GOING FURTHER

その先の向こうへ

Penta-Ocean Construction
Annual Report 2018

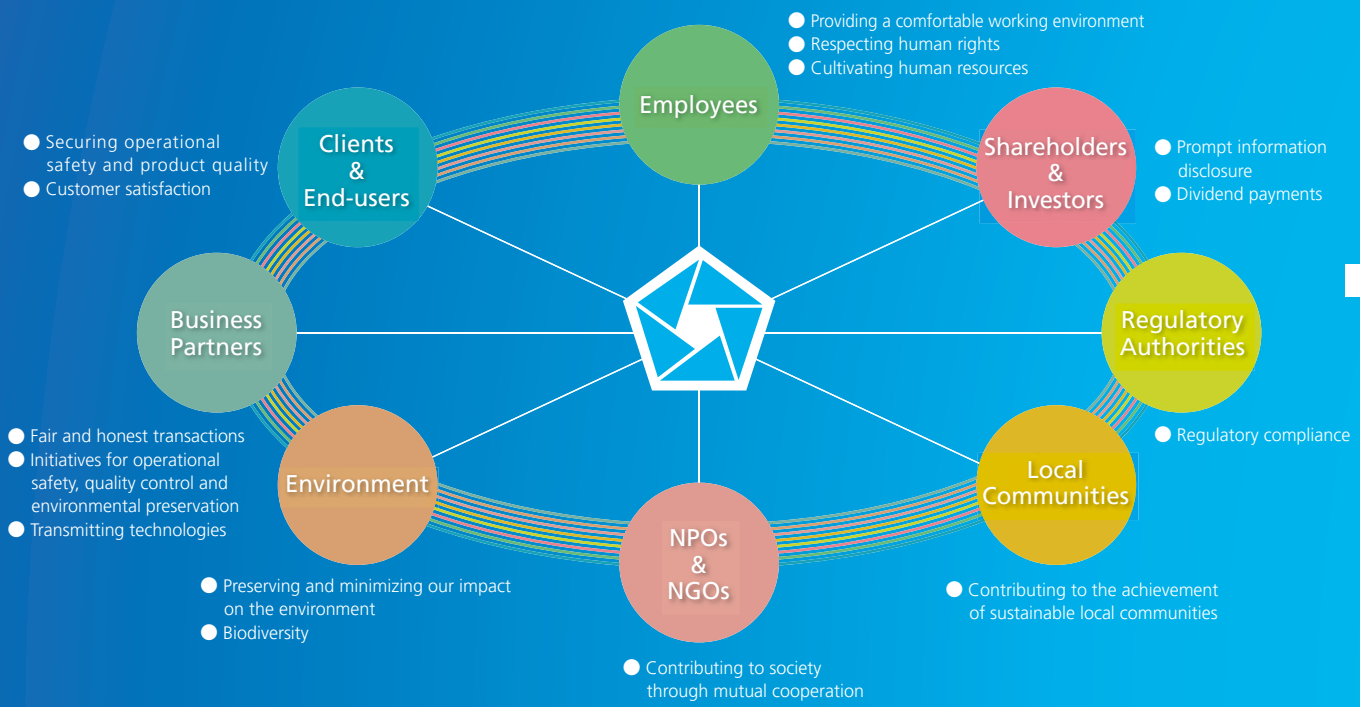
Year Ended March 31, 2018

GOING FURTHER

その先の向こうへ

Since its foundation in 1896 in Kure city, Hiroshima prefecture, Penta-Ocean Construction Co., Ltd. has grown with society by contributing an enterprising, up-and-coming spirit and leading-edge construction technologies. After its founding the company has continued with a mentality of continually seeking challenges in new field as part of its corporate DNA. A spirit of accepting challenges that never varies, even as times change, and the power of flexible self-innovation to respond to the needs of each new era. At Penta-Ocean, we are never satisfied with things as they are, and we continue to move steadily forward, step by step.

Penta-Ocean Construction Group and Our Stakeholder Engagement Model



Contents

Corporate Policy

Affiliating with Society
The Company keeps abreast of continued growth by contributing high quality construction services and building trustful relationships with all stakeholders.

Creating a Nature-Rich Environment
The Company strongly believes that the cornerstone of our social and economic activities is delivering a nature-rich environment to the future generations. We create safe and comfortable living and social environments through our earth conscientious operations.

Cherishing a Pioneering Spirit
The Company demonstrates an enterprising spirit in dealing with the changes in society that influences our business in order to conscientiously respond to the needs of our customers and communities.

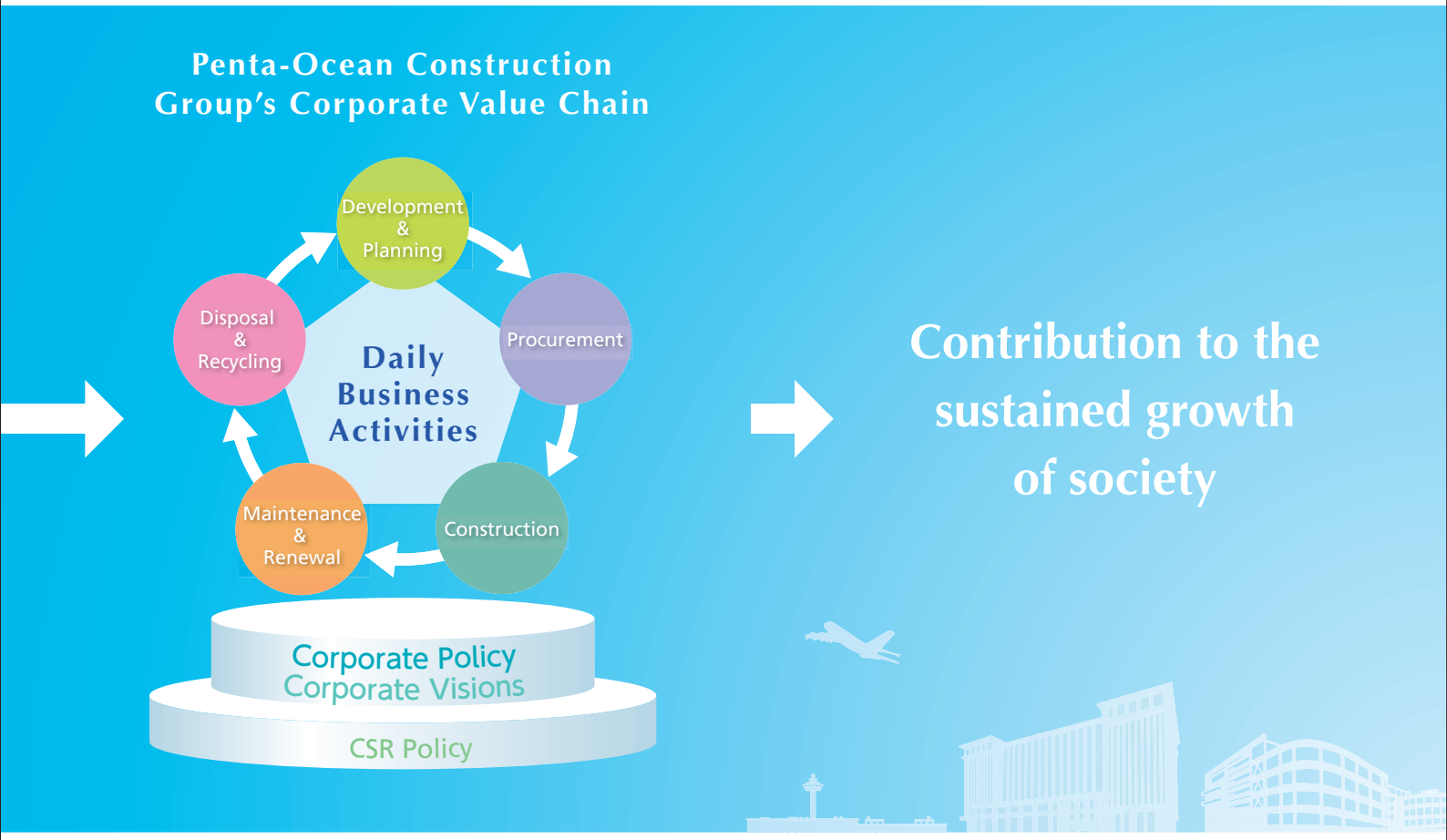
Corporate Vision

"Creative" company for land and sea
As a leading contractor in coastal and waterfront areas, we seek to create attractive environments and pursue customer satisfaction and social contribution as an engineering-oriented company.

"Committed" company guaranteeing solid quality
We build trustful relationships with our customers and society through providing high quality workmanship and safe products backed by solid technologies.

"Future-oriented" company creating rich environments for the future generations
We establish quality and nurture rich environments throughout the course of our corporate activities and pass on our dreams, hopes and possibilities to the next generations.

Penta-Ocean Construction Group's Corporate Value Chain



CSR Policy

Penta-Ocean Construction Group views that its greatest contribution to society is the construction of superior infrastructure. We aim to be a respectable and highly attractive group of companies not only to our shareholders, customers, business partners and employees, but also to local communities by providing high-quality workmanship backed by advanced technologies developed with high regard for safety and ecological considerations.

Dignified Business Conduct	Coexistence with the Environment and Nature	Human Propriety	Information Transparency

Corporate History

– A Glimpse at the Yesteryears of Penta-Ocean Construction

Phase I
From foundation to development

Phase II
Recovery from WW2, overseas expansion and development in land civil engineering

Phase III
Evolving into a general contractor by strengthening our building construction abilities

1896

Mr. Jinjiro Mizuno founded Mizuno-Gumi
(1896)

1950

Contract awarded for construction of first large-scale quay walls and industrial facilities in the postwar era in Tsukumi Port, Oita Prefecture
(1948)

1960

Contract awarded for construction of coastal industrial zone for Nippon Kokan Kabushiki Kaisha (currently JFE Engineering) in Fukuyama Prefecture
(1961)
Stock listed on the Second Section of the Tokyo Stock Exchange
(1962)
Stock listed on the First Section of the Tokyo Stock Exchange
(1964)

The company renamed Goyo Kensetsu, and named Penta Ocean Construction Co., Ltd. in English
(1967)

1970

Contract awarded for Suez Canal reconstruction
(1961)
Contract awarded for Suez Canal deepening and widening
(1974)

1980

Contract awarded for reclamation work on Jurong Island, Tuas View Extension
(1984)

Contract awarded for phase I of construction of an artificial island for Kansai International Airport
(1986)
Contract awarded for phase II of construction of an artificial island for Kansai International Airport
(1999)

1990

Completion of the World Cargo Distribution Center
(1993)

Completion of New Institute of Technology in Nasushiobara City, Tochigi Prefecture
(1994)

1996

Celebrated 100th anniversary of the Company's founding
(1996)

Historical Events

1896 First modern Olympic Games (1896)

1950 Great Kanto Earthquake (1923)
World War 2 (1939-1945)
Arab- Israeli Conflict (1948-1973)

1960 Completion of Tokyo Tower (1958)
Launch of the Tokaido Shinkansen (1964)
1964 Summer Tokyo Olympic Games (1964)

1970 Full opening of Tomei Expressway (1969)
First Oil Crisis (1973)
Second Oil Crisis (1979)

1980 Launch of the Tohoku Shinkansen (1982)
The Plaza Accord (and consequent drastic appreciation of the Yen) (1985)

1990 Great Hanshin Earthquake (1995)
Sarin Gas Attack on Tokyo Subway (1995)

Since our foundation as Mizuno-Gumi for marine civil engineering, we have expanded our business horizons through various endeavors. While embarking on overseas ventures well in advance of our competitors, undertaking land civil engineering works, including the construction of tunnels and subways, and building construction works for logistics facilities and large hospitals, we have preserved a vigorous spirit for taking on new challenges in our corporate DNA. Having taken all obstacles and setbacks in our stride, we have a strong conviction that we can further enhance our contribution to society both in Japan and overseas.

