even if there was no accident. For the site which had an accident, installing the safety driving support device to all company cars.
Marketing/ delivery	Introduction of safety driving device (Telematics) Installation of the drive recorder	When dangerous driving (sudden braking, speeding, etc.) is detected by G Sensor/GPS, immediately give a warning notice by voice guidance to the driver each time while sending a notifying e-mail of dangerous driving to the head office.
Factory/ warehouse	Implementation of Safety and Health Committee Implementation of safety patrol	Holding a Safety and Health Committee at head office and factories monthly. Implementing safety patrols by employees to prevent industrial accidents.

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, led by head office, we have been engaged in reform for efficient operations by reviewing various operational rules, decreasing collections by sales staff, reducing internal documents, and reviewing approving authority.

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

Paid vacation acquisition target for the company

April 1, 2016 – March 31, 2017	
【Target】 not set	【Actual】 42.8%
April 1, 2017 – March 31, 2018	
【Target】 Acquisition rate of 40% or higher	【Actual】 48.9%
April 1, 2018 – March 31, 2019	
【Target】 Acquisition rate of 50% or higher	【Actual】 57.3%
April 1, 2019 – March 31, 2020	
【Target】 Acquisition rate of 60% or higher	—
April 1, 2020 – March 31, 2021	
【Target】 Acquisition rate of 70% or higher	—

Human resources development and Diversity

■ Policy on human resources development

We carry 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 advisor" qualification, which leads to enhancing employees' knowledge on products and merchandise.

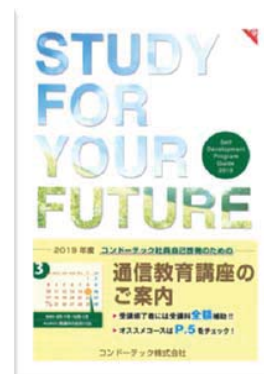
Enhancement of remuneration and benefits programs (Various award system)

Besides bonuses paid biannually, we have introduced the award (reward) system by site and individual according to the contribution to sales

performance and priority issues to increase motivations and spread priority issues of the whole company.

Enhancement of online education system and assistance for acquisition of qualifications

We assist the self-development of abilities by establishing an online education system in which any employee can freely take courses. Moreover, we endeavor to develop personnel with qualifications by assisting tuition and examination fees to promote the acquisition of public qualifications. For new employees, we help them to work safely by letting them take the slinging work skills training course and crane driving special education and be assigned to operating sites with both qualifications.



Cover of the online education booklet

■ Diversity - Basic principle

We recognize 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, we 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. we appointed one female Director in June 2015 and appointed one female Audit & Supervisory Board Member in June 2019, who widen female appeal.

In order for employees and spouses 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. Furthermore, we present various systems including a shortened working-time program which can be taken until a child reaches his/her 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 peace of mind.

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

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

Year of employment	Male	Female	Total	Nationality of international students (other than Japan)
April-2019	19 persons	4 persons	23 persons	Brazil
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 executive members

2 out of 13



Number of employees taking childcare leave

	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
2019.4.1 ~ present	0 person	3 persons	3 persons	At May-2019
2018.4.1 ~ 2019.3.31	2 persons	5 persons	3 persons	
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	

Enhancement of remuneration and benefits programs

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

In October 2013, we 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® which is the trust system utilizing employees' stock ownership associations, and we are 4th company in Japan. 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.

Incentives given to date

Number of shares granted						
Date	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Number of shares	16,500 shares	25,600 shares	20,200 shares	32,400 shares	23,400 shares	17,200 shares
Eligible persons	48 persons	48 persons	47 persons	57 persons	55 persons	62 persons




Hurrah! KONDOTEC Track & Field Club!

We have been supporting its employees in competitive sports, and currently two employees are training daily with the aim of participating in the 2020 Tokyo Olympic games.

Introduction of athlete employees aspiring to participate in the Tokyo Olympic Games



2018 certified athlete for the Olympic games



Kiho Kuze
Joined the Company
in April 2017
Working for
General Affairs Division

■ Competition category	Javelin
■ Alma mater	University of Tsukuba
■ Personal best	58m 98

2019 performance

Date	Competition name	Result	Record
May 6	Michitaka Kinami Memorial Meet	2nd	56m77
Apr 28	Oda Memorial Meet	7th	54m58

2018 performance

Date	Competition name	Result	Record
Oct 7	73rd National Games	6th	53m35
Apr 29	52nd Oda Memorial Meet	4th	58m29

2017 performance

Date	Competition name	Result	Record
Oct 8	72nd National Games	5th	55m63
Sep 23	65th Japan National Industrial Teams Championships	3rd	56m68
Sep 2	2017 Mokpo International Athletic Throwing Meeting	1st	56m21
Jul 22	57th Industrial vs. University	5th	53m04
Jun 24	101st Japan National Championships	8th	55m34
May 21	61st Kansai Industrial Teams Championships	1st	57m67
Apr 29	51st Oda Memorial Meet	7th	54m49



Mika Yamamoto
Joined the Company
in April 2017
Working for
International Sales Division

■ Competition category	Discus
■ Alma mater	Chukyo University
■ Personal best	49m 33

2019 performance

Date	Competition name	Result	Record
May 11	63rd Kansai Industrial Teams Championships	1st	48m02
May 5	Mito Invitational Meet	4th	46m11
Apr 21	Hyogo Relay Carnival	1st	45m54
Apr 14	Hyogo Record Meet	1st	39m82
Mar 29	Nara Record Meet	1st	43m38
Mar 29	Osaka University of Health and Sport Sciences Record Meet	1st	42m04
Mar 10	Kyoto Record Meet	1st	45m11