Phase IV

Evolution and advancement

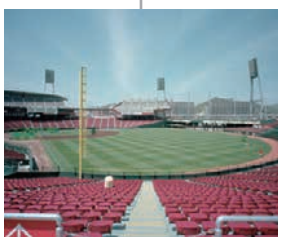
2000

Completion of Esplanade-Theatres on the Bay in Singapore (2002)

Self-propelling trailing suction hopper dredger, "QUEEN OF PENTA-OCEAN", (currently ANDROMEDA V) put into commission in Singapore (1999)

Completion of Kogouchi Tunnel of New Tomei Expressway (2005)

2010



Completion of MAZDA Zoom-Zoom Stadium Hiroshima (2009)

Completion of a large-scale self-propelled multi-purpose working vessel, "CP-5001" (2012)

Opening of D-Runway of Tokyo International Airport (2010)

Completion of ION Orchard, and the Orchard Residence in Singapore (2010)

2020

Completion of Sengkang Integrated Hospital in Singapore (2018)

Completion of a self-propelled cutter suction dredger, "CASSIOPEIA V" (2014)

Completion of Kure City Hall (2015)

2000

Adoption of the Kyoto Protocol (1997)

Iraq War (2003)

Nagano Olympic Winter Games (1998)

September 11 attacks, USA (2001)

2010

"EXPO 2005 Aichi", Japan World Exposition (2005)

Great East Japan Earthquake (2011)

Bankruptcy of Lehman Brothers (2008)

2020

Implementation of "Abenomics", Prime Minister Abe's economic stimulus package (2013)

Tokyo Olympic and Paralympic Games are scheduled to be held (2020)

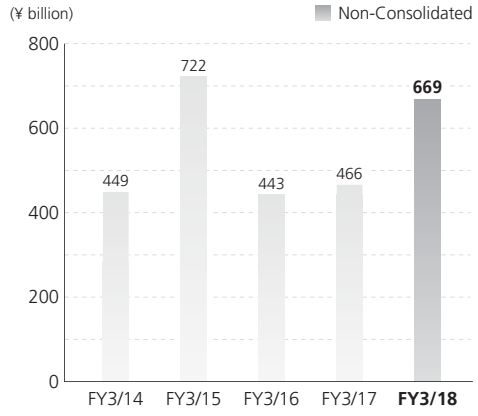
Consolidated Financial Highlights

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31

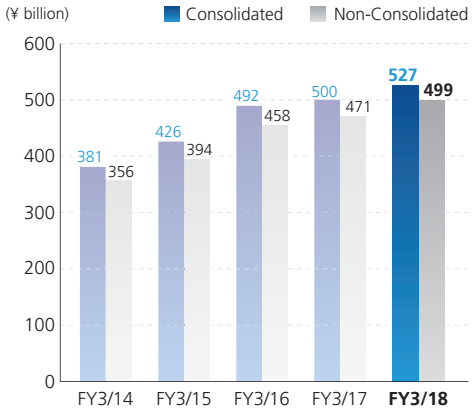
	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Net sales	¥500,336	**¥526,902**	**$4,959,545**
Total assets	372,311	**418,824**	**3,942,242**
Net assets excluding non-controlling interests	96,377	**111,971**	**1,053,950**
Ordinary profit	23,709	**25,683**	**241,748**
Profit before income taxes	23,028	**25,290**	**238,044**
Profit attributable to owners of parent	15,272	**17,826**	**167,791**
Cash dividends	3,431	**4,003**	**37,675**
Per share of common stock:	Yen		U.S. dollars
Net assets excluding non-controlling interests	¥337.10	**¥392.27**	**$3.69**
Profit attributable to owners of parent	53.42	**62.41**	**0.59**
Cash dividends	12.00	**14.00**	**0.13**

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥106.24 per U.S.$1, prevailing on March 31, 2018.

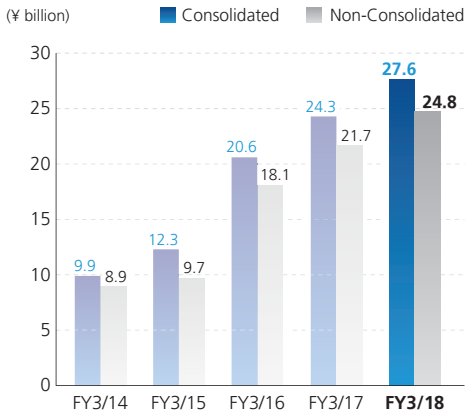
Orders Received



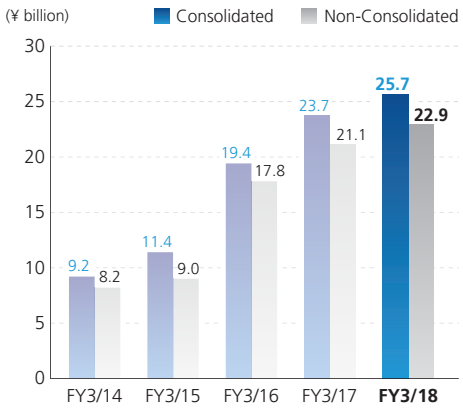
Net Sales



Operating Profit



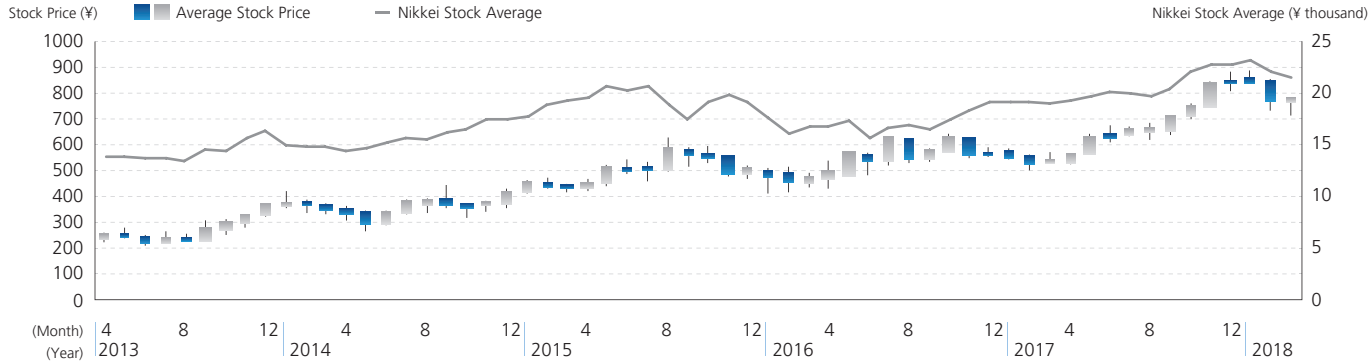
Ordinary Profit



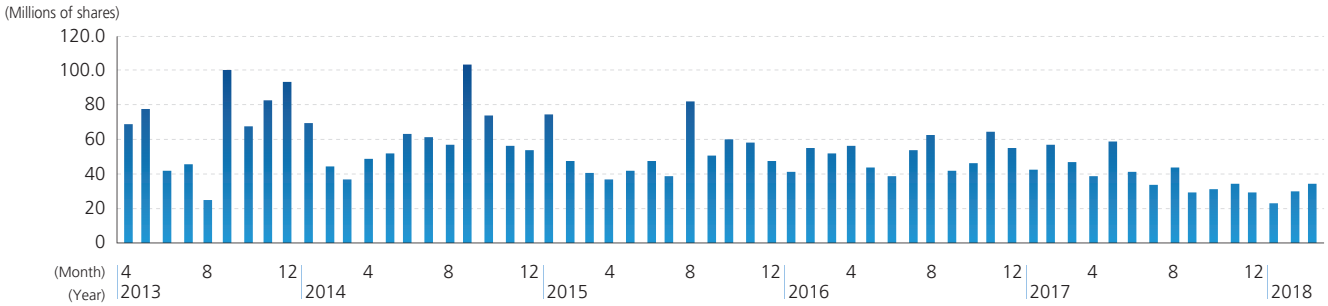
Disclaimer

The information contained in this annual report concerning Penta-Ocean Construction Co., Ltd.'s forward-looking statements and management plans are based on information available to the company at the time that it was created. Please note that actual results may differ from the forecasts indicated here due to a variety of future factors.

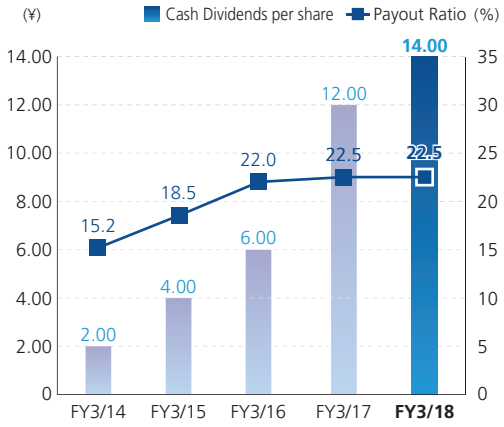
Stock Price Range



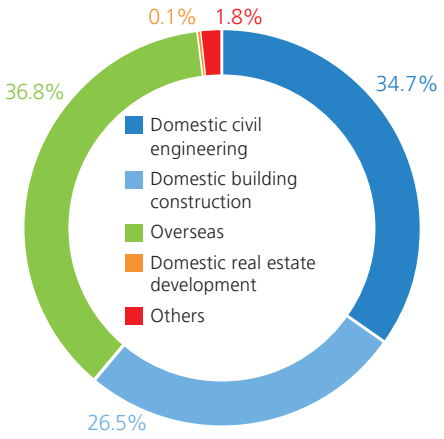
Trading Volume



Cash Dividends per Share and Payout Ratio



Sales by Segments



Business Activities and Environmental Burden

INPUT

Power (kWh)*	40,049,000
Light oil (kl)	30,557
Heavy oil (kl)	26,351
Kerosene (kl)*	420
Concrete (t)	1,215,000
Asphalt concrete (t)	128,000
Rubble (m^3)	1,139,000
Earth and sand (m^3)	2,078,000

* Site + office combined number

Research and Technological Development
Planning and Design
Construction
Operation and Repairs
Disassembly

OUTPUT

Amount of CO_2 emissions (t-CO_2)	189,000
Amount of construction waste (t)	679,000
Final disposal rate (%)	3.1
Recycling rate (%)	96.9
Amount of soil generated from construction (m^3)	1,387,000

Environmental conservation/ restoration and communication → Creation of abundant environments → Handing over to the next generation

Message from the President

To affirmatively respond to the customer's trust with reliable safety and product quality, contributing to society through advanced technology

Takuzo Shimizu
President, Chief Executive Officer and Representative Director

Penta-Ocean Construction Co., Ltd. is now celebrating the 122nd anniversary since its founding as Mizuno-Gumi in Kure City, Hiroshima Prefecture in 1896. Our business has begun with marine civil engineering works and has expanded to land civil engineering works and building construction works. We have had historical involvement in numerous and notable major overseas projects, particularly the Suez Canal Widening and Deepening project in Egypt, etc. This year is the 54th anniversary of the establishment of our base in Singapore.

We are now aiming to become a globally No.1 contractor in port, coastal and waterfront areas. In addition, towards the year 2021 which is the 125th anniversary of the foundation of our company, we will enhance the comprehensive strength of the company through promoting the "Interdepartmental Collaboration" among our three business units of Domestic Civil Engineering, Domestic Building Construction and Overseas.

The world's political and economic situations have been exposed to uncertainties entailed in geopolitical risks in East Asia and the Middle East. The business environment surrounding the construction industry, however, remains favorable both in Japan and overseas.

The new Medium-term Management Plan that began last year has made a good start from the first fiscal year. Owing to improvement of gross profit margin of construction works on-hand, we achieved the record-high net income for the four consecutive years.

Last fiscal year, both in Japan and overseas, we received several contracts for large-scale projects to lead future growth of our company. In Japan, we received the record-high contract for the commercial facility construction project in front of the Osaka station. We received several contracts for large-scale overseas civil engineering projects such as the record-high contract for the port construction project in Bangladesh, etc.

Our Medium-term Management Plan enters its second year this fiscal year. Under current good business climate, we will solidify the foothold as a distinctive general contractor with strengths in port, coastal and waterfront areas and overseas. Moreover, we will strive to improve productivity to accomplish the "Work Style Reform", such as the 2 days off per week at construction sites, which is one of the most impending management tasks for us. I strongly

do believe that companies ahead of work style reform and productivity improvement will be destined to survive in a competitive market of construction industry.

It is impossible to successfully realize work style reform without promoting the full consciousness of all staff and without improving productivity through introduction of advanced technologies. In addition to nurturing human resources who have the courage to take on new challenges, we will proactively challenge to develop and adopt advanced technologies that will contribute to improving on-site productivity such as utilizing ICT / AI and promoting BIM / CIM.

We will further strengthen "Interdepartmental Collaboration" and aim to be a company that can demonstrate comprehensive strength.

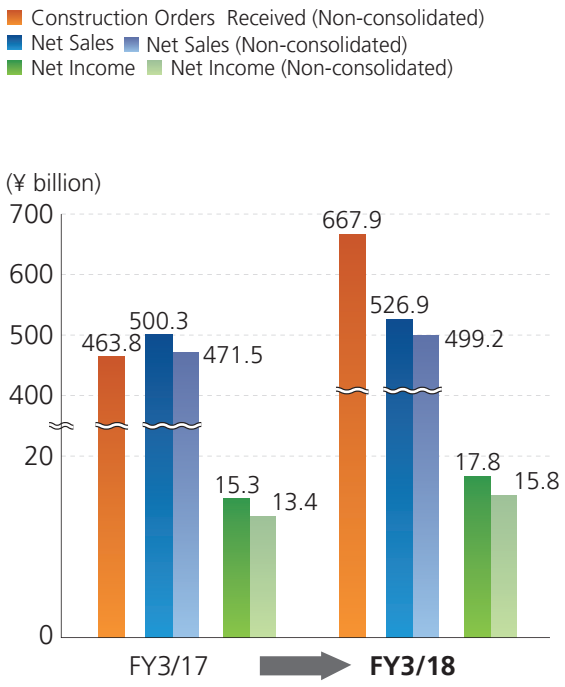
Penta-Ocean Construction Group will continuously practice business management based on Corporate Social Responsibility (CSR) Policy, under the principle of "to construct high-quality infrastructure as one of the best ways to contribute to society". We always maintain high ethical standards, cherish culture of openness and trust where our technological strength is highly valued, and create the work environments where diversified personnel are able to work with vitality, regardless of gender and nationality.

Upwardly revised goals of the Medium-term Management Plan

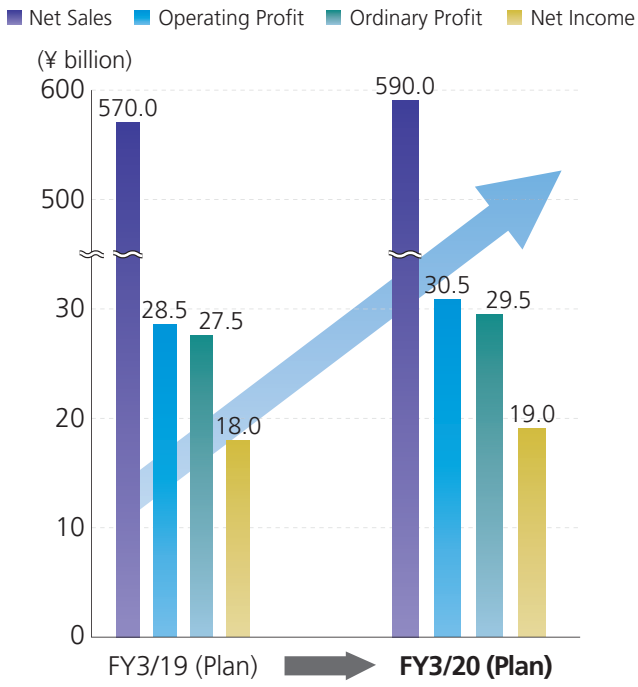
In this medium-term management plan, we will be aiming for a further steady business expansion. In FY3/18, which is the initial year of the new medium-term management plan, we made a good start. The results exceeded the initial estimates, marking a record high for the 4th consecutive term. Accordingly, we have revised the target figures for FY3/19 and FY3/20 of the mid-term management plan.

For FY3/20, the final year, we have upwardly revised the target net sales to 590 billion yen (up 10 billion yen) and the target net income to 19 billion yen (up 2 billion yen). We have also raised payout ratio, which is an indicator of return to shareholders, from 20-25% to 25-30%, because the goal of achieving an equity ratio of 30% or higher by the end of FY3/19 is estimated to be attained one year earlier than expected.

Construction Orders Received/Net Sales/Net Income



Revised Medium-Term Management Plan



Medium-Term Management Plan (FY3/18 - FY3/20)

Now, we have established our "Medium-Term Management Plan (FY3/18 - FY3/20)" for the three years from FY3/18 (the beginning year). We will make the effort to achieve the goals in this plan.

Prospects toward FY3/22 – our 125th anniversary
Global No.1 contractor in port, coastal and waterfront areas
(A corporate group that constantly achieves net sales exceeding ¥500 billion)

Basic Policy

To achieve steady business expansion as a unique general contractor with distinctive features in port, coastal and waterfront areas and overseas

Basic Strategies

1

Enhancement of marketing, site capabilities and technology ~ "Mastering the contracting business"

- Reinforcing site capabilities and cost competitiveness as well as marketing endorsed by technology
- Development of proprietary core technologies, human resources + Enhancing collaboration with outside technologies/human resources
- Global development of Penta-Ocean Standards of Safety and Quality
- Future-oriented business development : Offshore wind farms, recycling of construction generated soil and dredged soil, etc.

2

Productivity improvement by rationalization of construction production systems ~ Measures against the nation's shrinking and aging work force

- Development and active introduction to construction sites ⇒ leading to better safety control
- Labor-saving, automation and robotization, construction monitoring using ICT/ AI, BIM/CIM
- Organization-wide collaboration across units (Domestic vs. Overseas, Civil Engineering vs. Building Construction)

3

Securing and nurturing future work force, work style reform promotion ~ Realized by productivity enhancement

- Introduction of two days off per week (eight days off per four weeks), initiatives to avoid overwork
- Securing and nurturing diverse human resources : Improvement of working environment and conditions, encouraging female employees
- Promotion of globalization : Introduction of the global human resources evaluation system, discovering and nurturing core human resources
- Securing and nurturing skilled technicians : Reinforcing relationship with subcontractors, work style reform at construction sites

4

Initiatives for CSR based management ~ Stakeholder-oriented management (society, customers, shareholders and employees)

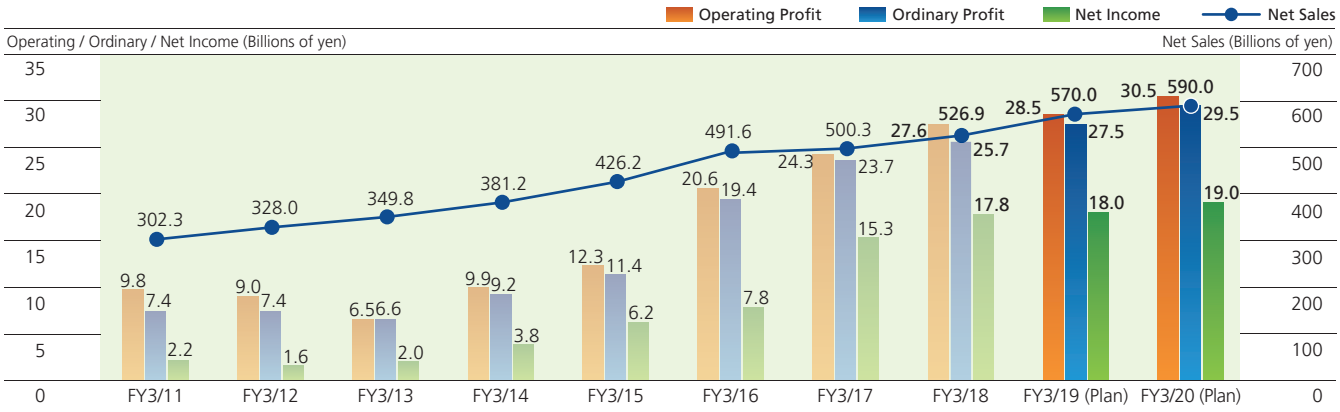
- Continuous efforts to improve corporate governance and risk management
- Ensuring full compliance including corporate and engineering ethics, building a corporate culture of openness and trust

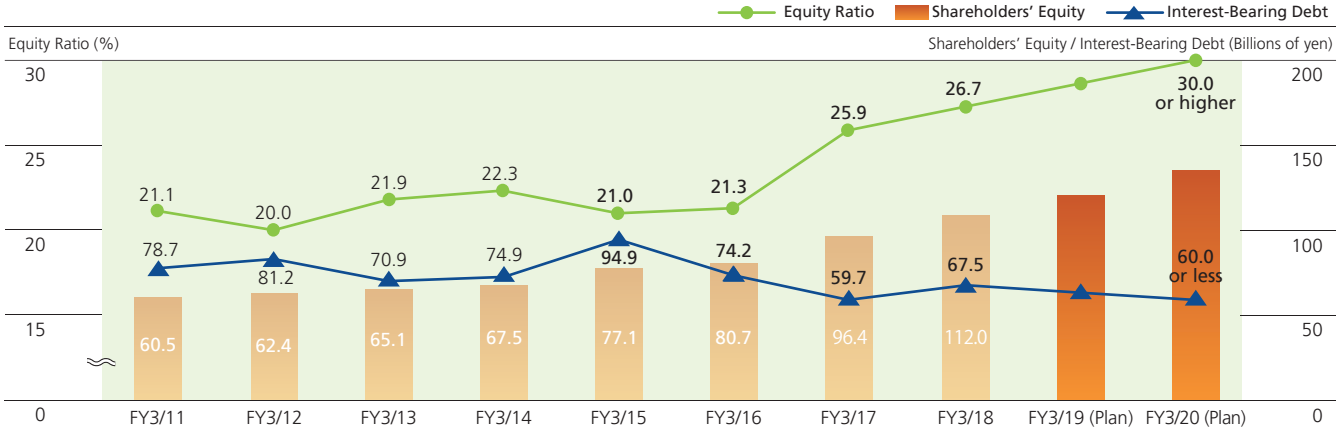
Target earnings under Medium-Term Management Plan

(Billions of yen)

	Medium-Term Management Plan			
	FY 3/18 (Result)		FY 3/20 (Plan)	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Earnings Targets				
Construction Orders Received	—	667.9	—	500.0
Net Sales	526.9	499.2	590.0	561.0
Gross Profit	44.9	40.7	49.8	45.8
Operating Profit	27.6	24.8	30.5	28.0
Ordinary Profit	25.7	22.9	29.5	27.0
Net Income	17.8	15.8	19.0	17.0
Earnings Per Share (¥)	¥62.4	¥55.3	¥66.6	¥59.6
Consolidated Financial Targets				
Equity Ratio	26.7%		30.0% or higher	
Interest-Bearing Debt	67.5		60.0 or less	
Net D/E Ratio	0.0 times		about 0.1 times	
ROE	17.1%		8% or higher	
Payout Ratio	22.5%		25～30%	

Major Operating Trends/Projection (Consolidated)





–Features– Interdepartmental Collaboration

"To Make the Best Proposal for Our Customers"

Civil Engineering Business Unit

General Manager, Head of Civil Engineering Planning Division
Satoshi Taguchi

■Collaboration with the Building Construction Business Unit in Coastal Areas

The coastal areas are the very best place to take an advantage of collaboration with Building Construction Business Unit for building projects along shorelines in that our expertise such as assessment of the inundation height and soundness of existing seawall by tsunami and storm surge simulations can be actively used. AR*2 and VR*3 technologies can also be utilized effectively. We will further promote the "productivity improvement" through the collaboration with Building Construction Business Unit, including construction aspect such as to closely share information on subcontractors.

■Promotion of Technology Exchange with International Business Unit

We consider that the improvement of productivity by promoting i-Construction*4 is the common challenge in both Japan and overseas. To achieve this target, we have to expedite our technological and personnel collaboration. An existing technology which is no longer used in Japan could potentially a technology which may contribute to improve a productivity when used in different circumstances in overseas. Also, we believe that facilities maintenance technology in Japan would be demanded overseas in near future. We will improve productivity both in Japan and overseas by properly capturing the "needs" for both parties through collaboration meetings and mutual utilization of technologies to satisfy such "needs".

■Steady Implementation of Work Style Reform

Cooperation with the back-office is essential to ensure the steady implementation of work style reform. Work-Life-Balance shall also be considered simultaneously. We will move forward the work style reform further and the securing of workforce through understanding each other what we should do and based on mutual information sharing.

*2 Abbreviation for Augmented Reality.
*3 Abbreviation for Virtual Reality.
*4 i-construction Activities advocated by the Ministry of Land, Infrastructure and Transport to improve the productivity of the entire construction and manufacturing system with the goal of creating an attractive construction site by introducing ICT (Information and Communication Technology) in all business processes, including measurement, design, construction, inspection, maintenance, and management. These activities consist of overall utilization of ICT (as in ICT earthworks), standardization of specifications (as in concrete construction), and leveling the number of concurrent construction projects over a specific amount of time.