2018 performance

Date	Competition name	Result	Record
Oct 13	19th Chubu Industrial Teams Championships	1st	42m24
May 12	62nd Kansai Industrial Teams Championships	2nd	43m00
May 4	2018 Nara Championships	1st	43m73
May 4	66th Hyogo Relay Carnival	2nd	41m06

2017 performance

Date	Competition name	Result	Record
Oct 14	18th Chubu Industrial Teams Championships	1st	44m92
Jul 22	57th Industrial vs. University	6th	44m51
Jun 25	101st Japan National Championships	Participation	
May 20	61st Kansai Industrial Teams Championships	2nd	44m98

Comments from Athletes

- (1) Team's goal
- (2) Individual goal



Kuze

- (1) I am aiming to become No. 1 in Japan and participate in the 2020 Tokyo Olympic Games
- (2) To become an athlete who can compete globally, to say nothing of participation in the 2020 Tokyo Olympic Games. I ask for your support.

Yamamoto

- (1) I am aiming to become No. 1 in Japan with Kuze and participate in the 2020 Tokyo Olympic Games.
- (2) I will do my best, aiming to break the Japanese record and compete in a way that will excite the people supporting me. I ask for your support.

On the KONDOTEC INC. website, we regularly report the track & field club's activities and recent events. In addition to the schedules of competitions in which they will participate and the reports on their records, we also have blogs by athletes.

We, the athletes and the Company together, will strive to participate in the Tokyo Olympic Games. Your support would be greatly appreciated.

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.

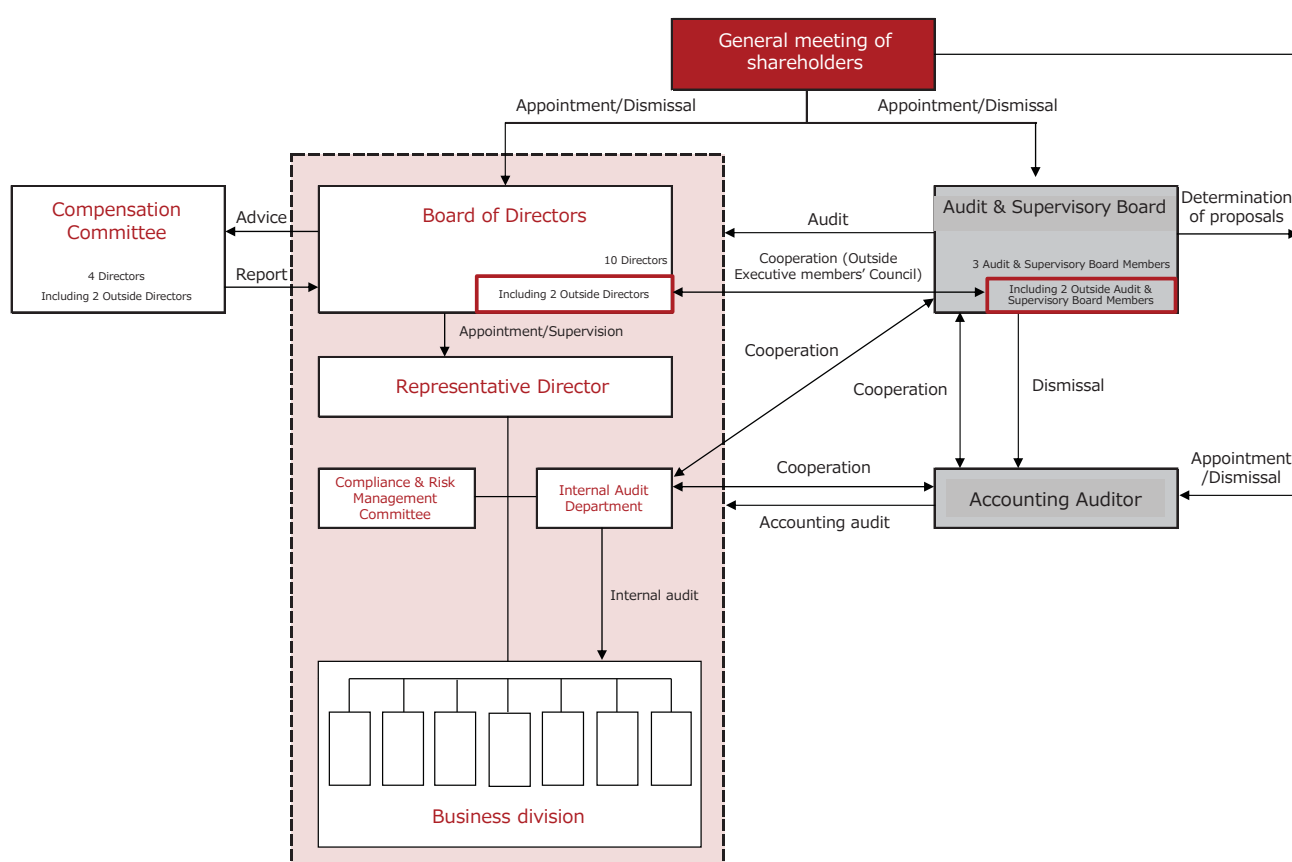
The Audit & Supervisory Board comprises three Audit & Supervisory Board Members, including one full-time Audit & Supervisory Board Member and two part-time Audit & Supervisory Board Members (Outside Audit & Supervisory Board

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.