International Business Unit

■Utilize Domestic Technical Capabilities to Overseas

We have been awarded the port of coal-fired power plant in Bangladesh which is the largest-ever project in our company, and several other large projects in Singapore with high appreciation to our technical proposals which properly addressed customers concerns. These are the achievement of highly competitive technical proposals made through collaboration with Civil Engineering Business Unit by mobilizing expert opinions from various fields. International Business Unit has full knowledge of each country situation and excellent capability for project operation while Civil Engineering Business Unit has strong technical capabilities. Collaboration of these Units will surely create great synergy effects. We will strive to provide "better services" further through this collaboration between the Units.

■Safety Management in Collaboration with Domestic Departments

Some countries maintain a level of safety awareness as high as Japan, while some do not. The top-level policy of international Business Unit states that no safety compromise shall be made regardless of the level of safety standard in each country. As a first step, we shall enhance the safety mindsets of local employees who are directly involved in safety management. In addition, we will dispatch overseas employees to domestic project sites so that they will become familiar with the domestic safety standards. Also, we will regularly carry out joint safety patrols that include domestic safety personnel to maintain a high level of safety awareness.

General Manager, Head of Design and Engineering Division, International Civil Engineering Divisions Group
Hidetsugu Matsumoto

Looking ahead to FY3/22, the 125th anniversary of our company's foundation, we will continue to focus on core business to mastering the contracting business*1 as a general contractor whose strengths lie in coastal areas and overseas. "Interdepartmental collaboration," which we are currently promoting, means that in order to improve the level of professionalism in our construction, each department independently conducting business, collaborates with other departments, leading to maximum synergy. When high technical capabilities are demanded, we believe that "mastering the contracting business" really means how we can make proposals one step ahead for the customer. We will promote interdepartmental collaboration to improve our technical capabilities.

*1 "Mastering the contracting business": As a professional contractor, placing ourselves in our customers' or end-users' positions in order to provide integrated services from planning and designing stages through construction and after-maintenance

artmental
oration

Building Construction Business Unit

Interdepartmental Collaboration Leveraging on the Expertise of Each Department

Interdepartmental collaboration leveraging the expertise and experience of each department leads to productivity improvement as well as mastering the contracting business.

In the large-scale underground construction work of Yodobashi-Umeda Integrated Development, we solved technical issues by collaborating with our civil engineering departments who have the expertise and experience. Also, during the construction of a hospital in Singapore, we collaborated with the Institute of Technology for construction methods and adoption of high-strength concrete.

With the aid of highly skilled international departments, we aim to expand the utilization of BIM*5/CIM*6 in the domestic departments.

Sharing of Information and Promotion of its Utilization

It is necessary to share and utilize the technical information of each department in order to enhance interdepartmental collaboration and improve technical and on-site capabilities.

Building construction departments are working on the development of automated technology in construction while using the technical information developed and shared by civil engineering departments. In addition, the international departments share information on prefabrication technology while the domestic departments share information on the refrigerated warehouse technology. Through this collaboration, it becomes easy to utilize various information for construction. Furthermore, we make company-wide labor-saving efforts on site by holding joint briefing sessions on labor-saving technologies and by sharing information among departments.

We will continue to enhance interdepartmental collaboration leveraging on the expertise and experience of each department.

Executive Officer, Executive of Building Construction Business Unit (Construction Engineering)

Nario Yoshida

*5 Abbreviation for Building Information Modeling/Management. It is used to improve and enhance the efficiency of operations by introducing and utilizing 3D models in a series of cycles from planning, investigation and design through construction and maintenance management in the field of building construction.

*6 Abbreviation for Construction Information Modeling/Management. In the field of civil engineering, CIM is synonymous with BIM.

Serve as a Point of Contact for Domestic/International Collaboration

In FY3/19 we established the Design and Engineering Division in International Building Construction Divisions Group and set up a BIM/CIM Promotion Group at the same time. The major roles of the Design and Engineering Division are to provide technical support to each country and to serve as a point of contact for domestic/international collaboration. Through performing these roles, the collaboration group conducts collaboration work with domestic departments while sharing and developing technical information in parallel. The establishment of the contact point allows us to promote further information sharing, propose and execute the best resolution for challenges and risks by overcoming barriers between departments. In addition, it aims to improve the company-wide technology and productivity in construction.

Interdepartmental Collaboration of Design, Construction and BIM/CIM

The workflow of interdepartmental collaboration has been gradually established such as design review conducted by domestic designers for design and build projects of international departments and mass concrete analysis by the Institute of Technology. We will provide information from international departments on new construction technologies such as an advanced prefabrication technology and the use of structural timber, and share such information with domestic departments.

The BIM/CIM Promotion Group will make information sharing easier by playing a leading role in facilitating collaboration among international departments, construction departments and civil engineering departments. Promoting BIM/CIM utilization in domestic/international civil engineering and construction projects will contribute to work style reform and improvements in quality and productivity.

Senior General Manager and General Manager, Head of Design and Engineering Division, International Building Construction Divisions Group

Nariaki Ihara

–Features– Interdepartmental Collaboration

"To Make the Best Proposal for Our Customers"

Collaboration with Civil Engineering Departments in Yodobashi-Umeda Integrated Development

Yodobashi-Umeda Integrated Development computer generated image

Collaboration between Building Construction and Civil Engineering Departments on site

We were awarded this project as the performance of our civil engineering department was highly regarded in the industry.

<Building Construction Business Unit>
Duputy Head of Osaka Branch and Project Director of Yodobashi-Umeda Integrated Development Site Office, Osaka Branch

Hiroyuki Ando

The building is located in one of the most important commercial districts in Japan, right in front of JR Osaka Station. It will be a commercial complex that consists of a hotel and retail spaces. It has 35 floors aboveground and 4 floors underground. With a height of 150 m and a total floor area of 110,000 m^2, it is one of our largest Japan building projects. We will complete the construction in a short work period, approximately 27 months.

This project is a challenge and a great opportunity to us. We have to make company-wide efforts to complete the construction without fail. The challenges we face for this project include construction in soft clay, high groundwater level and close proximity to the subway. An inverted construction method*1 is used for underground construction, which minimizes impact on the adjacent subway. It is a battle against the "ground" as well as the "construction size."

To complete the construction, we must gather the capabilities of building construction departments and collaborate with civil engineering departments. At the site, building and civil engineering employees work together in order to make progress on the challenging construction work.

*1 Inverted construction method
Construction method used to build a concrete structure that has underground floors. Contrary to the normal construction method, this method begins with construction of the 1st floor, and then sequentially advances the construction of lower floors. This advances the construction of underground floors simultaneously with aboveground floors.

Civil Engineering and Building Construction Collaboration

Construction Collaboration Overcoming the Barriers Between Building Construction and Civil Engineering

In the heart of the downtown area, it took us approximately 6 out of the 27 month construction period to complete SMW*2 and pile installation. In the remaining 21 months, we have to complete a 20m deep excavation of approximately 127,000m^3, which forms the framework of 4 floors of basement to be constructed by the inverted construction method; the connection with the existing building both aboveground and underground; the construction of steel beams up to a height of 150m aboveground; and PC construction. We are collaborating with civil engineering departments in order to proceed with the construction. We are working closely with them to manage construction while monitoring subway operations by providing automatic monitoring of subway tracks and earth retaining structures movement, as well as pressurized groundwater levels. We are also working together to study earth retaining structures and 3D analysis of mass concrete. It is encouraging to get the technical support from civil engineering departments and we really feel the positive effect of collaboration.

When we abandon the idea of relying on specialists, tap on the strengths of each department, and share information for our collaboration, we will be a company whose strength is "high technical capability", without barriers between building construction and civil engineering.

*2 Abbreviation for Soil Mixing Wall. This is an earth retaining wall created by mixing soil and cement slurry in situ.

<Building Construction Business Unit>
Senior Project Manager of Yodobashi-Umeda Integrated Development Site Office, Osaka Branch

Takuro Haneda

Construction Collaboration by Taking Advantage of Our Specialty

The role of civil engineering department in this project is to minimize the impact of construction on the neighborhood area such as adjacent major roads, subway and existing Yodobashi-Umeda building while performing large-scale underground construction in the center of a metropolitan area.

As a measure to the high groundwater level and cohesive soil ground with a high moisture ratio, we implemented a ground improvement method, aiming to control the groundwater levels and dehydration of cohesive soil during pile construction and excavation. Considering the impact on the subway track, we designed earth retaining walls and managed various measurements for the excavation work. Through these measures we are able to minimize the impact on the subway track. Through collaboration with the building construction departments, we coordinate the schedule and make construction adjustments aboveground and belowground for processes like loading and unloading materials and equipment, along with positioning heavy equipment used in the inverted construction method. Collaboration and information sharing are carried out every day in order to ensure that construction is performed smoothly.

<Civil Engineering Business Unit>
Project Manager of Yodobashi-Umeda Integrated Development Site Office, Osaka Branch

Kazuto Hata

Interdepartmental Collaboration Utilizing BIM/CIM

Sengkang Integrated Hospital

Newly Established BIM/CIM Promotion Group

In FY3/19, we organized the BIM/CIM Promotion Group consisting of 10 members from the Design and Engineering Division, International Building Construction Divisions Group, International Business Unit to start interdepartmental collaboration using BIM/CIM.

For the first year, 40 cases of BIM collaboration and 12 cases of CIM collaboration are planned. In response to the request from the building construction and civil engineering departments, our "BIM/CIM Promotion Group" in the International Business Unit will produce these BIM/CIM models that can be effectively utilized by setting the model's level of detail according to the three objectives: sales assistance, design assistance, and construction assistance. We will also work on the establishment of the Penta-Ocean BIM/CIM Standard by sharing BIM objects and model data we have obtained from the collaboration.

We believe that promoting interdepartmental collaboration by utilizing BIM/CIM will lead to energy savings and improved productivity, in addition to further improving quality and technical capabilities. It will be an important process for mastering the contracting business through sales, design, construction and facility management.

<International Business Unit>
Senior Manager of Design and Engineering Division, International Building Construction Divisions Group
Kenji Matsumura

Civil Engineering, Building Construction and International Collaboration

From BIM Utilization to CIM Utilization

In 2014, we introduced CIM for the first time in the Transmission Cable Tunnel construction project connecting Jurong Island and the main island, leveraging our BIM experience from the Changi General Hospital project in Singapore.
We established the collaboration procedure for the BIM/CIM model and also worked on geotechnical modelling. In the T211 subway construction project, we voluntarily utilized BIM/CIM that was not required in the contract, and performed interference checks and adjustments for MEP services before we started the construction.
Additionally, due to unforeseen poor ground conditions during pile construction at the station, grout injection was required. We utilized the geotechnical model in our explanation to the client. We are capable of making better judgement not only during construction but also during tender. In 2017, utilizing CIM for excavation volume and rock condition analysis assisted us in developing good proposals for tender. As a result, we were awarded the following projects: Earthworks and Piling Works for Woodlands Health Campus; and Deep Tunnel Sewerage System Contract T-08.

We will extend CIM utilization both domestically and internationally in collaboration with CIM team in Japan in the future.

<International Business Unit>
BIM Manager of Design and Engineering Division, International Building Construction Divisions Group
Michelle Lee

Supporting Domestic BIM Expansion by International Departments

Regarding interdepartmental collaboration of the BIM/CIM Promotion Group, we have already produced BIM models for 16 cases of domestic construction projects and are trying to utilize BIM in each construction process, such as proposing a construction plan during tender, considering construction cycles using PCa*3 during construction, and considering detailed settlement of the building under construction. The BIM/CIM Promotion Group produces several BIM models for the buildings in Japan with different sizes for different applications, leading to the improvement of model accuracy, accumulation of data, and establishment of the Penta-Ocean BIM Standard. We share information with domestic departments through BIM models, and we are able to know the domestic on-site situation while working overseas. This is the effect of our collaboration. It is also a good opportunity for overseas staff to learn about domestic construction methods.

*3 Abbreviation for Precast Concrete. It refers to concrete members manufactured at a factory and assembled at a construction site.

<International Business Unit>
BIM Assistant Manager of Design and Engineering Division, International Building Construction Divisions Group
Kyo Fujioka

–Features– Interdepartmental Collaboration

"To Make the Best Proposal for Our Customers"

Matarbari Ultra Super Critical Coal-Fired Power Project Package 1.2(Port Works) ,

<Institute of Technology>
Deputy Head of Institute of Technology
Masahito Tsuru

■The True Value of Interdepartmental Collaboration

Interdepartmental collaboration had shown its true value for being awarded the project. During the tender, we collected and analyzed satellite photos, wave data, bathymetric survey data, etc. of the planned construction site and found a critical concern on a probable heavy sedimentation within the access channel by that the port may not be functioned. Thus we, the Institute of Technology, teamed up together with the Design and Engineering Division to study preventive measures against the sedimentation. As a result, we proposed a sediment mitigation dyke and it was accepted by the client as a countermeasure and contributed to be awarded. After awarded, we continue to work on the sedimentation prediction, the detailed design of sediment mitigation dyke and the construction planning in collaboration with the project team, International Civil Engineering Divisions Group, Civil Engineering Divisions Group, and Institute of Technology.