KONDOTEC adopts an executive officer system and 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, 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. Moreover, Audit & Supervisory Members receive reports on financial results for every quarter from internal control sections, as well as reports on other matters related to internal control as necessary.

Internal Audit Department

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.

Our Internal Audit Department, which is an internal audit section, holds reporting meetings on the results of internal audits conducted, with Audit & Supervisory Members and internal control sections in attendance.

Moreover, the Accounting Auditor review reports on the results of internal audits conducted by the Internal Audit Department. Accounting Auditor and internal audit sections exchange information and opinions as necessary, striving to improve the appropriateness and efficiency of audits through close cooperation.

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.

Compensation Committee

The Company has established the Compensation Committee, as a voluntary advisory organization, composed of Independent Outside Directors, the President & Representative Director, and General Manager of Management Headquarters to strengthen the transparency and objectiveness of the decision-making process for remuneration of Directors.

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 25, 2019

Title	Name	Area of responsibility and important concurrent positions	Independent member	Number of shares held (Thousand shares)
President and Representative Director	Katsuhiko Kondo	Representative Director of Towa Kosan Corp. Representative Director of Toto Kosan INC.		101
Senior Executive Director	Tomoya Ando	General Manager, Management Headquarters and Manager, General Affairs Division Director, Sanwa Denzai Co., Ltd. Director, CHUOH GIKEN Co., Ltd. Director, TECBUILD CO., LTD.		66
Director	Hiroyuki Yada	General Manager, Sales Headquarters Manager, Western Japan Sales Division and Manager, Business Strategy Department		12
Director	Yoichi Hyakuda	General Manager, Manufacturing Headquarters and Manager, Kyusyu Factory		—
Director	Masahiko Yano	Manager, Development Sales Division; Manager, Homecenter Group; and Manager, E-commerce Group		30
Director	Yasuhiro Toki	Manager, Delivery Division		19
Director	Tomoyuki Ejiri	Manager, International Sales Division		8
Director	Kazuyuki Asakawa	Manager, Eastern Japan Sales Division and Manager, Tokyo Branch		7
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	○	2
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. Audit & Supervisory Board Member, TECBUILD CO., LTD.		16
Outside Audit & Supervisory Board Member	Yoshinobu Muratsuji	Attorney-at-law (Wellbright Law Office partner)	○	2
Outside Audit & Supervisory Board Member	Kana Yasuda	Certified Public Accountant, Tax Accountant (Yasuda Accounting Firm Representative) Outside Audit & Supervisory Board Member, SHINPO Co., LTD. Outside Audit & Supervisory Board Member, SUGI HOLDINGS Co., Ltd. Outside Director, GEO HOLDINGS CORPORATION Outside Director, CHUO SPRING CO., LTD.	○	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 and audit & supervisory board members.

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 67th term (April 1, 2018 to March 31, 2019)

Position	Name	Board of Directors (13 board meetings)	Audit & Supervisory Board (16 board meetings)
Outside Directors	Michiko Kanai	Attended 12 meetings (92%)	—
	Masashi Yamato	Attended 12 meetings (92%)	—
Outside Audit & Supervisory Board Members	Yoshinobu Muratsuji	Attended 12 meetings (92%)	Attended 16 meetings (100%)
	Masaharu Nakagawa	Attended 13 meetings (100%)	Attended 16 meetings (100%)

■ Descriptions based on the Corporate Governance Code

Analysis and assessment of effectiveness of the Board of Directors as a whole

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 Board of Directors as a whole.

In April 2019, 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 2019.

1. Period: April 2019 to May 2019
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, 2019, we held 6 issues of cross-held shares worth 39 million yen in book value and 323 million yen in market value, equivalent to 0.1% and 0.7% respectively of total assets of 43,820 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

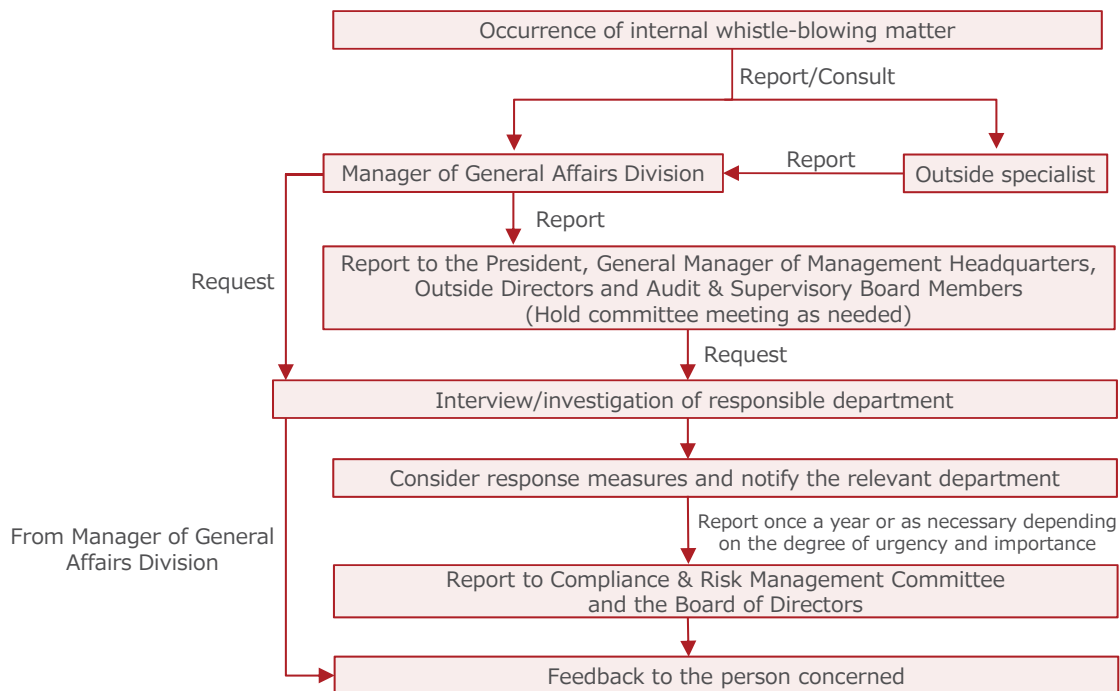
KONDOTEC has formulated internal regulations on whistle-blowing and put in place two points of contact for whistle-blowing inside and outside the company. The Company's whistle-blowing system is such that when whistle-blowing occurs, the Manager of General Affairs Division, which is the internal point of contact for whistle-blowing, reports the matter to the President, General Manager of Management Headquarters, Outside Directors and Outside 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 2019. Regarding the filed cases, we dealt with them appropriately by conducting internal investigations, while paying due consideration to privacy.