■The First Step is Changing Our Thinking

Through this effort, we could successfully build a better relationship with the employees of International Business Unit, which helped us improve our communication and created a culture of openness.

The first step for interdepartmental collaboration is to adopt thinking along the lines of "finding the potential values within the company," without sticking to a small framework such as the organization and team we belong to.

Institute of Technology and International Collaboration

■Tender Support through Interdepartmental Collaboration

In the interdepartmental collaboration for obtaining this project, we were required to simulate and predict the amount of sedimentation within the access channel during the construction and in future. The site is a severe littoral transport environment where several critical factors, such as the wave, tide, sand, silt, etc. needs to be considered, for which a high-level analysis technology was required. It was a difficult task to obtain reliable data, but it was accomplished by the project office. By using such data, we could successfully improve the model accuracy and propose effective measures against sedimentation within the access channel. This proposal led us to win the project, and now we are often consulted for similar simulations for other projects.

We will further enhance interdepartmental collaboration both in Japan and overseas so that we can demonstrate the capabilities of our entire company.

<Institute of Technology>
Senior Manager of Civil Engineering R&D Division
Hiroshi Sanuki

■Collaboration during Tender to Take Advantage of Technical Capabilities

During tender for this project, we could receive a cooperation of the Design and Engineering Division and Institute of Technology to make a plan and proposal. Since we considered that the original measures against sedimentation within the access channel would be insufficient, we collaborated with other departments for presentation of proposed measures to the client. By doing the above, we could submit the tender reflecting additional measures to the sedimentation in our technical proposals.

Furthermore, the proposed measure was the key issue in the tender evaluation and contract negotiation. As such, mobilizing domestic know-how and high technical capability throughout the tender period was resulted in successful award of the project. Now, at the construction stage, we continue technical collaboration for sedimentation prediction, monitoring, construction methods, etc.

I will implement the project successfully by continuing the close collaboration with domestic departments, international departments, and the project team.

<International Business Unit>
Project Manager of Matarbari Ultra Super Critical Coal-Fired Power Project Package 1.2(Port Works) Site Office
Keisaku Takae

Bangladesh

■Collaboration with Domestic Departments regarding the Contract

For this construction project, before finalizing the contract, we collaborated with the domestic civil engineering department to review the conditions and costs for technical proposals, discuss how to incorporate such matters in the terms of the contract, and make our proposal. Through many consultations with the client, we were able to create a contract that was appealing to both parties. And even after signing the contract, we periodically collaborate with the concerned site, domestic and international parties to continue risk analysis, management and complaint handling.

The Contracts Management Division is making efforts every day to minimize the risk of our business. Through clarification and analysis during collaboration among tender personnel, construction personnel, and departments in Headquarters, we were able to come up with measures and management methods regarding a wide variety of contractual risks. These risks may occur in the processes of tender, contract, construction and completion of overseas projects.

By enhancing our contract management method for overseas projects, we will contribute to strengthening and further developing our overseas business.

<International Business Unit>
Executive General Manager, Deputy Head of International Building Construction Divisions Group and General Manager, Head of Contract Management Division, International Civil Engineering Divisions Group and International Building Construction Divisions Group

Desmond Hill

■Collaboration with the Contract Management Division

We are supporting the Contract Management Division by handling contract management, and tender support services for overseas construction. As well as supporting Contract Management Division. We perform a variety of functions including closely examining the terms and conditions of the tender; distributing the tender information; preparing tender submissions; responding to tender queries; preparing contract documents; and handing over contract documents to the relevant parties for construction.

For this project that we were awarded last year, we were able to successfully enter into the contract by collaborating with the Contract Management Division the members of the domestic civil engineering department discussion team, as well as the person in charge of tender in the Civil Engineering Division, International Business Unit.

<International Business Unit>
Senior Manager of Civil Engineering Division, International Civil Engineering Divisions Group and Building Construction Division, International Building Construction Divisions Group

Poh Lay Yen

CASSIOPEIA V dredging in this project

-Corporate Governance-

Corporate Governance Efforts

Penta-Ocean Construction Group has built a unique corporate governance system to ensure soundness, transparency and compliance in management, as well as for the perpetual growth and development of the Company. Moreover, we are implementing "strengthening of audits and audit functions (e.g. audits by auditors, internal audits and accounting audits)" relating to corporate management as our most important measure in order to enhance this system.

Corporate Governance Structure

1 Management and Business Execution

Our Board of Directors is composed of 11 directors, including three external directors, and it is operated in accordance with laws, articles of incorporation, and company regulations. As a general rule, the Board of Directors' Meeting is held twice a month. In the meetings, the directors make decisions on important management matters, as well as supervise business execution. In addition, the Board of Directors annually analyzes and evaluates the effectiveness of the entire Board. We have also introduced an Executive Officer System to clarify the responsibilities in business execution.

The Human Affairs Committee, which is composed of several directors, including external directors, discusses and reports on executive candidates selection and executive compensation proposals to the Board of Directors. Regarding executive compensation, we have introduced an Executive Performance Evaluation System that links performance with remuneration. We have established the Board of Auditors, which is composed of four auditors including three external auditors. In addition to attending Board of Directors' Meetings, the auditors also actively participate in important meetings in the Company (e.g. Executive Board Meetings, Group Management Meetings) and monitor the execution of duties of directors. (The number of external directors and external auditors is current as of June 26, 2018.)

2 Internal Control and Risk Management

In order to ensure thorough risk control, legal compliance and appropriate and effective execution of business, we have formulated an Internal Control Basic Policy in the Board of Directors and have established an Internal Control System.

The establishment and operation of the Internal Control System are annually reviewed in the Board of Directors. The Risk Management Committee that was established in our Office has formulated a Basic Risk Management Policy and each Business Execution Department is aiming to promote compliance through the implementation of training in accordance with the policy of this Committee. We are working to prevent risk and minimize corporate losses associated with it in regards to the various risks that occur in companies continuing business activities (e.g. financial risks, construction risks and business continuity plan risks) not limited to compliance risks.

Establishment of the Guidelines for Corporate Governance

In our board meeting on November 11, 2015, we decided to formulate the Penta-Ocean Construction Corporate Governance Guidelines to achieve future growth and to enhance our medium-to long-term corporate value.

1 Objectives

Penta-Ocean Construction makes CSR-oriented management a priority in its corporate philosophy. Pursuant to our corporate creed that "our greatest contribution to society is the construction of superior infrastructure", we have set high goals to offer high-quality construction backed by safety and environmental considerations and by our cutting-edge technologies. We strive to achieve perpetual growth and to further enhance our corporate value in order to grow into an even more attractive corporation in the eyes of our various stakeholders.

To achieve this goal, we have decided to place a greater focus on enhancing corporate governance, and have formulated the Penta-Ocean Construction Corporate Governance Guidelines as a set of basic polices and guidelines. In accordance with these guidelines, we will strive to expedite our decision-making process and ensure management transparency while responding appropriately to changing business conditions.

2 Structure of the Corporate Governance Guidelines

1. Basic policies
2. Relationship with shareholders
3. Appropriate cooperation with stakeholders other than shareholders
4. Structure of corporate governance

Compliance Efforts

The Group has established Risk Management Committees in each company of the Group based on our "Basic Compliance Policy." The employees and executives of the entire Group are working in order to allow to respect social norms / corporate ethics and to be able to act in good faith at all times.

Basic Compliance Policy

All employees and executives of Penta-Ocean Construction Group not only comply with laws in business activities and respect social norms / ethics, but also act in good faith at all times. In particular, when bidding for construction projects, we practice free competition by complying with the Antitrust Act and all other relevant laws and regulations.

Compliance Promotion Efforts

The Group is working so that it allows employees and executives to appropriately comply with the complex laws surrounding each of them during their busy day-to-day activities through various in-house training courses and dissemination of information on the Group Intranet.

Compliance Training

We provide compliance training so that all employees and executives of the entire Group comply with laws and respect social norms / corporate ethics, and so employees and executives act in good faith at all times. In FY3/18, we additionally introduced discussion-based training and provided compliance training 252 times in total. The training sessions were attended by a total of 10,622 employees and executives. As part of the training, our international department provided compliance training in seven Asian countries, including Singapore and Hong Kong. The training was attended by 163 Japanese employees and 1,707 foreign employees.

Training for Japanese employees was provided in Japanese language to help employees learn the legal systems of the Asian countries where we have expanded our business. Training for foreign employees was provided in the local language, focusing on the country's related laws and case studies. The discussion-based training began with a top message and the introduction of the code of conduct, including explanations about "competition law (Anti-Monopoly Act)," "bribery," "engineering ethics" and "unauthorized use of software" as well as case studies.

We believe that this training made Japanese and foreign employees working in our international department recognize again that they should not violate laws nor be involved in violations at each branch in the future.

Risk Management Efforts

Penta-Ocean Construction Group appropriately and continuously manages various risks that are assumed to occur in continuing the business, such as making efforts to prevent the occurrence of such risks and to minimize loss caused by the risks, which affects the entire group management.

Risk Management Structure

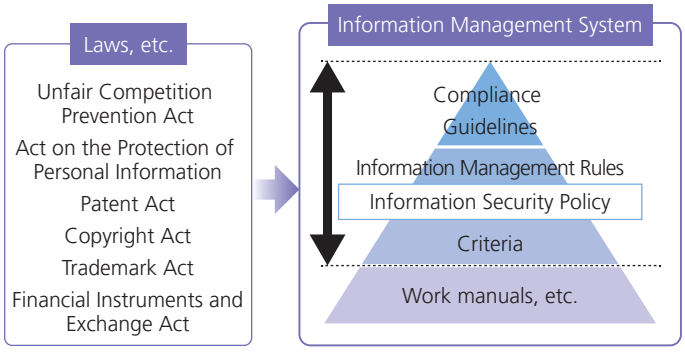
In April 2008, we established the "Risk Management Committee" in order to comprehensively manage risks. The Committee takes initiative in managing various risks, such as compliance risks inherent in the company, information risks, BCP, and large-scale disaster risks. Also, the Committee determines the department in charge according to the risk classification to promote risk management.

Furthermore, in April 2010, we began to adopt a concept of group risk management and make efforts to enhance risk management of the Group companies.

Our risk management has been built to be able to promptly respond to risks according to the type of risk when an actual specific risk has been identified by determining and classifying possible risks in advance. In this manner, we strive to minimize the damage caused by risks, even if the risks were not expected to occur. By reflecting on the results of our response to previous risks, we also strive to recognize and be prepared for new risks.

Information Security Management

In recent years, a series of information-related incidents and accidents, including a leak of personal information and other confidential information, have occurred one after another. When an incident or accident occurs, the company will suffer immeasurable damage as well as shoulder grave social responsibility, so the company is required to control information appropriately. Furthermore, in the current information society, the company is required to make arrangements and responses based on the information systems environment (electronic bidding, electronic delivery, e-commerce, etc.). After establishing the Information Management System in 2004, we have been working on reviewing and enhancing the system periodically. Also, by leveraging common groupware, we not only take physical measures for information systems equipment, but also strive to improve the information management technology when providing training such as e-learning information education for all employees and executives (twice a year) and training by job type.



2003	Issued the "Information Management Criteria" regarding the handling of information systems
2004	Introduced the "Information Management System"
2005	Fully enforced the "Act on the Protection of Personal Information" Started Business Continuity Plan (BCP) activities Signed the "Confidentiality Agreement" with all business operators
2006	Conducted an internal audit concerning information security Established a Security Policy concerning six affiliated companies
2008	Conducted a self-check concerning Information Security
2012	Introduced smart devices and revised the Security Policy
2016	Revision in response to the Social Security and Tax Number System Reviewed the Security Policy in response to groupware migration
2017	Revised and established the Security Policy for 10 affiliated companies

Creation of a Rich Environment

Basic Environmental Guidelines

1. We shall contribute to a recycling-oriented society and preserve the natural environment by taking measures to reduce global warming.
2. We shall prevent environmental accidents.
3. We shall enhance mutual communication with local communities and conduct eco-friendly planning and construction, while developing technologies to preserve and restore the environment.
4. We shall communicate with all our stakeholders to enhance their awareness of the importance of environmental preservation.

Environmental Initiatives

Our company is working on technology that enhances biodiversity (diversity of ecosystems, diversity of species, and diversity of genes) in order to help preserve a rich global environment. To create a future in which people and nature coexist, we are conducting research and development based on the technology and experience we have acguired through various construction projects.

Construction of Roads, Including the Tonomachi-Haneda Airport Route, an Urban Planning Road, in Kawasaki City

In this project, the Tokyo Metropolitan Government, Kawasaki City, and the Ministry of Land, Infrastructure, Transport and Tourism have joined hands to design and construct a new bridge over the Tama River to connect the vacant district of Haneda Airport and the Tonomachi district in Kawasaki City as infrastructure to support the establishment of footholds for the growth strategy centered around Haneda Airport.

Architectural rendering

<Outline of the project>

Project title	:	Construction of roads, including the Tonomachi-Haneda Airport Route, an urban planning road, in Kawasaki City
Construction site	:	Tono-machi, 3-chome, Kawasaki-ku, Kawasaki-shi and Hanedakuko 2-chome, Ota-ku, Tokyo
Construction period	:	Jun. 23, 2017 to Mar. 31, 2021
Client	:	Kawasaki City
Contractor	:	Joint Venture of Penta-Ocean Construction, Hitachi Zosen Corporation, Fudo Tetra Corporation, Yokogawa Bridge Corporation, Honma Corporation, and Takadakiko
Details of the construction work	:	Bridge length: 674 m Width: 17.3 m to 21.3 m Detailed design: 1 set Lower part construction ・Abutment: 1 unit ・Pier: 4 units Upper part construction ・Two-span continuous bridge: L = 72.00 m ・Three-span continuous bridge: L = 602.55 m Retaining wall construction: 1 set Dredging construction: 1 set

Care for the river-mouth tidal flat

・In this project, we will minimize the impact of construction work, such as the placement of piers, on the tidal flat, and restore the tidal flat after the dredging. Our company takes the initiative in regularly holding sessions involving experts, the client, and contractors, and implements measures for conserving the tidal flat according to the progress of the project.

・Following advice from experts, we design plans for conserving and recovering the tidal flat of the Tama River and for monitoring the environment, and we regularly survey the environment, including birds, benthic organisms, fish, water quality, and topography in the area surrounding the construction site.

・Environmental staff members lead environmental surveys and monitor the environment appropriately while considering the progress of the project and the site condition.

・In this project, we set up the “public relations hall” for local residents, showing the details of the construction work and environmental care.

Exhibitions at the public relations hall

Restoration Work After the Disaster Around the Coast of the Nakajima District in Miyagi Prefecture (Part 2)

At the time of the Great East Japan Earthquake, a tsunami with a height of over 20 m hit the Nakajima district in Motoyoshi-cho, Kesennuma-shi, Miyagi Prefecture, and went upstream on the Tsuya River about 4 km, inundating the upstream urban area. The shoreline receded 200 m, the ground was scoured away to a depth of 5 m, and five detached breakwaters were washed away. Through this work, we will dismantle the existing coastal levees, and then construct new ones (height + 14.7 m) around the mouth of the Tsuya River in the Nakajima district.

Progress of construction work (as of May 2018)

<Outline of the project>

Work title	: Prefectural Bond 311 in 2014; Earthquake Disaster 252-A02 Restoration work after the disaster around the coast of the Nakajima district (Part 2)
Construction site	: Coast in the Nakajima district of the Motoyoshi Coast and Nakajima, Motoyoshi-cho, Kesennuma-shi
Construction period	: Dec. 17, 2014 to Mar. 25, 2019
Client	: Miyagi Prefecture
Contractor	: Special Construction Joint Venture of Penta-Ocean Construction, Mirai Construction, and Tokura Corporation
Details of the construction work	: Length of the restoration site: L=1,351m Sloping dike: L = 800 m Embankment: V = 376,870 m^3 Slope pavement (2t block): A = 51,070 m^2 River bank: L = 551 m Embankment: V = 287,200 m^3 Slope pavement (2t block): A = 35,896 m^2 Training wall: L = 331 m Ground improvement (deep mixing): N = 7,474 Sluice pipe: N = 3 Bywalk: N = 567 m

We engage in construction work while caring for living organisms inhabiting the Nakajima coast and the Tsuya River.

- Since we will perform a large-scale improvement of the area from the coast to the riverbed, the client and experts discuss this project regularly, and the environmental decisions are reflected in the construction work.
- In the construction area, rare plants have been found, and so we design and implement plans for replanting them, with instructions from the experts. After the replanting, we will monitor their condition continuously.
- We give environmental education and explanatory programs about conservation to site staff and workers, so that every worker will be aware of conservation measures. In addition, we post our construction method and process, etc. for local residents.

Replanting of rare plants

Establishment of Water Purification Facilities and Monitoring Surveys

In Hyogo Prefecture, "water purification facilities" were established in Amagasaki Kitahori Canal in Amagasaki City to promote water purification in a unique way of combining biological purification technologies and citizen activities.

In April 2016, we started the "experiment of the revetments for coexistence with creatures in the canal area" along with the University of Tokushima. We perform monitoring surveys during "Open Canal Day," also providing an opportunity to learn about the environment. We introduced an experiment that demonstrates the effect of installing a fish evacuation place in the canal area, and explained the fact that some marketable species of fish, such as eels and marbled rockfish, live in the canal area. We also explained the importance of installing a place in the surface layer to evacuate from the bottom layer of the canal where there is low oxygen.

Group photograph on "Open Canal Day"

Winning the FY3/18 3Rs (Reduce, Reuse, and Recycle) Promotion Merit Awards

With the theme of "Reduction of the soil generated by land development and excavation work by reusing it for other construction projects," our project for a new Kansai Building of the National Diet Library (tentative name) won the MLIT Minister's Prize in the field of "businesses and local governments" from the 3Rs (Reduce, Reuse, and Recycle) Promotion Council. The office was awarded because it put the 3Rs into practice and made efforts to become a model for other organizations.

Awards ceremony

Recycling Business

Construction Sludge Recycling Business (Sendai Ecoland)

① Overview of the business

This business promptly processes inorganic sludge from construction work and drilling work (certain type of sludge which cannot be reused, such as cement-bentonite mixture, construction sludge having a high moisture ratio, etc.) into construction material (treated sand).

② Characteristics of the business

- Since construction sludge, which is industrial waste, goes through the granulation and solidification process without pretreatment (dewatering, drying, etc.), water pollution, noise, vibration, dust, etc. never occur, preventing any impact on the surrounding environment.
- Construction sludge having a high moisture ratio can be granulated and solidified in just a few minutes.

Before treatment → A few minutes after treatment begins → After curing for a few days

③ Use of recycled product (reconditioned sand)

Since the treated soil has sufficient strength with properties of high-quality sand and gravel, it can be used as civil engineering material.

Main construction projects that generate sludge
- Shield work, propulsion work
- Basic construction work
- Dredging work
- SMW, continuous wall construction
- Soft ground excavation, etc.

Sludge treatment plant

*This business is conducted by JAIWAT Co., Ltd. (our wholly owned consolidated subsidiary)

Food Waste Recycling Business (Miki Composting Center)

① Overview of the business

This business processes and sells compost materials made from organic waste discharged from food-related companies, etc.

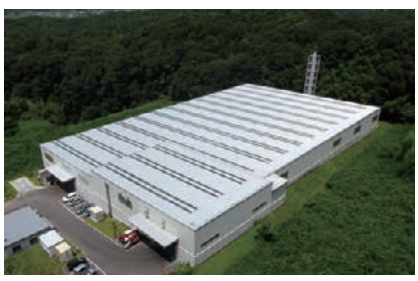
② Characteristics of the business

- With the automatic agitator (scoop-type) and the forced air circulation (aeration), collected food waste is subject to primary fermentation for about 1 month, and then further fermentation and maturation for about 3 months to produce complete compost.
- Since the Miki Composting Center is located near the Hanshin district with concentration of many food-related companies and easily accessible from interchanges of the expressway, it can contribute to the reduction of waste transport costs.

③ Use of recycled product (compost "Minami-No-Hikari")

Made from recycled food waste, not only is this product nature-friendly and safe compost, it also is free from unpleasant odors because it is fermented and matured for a long time. It can be used for a variety of applications including full-scale agriculture, landscape gardening, greening, and private vegetable gardens.

Inside the facility



Panoramic view of the facility

Product "Minami-No-Hikari"

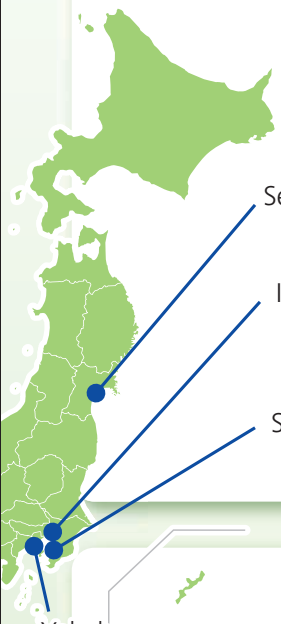
*This business is conducted by Miki Biotech Co., Ltd. (our wholly owned consolidated subsidiary)

Paper Sludge Incineration Ash Recycling Business (Sodegaura Ecoland)

① Overview of the business

This business manufactures a water-absorbing mud stabilization material "watoru" made from paper sludge incineration ash discharged from papermaking companies, and supplies it for construction.

Panoramic view of the facility



② Characteristics of the business

- The material is harmless and extremely safe, since it undergoes chemical treatment using special chemicals.
- This is a mud improving material with two characteristics: instant improvement effect and gradual strength development property.
- Includes three main components: calcium, silicon, and aluminum.
- Has high water absorbing and deodorizing properties.
- Reformed soil demonstrates eco-friendly, neutral to slightly alkaline pH levels. Unlike the case of cement treatment, it is not solidified.

"Watoru," a water-absorbing mud recycled material

③ Use of recycled product ("Watoru," a mud stabilizing material)

This product is suitable for the treatment of dredged soil in ports, rivers, and lakes, as well as mud and sludge generated in the course of excavation work on land.

Example of using Watoru

Before treatment with Watoru　　After treatment with Watoru

*This business is conducted by JAIWAT Co., Ltd. (our wholly owned consolidated subsidiary)

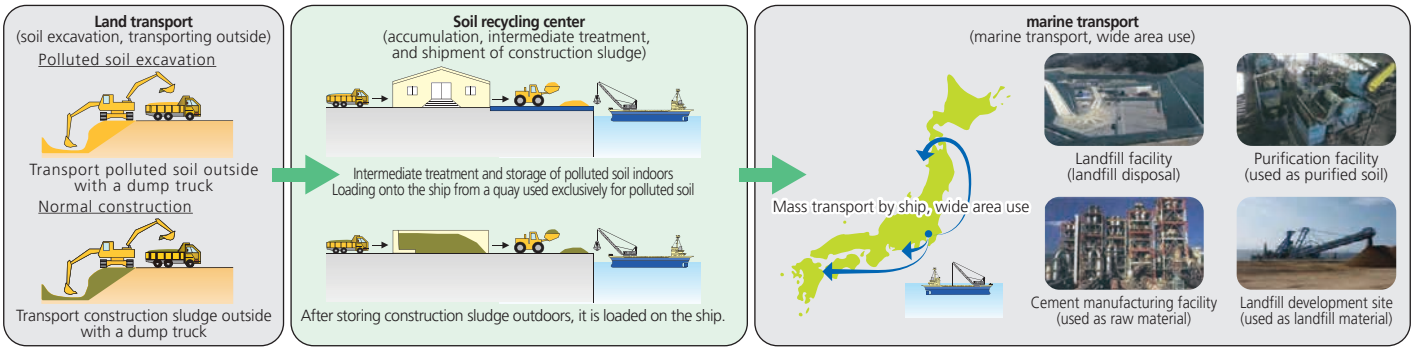
Construction Sludge Business for Wide Area Use

●Ichikawa Soil Recycling Center ●Yokohama Soil Recycling Center ●Nagoya Soil Recycling Center

① Overview of the business

This business operates Soil Recycling Centers (in Ichikawa, Yokohama, and Nagoya) that perform accumulation, intermediate treatment, and shipment of generated sludge to recycle construction sludge and contaminated soil generated in the Kanto and Chubu regions over wide areas.

Image of the wide area use of construction sludge



② Characteristics of the business

- Helps reduce the transport distance of trucks by making the most of our positional superiority in the Kanto and Chubu regions.
- Adopts a 24-hour acceptance system.
- Allows mass transport by a large ship using of the quay which can dock up to a 10,000t class ship.