Whistle-blowing system flow



Remuneration for Executive members

■ Remuneration for Directors and Audit & Supervisory Board Members (April 1, 2018 to March 31, 2019)

Position	Number of persons paid	Amount of payment (Thousand yen)
Directors	10 persons	196,854
Audit & Supervisory Board Members	4 persons	22,440
Total	14 persons	219,294

- (Notes)
1. The payment to Directors and Audit & Supervisory Board Members includes 20,400 thousand yen paid to Outside Executive members (two Outside Directors and two Outside Audit & Supervisory Board Members).
 2. The number of Audit & Supervisory Board Members to whom payment is made includes Audit & Supervisory Board Member who retired from office as of the conclusion of the 66th ordinary general meeting of shareholders held on June 26, 2018.
 3. The payment to Directors includes 22,398 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

Remuneration for Director is to be decided by the Board of Directors based on report from the Compensation Committee within the limit on the amount of remuneration for Directors approved by the General Meeting of Shareholders. The Compensation Committee is a voluntary advisory organization that was established in June 2019 and mainly composed of independent outside directors.

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.

Moreover, remuneration for Audit & Supervisory Board Members is to be decided by the Audit & Supervisory Board within the limit on the amount of remuneration for Audit & Supervisory Board Members approved by the General Meeting of Shareholders.

SUPPLEMENT

Supporting Materials

Stock Information As of March 31, 2019

■ Company's stock

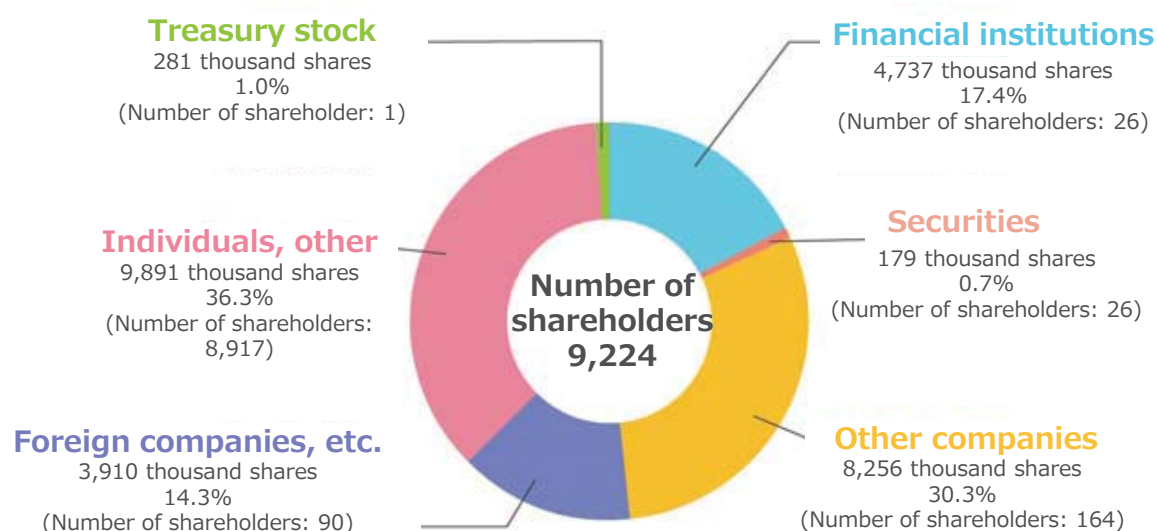
Total number of shares authorized	60,000,000 shares
Total number of shares issued	27,257,000 shares
Shares per unit	100 shares

■ 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)	1,641	6.1%
KONDOTEC employees shareholders association	1,288	4.8%
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)	855	3.2%
The Master Trust Bank of Japan, Ltd. (trust account)	804	3.0%
MUFG Bank, Ltd.	753	2.8%
Jummi Kondo	752	2.8%
Toto Kosan INC.	676	2.5%