Ichikawa Soil Recycling Center

Yokohama Soil Recycling Center

Nagoya Soil Recycling Center

Working in Harmony with Society

Respect for Diversity

We are making efforts to value the individual abilities and to respect employee diversity by, for example, creating a working environment that is pleasant to work in regardless of attributes such as nationality, gender or workplace. We are also promoting employment of people with disabilities and stability of their work force and improving the retired worker re-employment system. Regarding the employment of people with disabilities, we have set up "a satellite office for employment of people with disabilities" in two places and continue to employ them stably. In addition, as human rights awareness activities, we hold human rights awareness workshops for our executives to raise awareness about diversity.

Supporting Next Generation Development

Aiming to create a pleasant working environment where employees can balance work and family (childcare/nursing care) and fully exercise their own abilities, we formulated the "4th Action Plan for Supporting Next Generation Development" in FY3/18 and now working on it as a five-year task. In addition, aiming to support the balance between employees' work and childcare/nursing care, we have distributed a specially designed handbook, lent PCs for offering company information to those employees taking childcare/nursing care leave, and held a tour of the workplace attended by family members of employees.

Promotion of Women's Empowerment

For the workplaces to which female technical employees are assigned, we install changing rooms, resting rooms, bathrooms, and safety goods in advance as well as provide harassment training targeting on-site employees and subcontractors, promoting the development of a pleasant working environment for women.

Furthermore, senior female employees conduct interviews regularly to new female employees, ask their recognition of current situation and offer counseling sessions.

We have also developed a system that allows women to continue work after time off from work to take care of a family member. Interviews with their superiors are arranged before and after childcare leave and mutual understanding regarding returning to their old jobs are deepened.

Global Personnel System

In FY3/18, we adopted a personnel evaluation system for foreign workers in Singapore and Hong Kong, which are the major footholds of our international division. In July 2018, we introduced a grading and remuneration system.

The objective of the personal evaluation system is to motivate employees to attain their goals, promote personnel development, and facilitate communication between superiors and subordinates.

The grading and remuneration system boosts the incentive to perform well and achieve goals, reflects performance and evaluation in the international division in remuneration, and enhances foreign workers engagement in efforts to attain goals.

Work Style Reform

In order to realize "two days off per week and overtime not exceeding 720 hours," we established model workplaces taking seven or eight days off per four weeks in FY3/18, defined the second Saturday of each month as "closing Saturday," and started efforts to give six days off per four weeks without fail. In FY3/19, we defined the second and fourth Saturdays as "closing Saturdays" with the aim of having individual employees take six days off per four weeks with compensating holidays and rotating schedules.

As for overtime work, we engage in activities for reducing overtime work by one hour per person per day in order to realize overtime not exceeding 720 hours for all employees by the end of FY3/20. In addition, in order to attain these goals, we are actively proceeding with the development and adoption of productivity improvement technologies.

In order to enrich the work and life balance, we conduct activities to improve the working environment, including the promotion of active utilization of five paid annual holidays, childcare leave, nursing-care support, telework, and support for child rearing, so that individual employees can work in a vibrant manner.

Won the Excellence Prize and Special Prize at the 3rd Kensetsu Komachi Empowerment Promotion Awards

At the "3rd Kensetsu Komachi Empowerment Promotion Awards" hosted by the Japan Federation of Construction Contractors (JFCC), our "Diversity Promotion Office (satellite office for employment of people with disabilities)" won the Excellence Prize while the "Institute of Technology" won the Special Prize. The awards honor the activities of Kensetsu Komachi who aim for promoting work style reform and improving the image of the construction industry.

Naoko Umezu, assistant manager of Diversity Promotion Center, Human Resources Division (second from left), made a presentation on the activity to maintain the job opportunities for people with disabilities regardless of age or gender. In this activity, a female employee as a manager operated a satellite office where people with disabilities work, carefully considering the characteristics of different disabilities, making use of her childcare experience.

Noriko Kikuhara, assistant manager of Institute of Technology (third from left), made a presentation on the female engineers who, despite being busy with raising their own children, took the lead in holding a site tour for families. These female engineers also actively held site tours attended by people from regional educational facilities. In doing so, the children who will make the future world can discover "how interesting and amazing the construction industry is."

Held "Port of Tokyo Cruise and Large Ship Terminal Construction Site Tour"

"The 3rd Kensetsu Komachi Empowerment Site Tour" was held at the Port of Tokyo. This is a special event for the promotion of women's empowerment by the Japan Federation of Construction Contractors, which is one of the "tours held in 17 sites in Japan where Kensetsu Komachi play an active role" tailored for female elementary and junior high school students and their parents. Five families (a total of 13 parents and children) participated in the tour to visit our construction site of the New Passenger Ship Terminal walk-through and the construction related to development of the Tokyo Port Seaside Road Namboku Line. They were also able to try out operations including cement crafting, bundling of rebar, and measurements as work experience. Eleven civil engineering Kensetsu Komachi members played leading roles to appeal the work of women in the construction industry and the industry itself.

	FY3/15	FY3/16	FY3/17	FY3/18
Number of employees (Women in management track position)	2,441 (25)	2,522 (30)	2,572 (32)	2,673 (54)
Number of new employees (Women in management track position)	86 (2)	118 (5)	116 (3)	164 (23)
Number of foreign employees (Women)	1,436 (-)	1,726 (400)	2,004 (428)	1,800 (432)
Employment rate for persons with disabilities (%)	1.90	1.84	2.00	2.20
Rate of taking paid holidays (%)	26.7	25.0	28.7	52.2
Rate of taking childcare leave (for women) (%)	85.7	93.3	88.9	100

Occupational Safety and Health

Penta-Ocean Construction gives top priority to safety in construction work, with the basic policy of respecting each person. In the construction field, Penta-Ocean obtained the "certification of COHSMS" early, and continues safety and health management with "PENTA-COHSMS."

Health & Safety, Quality and Environmental Policy

Penta-Ocean Construction Group shall aim to be a company that grows sustainably as a trusted corporation and attractive to all our stakeholders through promoting construction activities taking utmost consideration of health & safety, quality and environment, as well as through complying with all relevant laws and other requirements.

We shall provide products and services that give satisfaction to our customers by devoting our full efforts to prevent all accidents through safety-first construction with respect for people forming basic stance in the management philosophy of this Company. Together with this, we shall establish trust from society through friendly business operation to the global environment.

Examples of Accident Prevention Activities

Efforts to Prevent Fall Accidents

The Company has introduced an "Immediate Red Card for the Non-use of Safety Belts System"* that sees those who fail to use safety belts when working at height and sends them out of the plant in order to ensure that employees use safety belts with the aim of achieving "zero fall accidents."

*Workers who have been ordered to leave the plant are allowed to return to work after again undergoing safety training.

Efforts to Prevent Crane Accidents

We are implementing hands-on sling education that incorporate the "3-3-3 Exercise"* by actually allowing all workers to use cranes with the aim of achieving "zero crane accidents."

*3-3-3 Exercise: This is an exercise to give recognition about the risks of slinging work by making all workers aware of the following rules: "Move 3m away from a suspended load once slung," "temporarily stop hoisting at 30cm" and "wind up 3 seconds after hoisting."

Enhancing On-site Communication

We are working on the promotion of a "Sympathetic Friendly Greeting Campaign" that aims to achieve "zero incidents, accidents and illnesses" by creating a safe, healthy and lively workplace culture.

Health & Safety Activities Guidelines

1. We shall strive to prevent worker accidents as well as all other accidents, including public accidents.
2. We shall form comfortable workplace environments by preventing occupational diseases and promoting healthy mind and body.
3. We shall conduct health & safety inspection activities based on cooperation between employees and partner companies with the aim of improving its level.

Social Contribution Activities

Promotion of IR (Investor Relations)

Under the basic policy of timely and appropriate information disclosure, our company makes efforts to enrich the various IR tools on our website to meet your requests. For institutional investors and analysts, we hold a session to provide a briefing on our financial results twice a year, involving the management of our company, and accept individual interviews with 200 to 300 people. In addition, we held a tour in the technological institute, which has commemorated the 50th anniversary of its establishment, to introduce our cutting-edge technology. For overseas institutional investors and analysts, the president of our company visits the U.S. and Europe twice a year, and directly discusses our business strategies, etc. with them.

Through these activities, we strive to enrich communication with shareholders and investors.

Held a Tour for Individual Shareholders

Following FY3/17, we held the "tour for individual shareholders" again at the civil engineering and building construction sites for the purpose of improving the shareholders' understanding of our business content and construction achievements.

The civil engineering tour was held twice, once in the morning and once in the afternoon, in which a total of 26 individual shareholders visited our construction sites and interesting places of the current topics such as the planned venues of the Tokyo Olympic and Paralympic Games and the Toyosu market while taking a cruise around the Port of Tokyo. In the building construction tour, participants observed how several condominiums are built all at once and learned about the process of town development directly from the site observation.

We will continue activities through shareholder tours so that shareholders can gain a better understanding of the construction industry and its social involvement.

Support for Sports, Education, Art, Culture, and Regional Vitalization

As an effort to support sports activities that represent Japan, we have been supporting the activities of Ms. Sae Miyakawa, the first female professional gymnast in Japan, who achieved excellent results at the Olympics in Rio de Janeiro, since the FY3/17.

We also actively participate in regional vitalization projects and regional cultural activities, etc. held by educational or research funds of universities and municipalities. We will keep communicating proactively with local communities and contributing to society.

Visiting Lectures Started

Based on our long-term business experience for about 50 years in Singapore, we gave a lecture about our construction achievements, episodes in Singapore, and governmental policies, etc. to about 240 first-year students of the Senior High School at Otsuka, University of Tsukuba. This lecture was held so that the students could determine their theme of learning before their school trip to Singapore. The students commented, "The episodes from the viewpoint of the construction industry were very intriguing," and "I realized that Japanese construction technologies have been indispensable in considerably developing the small country of Singapore." Our company will continue activities to convey the attractive features of the construction industry to society.

Held a Tour for Kindergarteners at the Institute of Technology

In celebration of Civil Engineering Day, the tour is held on November 18 every year for the purpose of giving local children an opportunity to experience civil engineering technology first-hand and become familiar with the construction industry. Children are also introduced to the history of civil engineering to develop their knowledge and imagination.

This time, we invited 65 children and seven teachers from Futaba Kindergarten. Each of the experiment buildings held various hands-on demonstrations. For example, in the water science building, the kindergarteners performed an experiment to float a ship made from a plastic bottle or any other material in a water tank and then observe how waves affect it. In the multipurpose building, they observed the liquefaction phenomenon.

Participated in the "Beach Clean-up Activity"

Our employees and their families participated in the Onizaki Beach clean-up activity, near the Chubu International Airport in Tokoname City, Aichi Prefecture. We have been participating in this activity 14 times since 2006 Trash from the river flows into Ise Bay due to heavy rain and strong wind.

This has a negative effect on fisheries, various animals and plants, as well as the coast. Despite the rain on the day, we were able to pick up a lot of trash such as plastic bottles, glass, and debris. We obtained feedback from the participants, such as: "Since sea turtles and other creatures visit here, we want to make the beach clean and pleasant for sea creatures. This activity made me think again about the environmental problem."

To protect the beautiful beach, we will continue to actively participate in this kind of activity.

Major Awards from Outside the Company

Won the 1st Japan Construction International Award

On April 11, 2018, we won the 1st Japan Construction International Award for two projects: the "Contract 485 Design Construction and Completion of Marina Coastal Expressway (Marina Bay Crossing) " and the "Thilawa SEZ Zone A development project." This award was established by the Ministry of Land, Infrastructure, Transport and Tourism in order to commend overseas construction projects that have achieved "high-quality infrastructure," aiming to improve Japan's competitiveness and to promote further overseas expansion of Japanese corporations.

●Contract 485 Design Construction and Completion of Marina Coastal Expressway (Marina Bay Crossing)

This project is the construction of the underground expressway with five lanes on each side, including Singapore's first undersea tunnel. By temporarily closing and drying the part above sea level with steel pipe sheet piles, we built a high-quality tunnel framework which meets the required water leakage prevention standards.

●Thilawa SEZ Zone A Development Project

This is a large-scale industrial complex development project that both public and private sectors of Japan and Myanmar are working on. The development of 326 ha of the initial development area "Zone A" was designed and constructed. It has helped Japanese corporations enter Myanmar, contributing to the country's economic development.