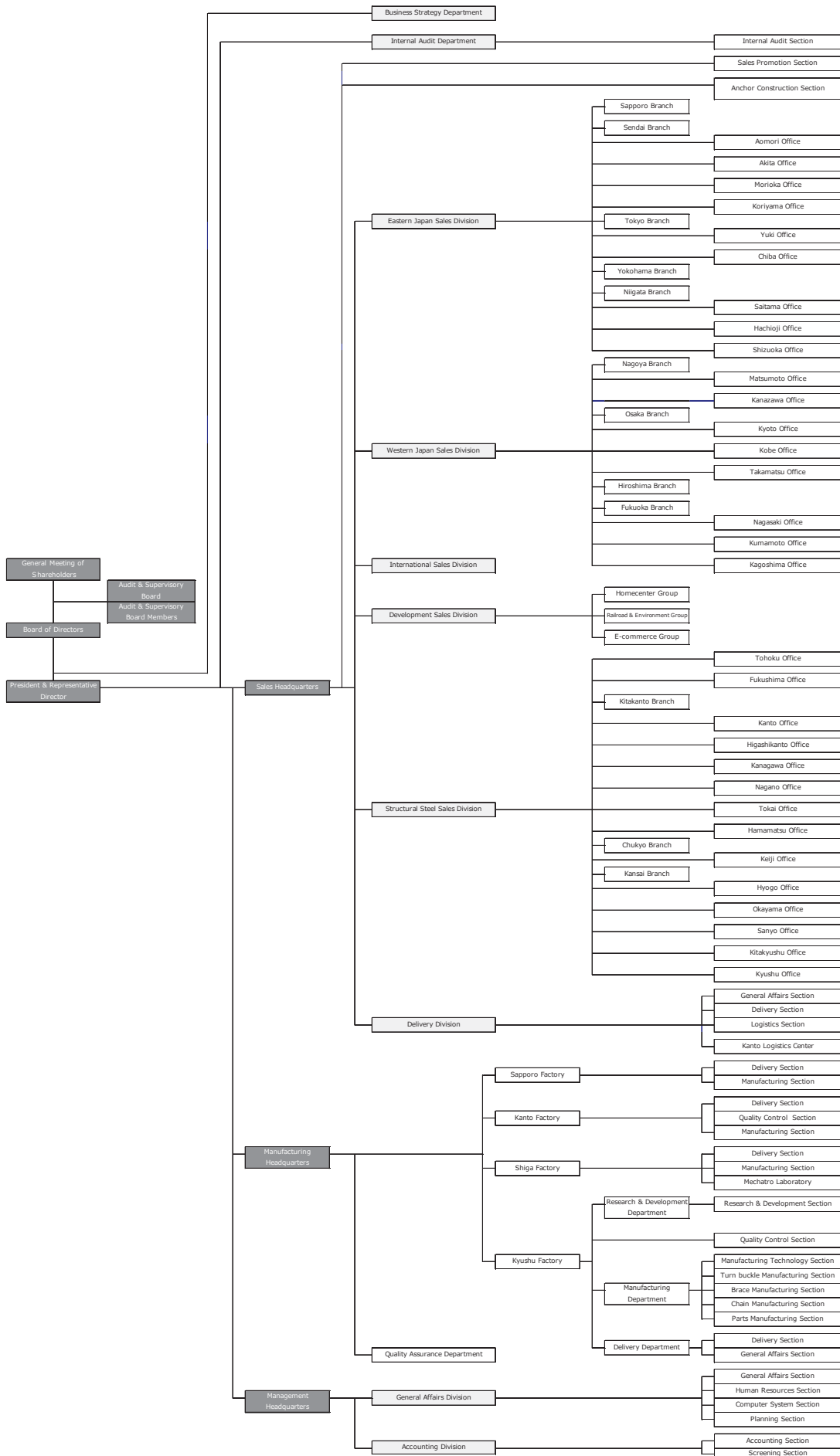
* 281 thousand shares of treasury stock (excluding 39 thousand shares in the ESOP trust account and 145 thousand shares in the BBT trust account) are not included in the above "Major shareholders".
Percentage is calculated with treasury shares excluded.

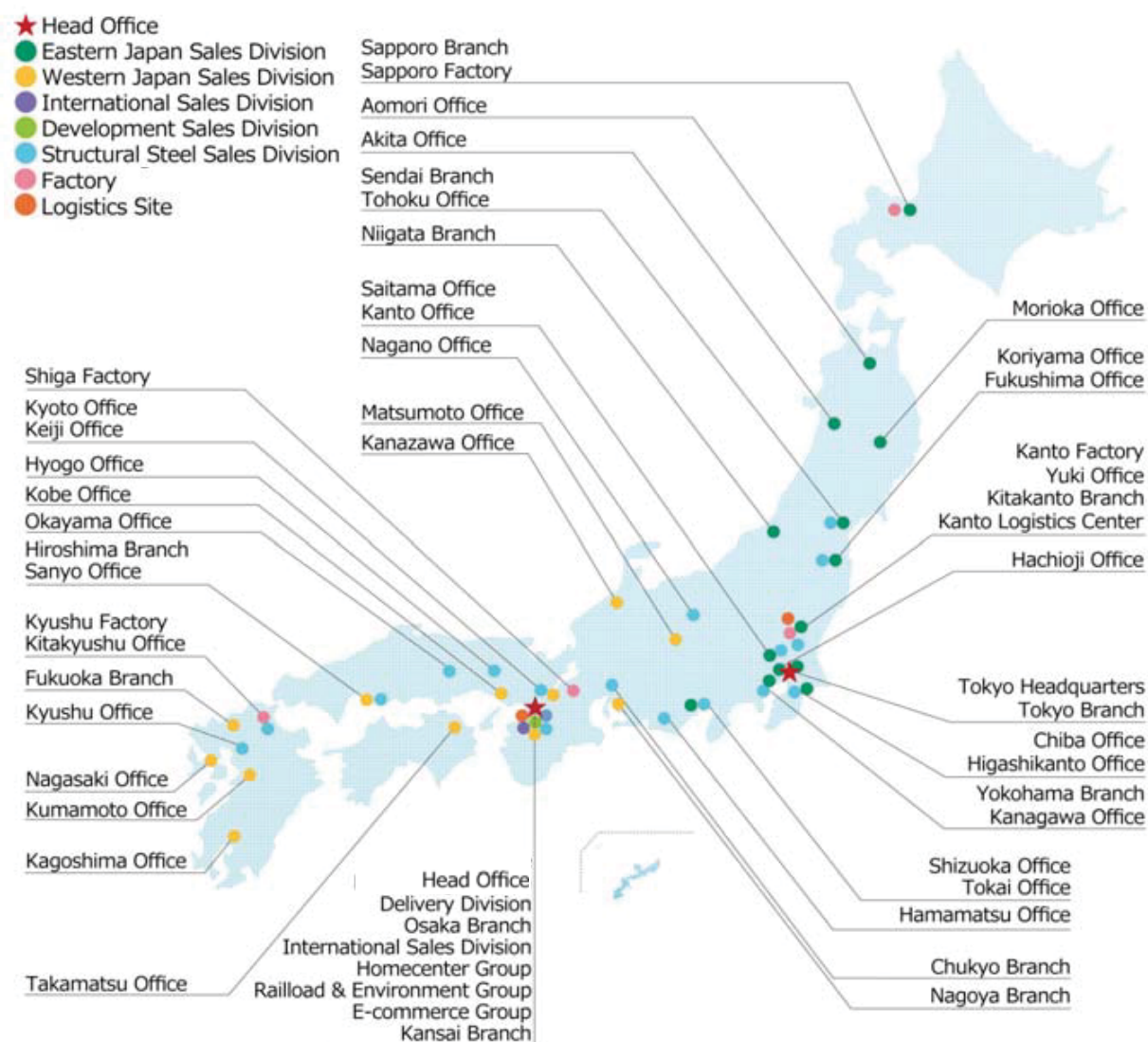
■ Stock distribution by shareholder category



Organization Chart

As of April 1, 2019





Group Companies Sanwa Denzai Co., Ltd. (Head office: Nishi-ku, Nagoya-shi) 13 offices
 KONDOTEC INTERNATIONAL (THAILAND) Co.,Ltd.(Head office: Bangkok, Thailand)
 CHUOH GIKEN Co., Ltd. (Head office: Inukami-gun, Shiga) 2 offices
 TECBUILD CO., LTD. (Head office: Shinagawa-ku, Tokyo) 20 offices

Consolidated Financial Statements

■ Consolidated Balance Sheet

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

	2018	2019	2019
Assets			
Current assets			
Cash and deposits	9,893,136	10,133,693	91,302
Notes and accounts receivable - trade	13,313,566	14,306,048	128,894
Electronically recorded monetary claims operating	1,218,400	1,759,968	15,857
Merchandise and finished goods	3,121,246	3,589,063	32,336
Work in process	233,822	348,629	3,141
Raw materials and supplies	393,946	410,515	3,698
Other	431,697	694,050	6,253
Allowance for doubtful accounts	(10,707)	(9,676)	(87)
Total current assets	28,595,108	31,232,292	281,397
Non-current assets			
Property, plant and equipment			
Buildings and structures (net)	2,608,207	3,044,956	27,434
Machinery, equipment and vehicles (net)	693,553	865,512	7,798
Land	6,138,100	6,140,938	55,328
Other (net)	82,678	491,352	4,427
Total property, plant and equipment	9,522,539	10,542,760	94,988
Intangible assets			
Goodwill	—	452,370	4,075
Other	50,263	596,451	5,373
Total intangible assets	50,263	1,048,821	9,449
Investments and other assets			
Investment securities	575,021	419,147	3,776
Deferred tax assets	430,085	346,176	3,118
Other	157,074	239,911	2,161
Allowance for doubtful accounts	(16,884)	(8,887)	(80)
Total investments and other assets	1,145,296	996,347	8,976
Total non-current assets	10,718,100	12,587,930	113,414
Total assets	39,313,208	43,820,223	394,812

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	(Thousand yen)		(Thousand U.S. dollars)
	2018	2019	2019
Liabilities			
Current liabilities			
Notes and accounts payable - trade	3,285,287	3,596,694	32,405
Electronically recorded obligations – operating	7,246,006	8,233,936	74,186
Short-term loans payable	500,000	430,000	3,874
Current portion of long-term borrowings	–	156,627	1,411
Income taxes payable	642,092	764,930	6,891
Provision for bonuses	524,038	716,886	6,459
Other	920,711	1,646,998	14,839
Total current liabilities	13,118,136	15,546,073	140,067
Non-current liabilities			
Long-term borrowings	–	242,363	2,183
Deferred tax liabilities for land revaluation	178,749	178,749	1,610
Provision for retirement benefits for directors	–	4,050	36
Provision for stocks payment	17,758	40,156	361
Net defined benefit liability	1,198,511	978,562	8,816
Other	54,219	73,570	662
Total non-current liabilities	1,449,239	1,517,453	13,671
Total liabilities	14,567,376	17,063,526	153,739
Net assets			
Shareholders' equity			
Capital stock	2,666,485	2,666,485	24,024
Capital surplus	2,485,413	2,434,555	21,934
Retained earnings	21,760,388	23,348,008	210,361
Treasury stock	(970,535)	(410,910)	(3,702)
Total shareholders' equity	25,941,751	28,038,137	252,618
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	309,554	199,454	1,797
Deferred gains or losses on hedges	(16,555)	(2,061)	(18)
Revaluation reserve for land	(1,510,852)	(1,510,852)	(13,612)
Foreign currency translation adjustment	16,933	25,858	232
Remeasurements of defined benefit plans	(47,495)	(41,363)	(372)
Total accumulated other comprehensive income	(1,248,414)	(1,328,964)	(11,973)
Subscription rights to shares	52,494	47,523	428
Non-controlling interests	0	0	0
Total net assets	24,745,831	26,756,696	241,073
Total liabilities and net assets	39,313,208	43,820,223	394,812

■ Consolidated Income Statement

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

	2018	2019	2019
Net sales	52,811,705	57,828,491	521,024
Cost of sales	41,453,307	45,336,027	408,469
Gross profit	11,358,398	12,492,463	112,554
Selling, general and administrative expenses	7,820,819	8,584,896	77,348
Operating income	3,537,578	3,907,566	35,206
Non-operating income			
Interest income	476	2,204	19
Dividends income	5,898	6,381	57
Purchase discounts	138,354	136,241	1,227
Miscellaneous income	54,996	49,153	442
Total non-operating income	199,726	193,980	1,747
Non-operating expenses			
Sales discounts	55,937	61,609	555
Interest expenses	906	796	7
Miscellaneous loss	25,432	15,368	138
Total non-operating expenses	82,277	77,774	700
Ordinary income	3,655,027	4,023,772	36,253
Extraordinary income			
Gain on sales of non-current assets	1,264	2,293	20
Total extraordinary income	1,264	2,293	20
Extraordinary loss			
Loss on sales of non-current assets	828	315	2
Loss on disposal of non-current assets	446	4,353	39
Loss on valuation of investment securities	—	1,804	16
Total extraordinary loss	1,275	6,473	58
Income before income taxes	3,655,016	4,019,592	36,215
Income taxes - current	1,133,286	1,259,820	11,350
Income taxes - deferred	(1,535)	11,193	100
Total income taxes payable	1,131,751	1,271,013	11,451
Profit	2,523,264	2,748,579	24,764
Profit (loss) attributable to non-controlling interests	(0)	0	0
Profit attributable to owners of parent	2,523,264	2,748,579	24,764

■ Consolidated Statement of Comprehensive Income

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

	2018	2019	2019
Profit	2,523,264	2,748,579	24,764
Other comprehensive income			
Valuation difference on available-for-sale securities	110,075	(110,099)	(991)
Deferred gains or losses on hedges	67	14,493	130
Foreign currency translation adjustment	14,302	8,924	80
Remeasurements of defined benefit plans	51,128	6,131	55
Total other comprehensive income	175,574	(80,549)	(725)
Comprehensive income	2,698,838	2,668,029	24,038
(Breakdown)			
Comprehensive income attributable to owners of parent	2,698,838	2,668,029	24,038
Comprehensive income attributable to non-controlling interests	(0)	0	0

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WE ARE KONDOTEC

KONDOTEC VISION

FINANCIAL DATA

ENVIRONMENT

SOCIAL

GOVERNANCE

SUPPLEMENT

■ Consolidated Statement of Changes in Shareholders' Equity

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		
Cancellation of treasury stock							
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
Cancellation of treasury stock							–
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

2019

(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	2,485,413	21,760,388	(970,535)	25,941,751	309,554	(16,555)
Changes of items during the period							
Cash dividends			(674,283)		(674,283)		
Profit attributable to owners of parent			2,748,579		2,748,579		
Purchase of treasury stock				(4)	(4)		
Disposal of treasury stock			(1,226)	23,320	22,094		
Cancellation of treasury stock		(50,858)	(485,450)	536,308	–		
Net changes of items other than shareholders' equity						(110,099)	14,493
Total changes of items during the period	–	(50,858)	1,587,619	559,625	2,096,386	(110,099)	14,493
Balance at the end of the period	2,666,485	2,434,555	23,348,008	(410,910)	28,038,137	199,454	(2,061)

	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)	16,933	(47,495)	(1,248,414)	52,494	0	24,745,831
Changes of items during the period							
Cash dividends							(674,283)
Profit attributable to owners of parent							2,748,579
Purchase of treasury stock							(4)
Disposal of treasury stock							22,094
Cancellation of treasury stock							–
Net changes of items other than shareholders' equity	–	8,924	6,131	(80,549)	(4,971)	0	(85,521)
Total changes of items during the period	–	8,924	6,131	(80,549)	(4,971)	0	2,010,864
Balance at the end of the period	(1,510,852)	25,858	(41,363)	(1,328,964)	47,523	0	26,756,696

2019

(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	24,024	22,393	196,057	(8,744)	233,730	2,789	(149)
Changes of items during the period							
Cash dividends			(6,075)		(6,075)		
Profit attributable to owners of parent			24,764		24,764		
Purchase of treasury stock				(0)	(0)		
Disposal of treasury stock			(11)	210	199		
Cancellation of treasury stock		(458)	(4,373)	4,832	–		
Net changes of items other than shareholders' equity						(991)	130
Total changes of items during the period	–	(458)	14,304	5,042	18,888	(991)	130
Balance at the end of the period	24,024	21,934	210,361	(3,702)	252,618	1,797	(18)

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of the period	(13,612)	152	(427)	(11,247)	472	0	222,955
Changes of items during the period							
Cash dividends							(6,075)
Profit attributable to owners of parent							24,764
Purchase of treasury stock							(0)
Disposal of treasury stock							199
Cancellation of treasury stock							–
Net changes of items other than shareholders' equity	–	80	55	(725)	(44)	0	(770)
Total changes of items during the period	–	80	55	(725)	(44)	0	18,117
Balance at the end of the period	(13,612)	232	(372)	(11,973)	428	0	241,073

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■ Consolidated Statement of Cash Flows

	2018	2019	2019
Cash flows from operating activities		(Thousand yen)	(Thousand U.S. dollars)
Income before income taxes	3,655,016	4,019,592	36,215
Depreciation	423,462	404,640	3,645
Share-based compensation expenses	30,148	17,115	154
Increase (decrease) in allowance for doubtful accounts	5,385	(11,339)	(102)
Increase (decrease) in provision for bonuses	(53,263)	171,210	1,542
Increase (decrease) in provision for stocks payment	17,758	22,398	201
Increase (decrease) in net defined benefit liability	29,386	(278,456)	(2,508)
Interest and dividends income	(6,375)	(8,585)	(77)
Interest expenses	906	796	7
Loss on valuation of investment securities	—	1,804	16
Loss (gain) on sales of non-current assets	(435)	(1,977)	(17)
Loss on disposal of non-current assets	446	4,353	39
Decrease (increase) in notes and accounts receivable – trade	(1,033,534)	(1,185,534)	(10,681)
Decrease (increase) in inventories	(391,441)	(492,934)	(4,441)
Increase (decrease) in notes and accounts payable – trade	737,031	1,087,234	9,795
Increase (decrease) in accrued consumption taxes	18,160	14,040	126
Other	37,535	79,789	718
Sub-total	3,470,189	3,844,147	34,635
Interest and dividends income received	6,375	8,585	77
Interest expenses paid	(906)	(800)	(7)
Income taxes paid	(1,046,154)	(1,152,787)	(10,386)
Cash flows from operating activities	2,429,504	2,699,144	24,318
Cash flows from investing activities			
Purchase of property, plant and equipment	(455,043)	(747,024)	(6,730)
Purchase of investment securities	(80,000)	—	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(806,926)	(7,270)
Other	28,094	2,179	19
Cash flows from investing activities	(506,948)	(1,551,770)	(13,981)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	—	(270,000)	(2,432)
Proceeds from long-term borrowings	—	30,000	270
Repayments of long-term borrowings	—	(1,071)	(9)
Purchase of treasury stock	(155,566)	(4)	(0)
Proceeds from sales of treasury stock	83,607	8	0
Cash dividends paid	(630,772)	(673,750)	(6,070)
Other	(1,074)	(626)	(5)
Cash flows from financing activities	(703,805)	(915,444)	(8,247)
Effect of exchange rate change on cash and cash equivalents	14,019	8,627	77
Net increase (decrease) in cash and cash equivalents	1,232,769	240,556	2,167
Cash and cash equivalents, beginning of year	8,660,366	9,893,136	89,135
Cash and cash equivalents, end of year	9,893,136	10,133,693	91,302

* All financial information presented in Japanese yen has been rounded down to the nearest million.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of exchange at March 29, 2019. U.S. dollar amounts are rounded down to the nearest thousand.

Editor's Note

Thank you very much for reading the "KONDOTEC REPORT (Integrated Report)" to the last.

These days, we are increasingly hearing the expression SDGs (Sustainable Development Goals). Presumably, this is because society as a whole has started having a sense of crisis about a sustainable future. Our Company is no exception, and we regard SDGs as an essential element for sustainable growth. Taking into account the relevance between the Company's business and SDGs, the REPORT discussed what is the most influential issue (materiality), restructured it, and changed the description of the value creation process so that the Company's business model will be more readily understood.

While the REPORT goes through a trial-and-error process every year, it still has room for further improvement from the perspective of SDGs. Moreover, the REPORT was prepared by a team of female project members, 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 responsible for marketing measures. Furthermore, the members have diverse career backgrounds and knowledge, including having taken childcare leave and experienced job rotations. The next year will see a re-start, as two project members from the first year of the Integrated Report's publication will take childcare leave. I will take this as an opportunity to evolve the Integrated Report from the perspective of diversity as well.

We will continue to work on improving KONDOTEC Report while remaining conscious about enhancing our dialogue with stakeholders in our sincere hope that the KONDOTEC Group will grow to contribute to the development of a sustainable society.

Senior Executive Director and General Manager,
Management Headquarters
Tomoya Ando



PROJECT MEMBER

Yuko Izaki

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



Yoko Yamakawa

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



Mari Katsuki

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



Naoka Miyake

- ★General Affairs Section Equities etc.
- ★Jointed in 2015



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, 2019, please refer to the Annual Securities Report.

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

Reporting coverage period

- ◆ Reporting period
April 1, 2018 through March 31, 2019
(Activities in April 2019 and thereafter are included in part.)
- ◆ Reporting organization
KONDOTEC INC. and its group companies
- ◆ Accounting standard
Japanese GAAP

KONDOTEC

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

550-0024 Japan

Telephone : +81-6-6582-8441

Website : <https://www.kondotec.co.jp>