Won the Prize for Most Excellent Paper Targeting Young Engineers Hosted by the World Association for Waterborne Transport Infrastructure (PIANC)

Kenichi Mizuno, Senior Staff Member of Civil Engineering R&D Division, Institute of Technology, won the first place of the 2018 De Paepe-Willems Award, a prize for most excellent paper targeting young engineers, which was hosted by the World Association for Waterborne Transport Infrastructure (PIANC).

This award highly evaluates the practicality and originality of the paper. Since the establishment of the award in 1985, most of the winners have been engineers from Western countries. Mizuno achieved the feat of becoming the second Japanese engineer to win the award. The awarded paper was about the system of inspection and diagnosis for piers developed by our company. We also won the Infrastructure Maintenance Award as described below.

Won the Infrastructure Maintenance Award

The Infrastructure Maintenance Award is a national recognition in Japan given to outstanding effort on technology development concerning domestic social capital maintenance. While the "Ministry of Land, Infrastructure, Transport and Tourism Special Prize" was given to the port structure inspection and diagnosis system using a wireless LAN boat, which was developed by our company, the "Ministry of Defense Excellent Prize" was given to the construction of a new underground fuel tank utilizing the existing underground fuel tank. The purpose of this award is to promote widespread use of these various efforts as best practices. It aims to revitalize the maintenance industry and spread the concept the infrastructure maintenance. We will continue to propose efficient maintenance management for customers through advanced technology development and construction.

Wireless LAN boat

Corporate Identity

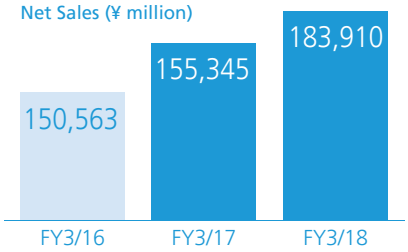
Our Pentagon logo represents the five oceans of the world. Penta-ocean believes there are no borders for the creative mind and with this philosophy has played an active role in every corner of the world.

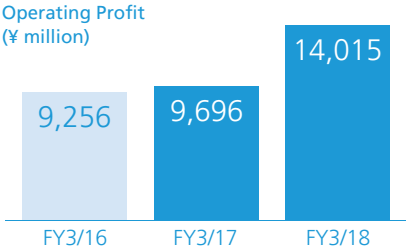
Mascot Character

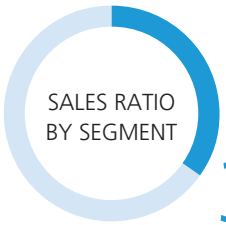
"Mr. PENTA" was modeled on an adorable basset hound. We gave him his name from "Penta-Ocean" – the English name of our company.

Major Projects in FY3/18

Domestic Civil Engineering







LNG Berth Construction in the Soma LNG Terminal Construction Project

Fukushima Prefecture

This LNG terminal was constructed for the purpose of establishing a robust energy network linking both the Sea of Japan and the Pacific Ocean sides for a stable supply of gas that is resilient to natural disasters and other emergencies. We constructed an international berth for accepting large vessels and a domestic berth for distribution in Japan. We introduced construction information modeling (CIM) for port construction on a full-scale basis for the first time in Japan. This enabled us to confirm various operations prior to the work, contributing to the improvement of safety, construction periods, and quality.

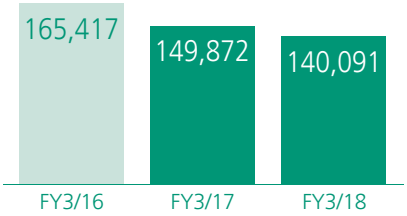
Toyama Shinko Thermal Power Station LNG-fired Unit 1

Toyama Prefecture

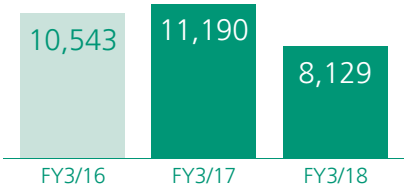
The Toyama Shinko Thermal Power Station previously consisted of two coal-fired plants and two oil-fired plants with a total generating power of 1.5 million kW. With the recent reconfiguration, by replacing Coal-fired Unit 1 with LNG-fired Unit 1, it has become the first thermal generation plant in Japan that uses three types of fuel (coal, petroleum, and LNG), with a total generation power of 1.6747 million kW. It will contribute to the stable delivery of electric power and the reduction of CO_2 emissions. We constructed a pier complex where LNG vessels and oil tankers can dock.

Domestic Building Construction

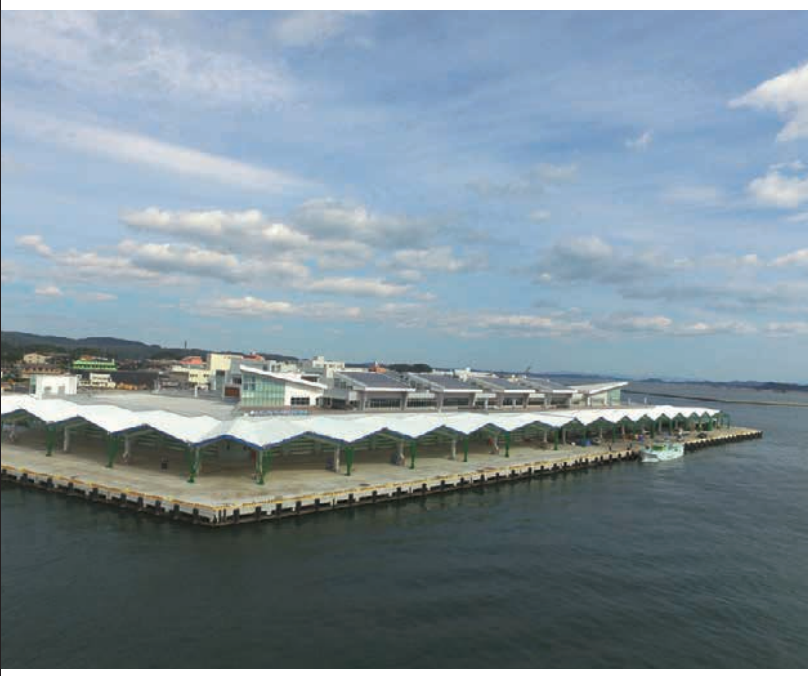
Net Sales (¥ million)



Operating Profit (¥ million)



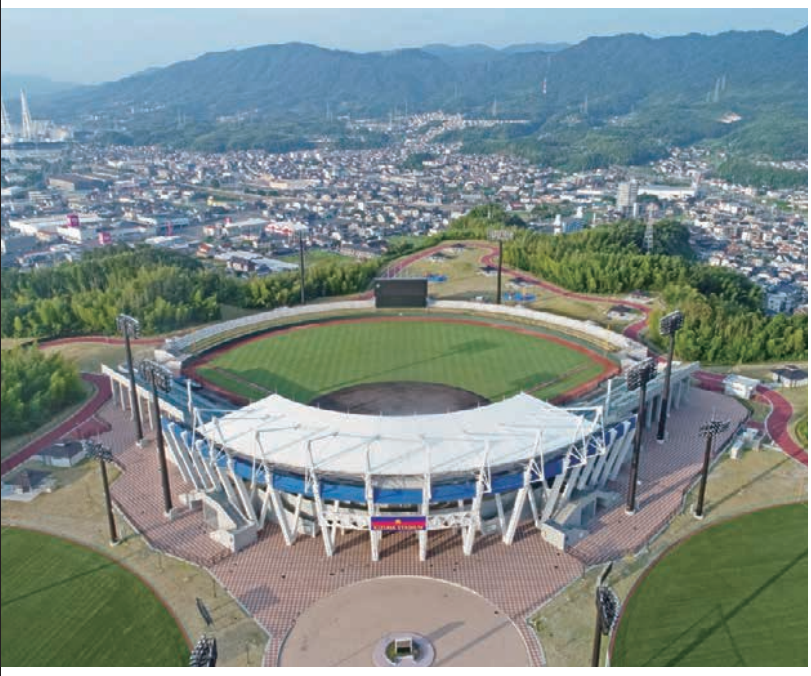
26.5%



Shiogama Fish Market

Miyagi Prefecture

This fish market once flourished as a base for fisheries in the North Pacific Ocean. Today, the market is known for its bountiful fresh marine products, mainly from the waters off and along the Sanriku coast, one of the most abundant fishing places in Japan. Most notable are a variety of tuna, including the Sanriku Shiogama Higashimono branded bigeye tuna. The new fishing market, which was reconstructed after the 2011 earthquake and tsunami, is equipped with a display area, viewing deck, canteen, stalls, main conference room, medium-sized conference room, and seafood-promoting studio. The market is open to the general public, and on catch days, visitors can attend the auction for tuna caught by long-line tuna ships.



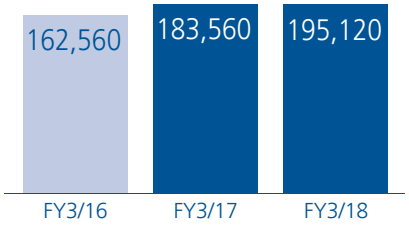
Iwakuni Kizuna Stadium

Yamaguchi Prefecture

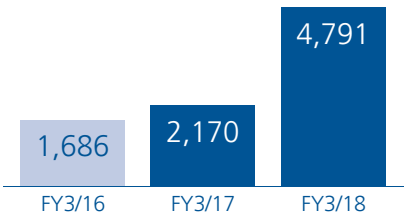
This project was conceived to construct a baseball stadium, which is a main feature of the residential and sporting facility development plan in Iwakuni City for the U.S. Marine Corps in Japan. In order to deal with the special shape of the baseball stadium, we adopted BIM and three-dimensional measurements. The facility was named Kizuna Stadium, and at the opening event, there was a friendly baseball match between Japanese and American high school students. Since then, the stadium has become a popular recreational spot for local citizens.

Overseas

Net Sales (¥ million)



Operating Profit (¥ million)



36.8%

Lach Huyen Infrastructure Construction Package 6

Vietnam

This was the first project completed as part of the deep-sea (14 meters below sea level) container terminal construction project on Cát Hái island in Haiphong City in northern Vietnam using a Japanese ODA Loan. Apart from the land reclamation, we carried out soil improvement and seawall construction using the CDM method on the rear side of the steel pipe sheet pile seawall and the PVD method on the stone seawall and on the container terminal. After the construction of cargo handling facilities by the port operation company, the port was inaugurated in May 2018.

Sengkang Integrated Hospital

Singapore

Sengkang Hospital is one of the largest hospitals in Singapore. It was built in Sengkang housing estate in the northeast region of Singapore to meet the healthcare demands of the region. The hospital comprises the Medical Centre, Acute Hospital and Community Hospital. This integrated hospital has two floors underground and ten floors above ground, eventually providing about 1,400 beds. The building information modeling (BIM) technology was utilized from the start of the project and contributed to high construction quality and productivity.

Consolidated Financial Statements

Consolidated Five-Year Summary

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2014	2015	2016	2017	**2018**	**2018**
Net sales	¥381,182	¥426,238	¥491,564	¥500,336	**¥526,902**	**$4,959,545**
Construction	372,367	414,892	477,164	487,133	**517,526**	**4,871,291**
Development business	2,447	1,912	4,803	3,963	**580**	**5,461**
Other	6,368	9,434	9,597	9,240	**8,796**	**82,793**
Total assets	301,627	366,170	378,766	372,311	**418,824**	**3,942,242**
Net assets excluding non-controlling interests	67,339	77,033	80,588	96,377	**111,971**	**1,053,950**
Ordinary profit	9,160	11,393	19,409	23,709	**25,683**	**241,748**
Profit before income taxes	8,740	10,176	14,242	23,028	**25,290**	**238,044**
Profit attributable to owners of parent	3,763	6,183	7,806	15,272	**17,826**	**167,791**
Cash dividends	572	1,144	1,715	3,431	**4,003**	**37,675**
Per share of common stock:						U.S. dollars
Net assets excluding non-controlling interests	¥235.53	¥269.44	¥281.87	¥337.10	**¥392.27**	**$3.69**
Profit attributable to owners of parent	13.16	21.63	27.30	53.42	**62.41**	**0.59**
Cash dividends	2.00	4.00	6.00	12.00	**14.00**	**0.13**
Number of employees	2,905	2,949	3,025	3,074	**3,175**	

Note: 1. Figures in U.S. dollars are converted for convenience only, at the rate of ¥106.24 per U.S.$1, prevailing on March 31, 2018.
2. Cash dividends for shares held by BBT amounted to ￥6 million are included in cash dividends above.

Business Performance

The net sales for the group amounted to ¥526,902 million (US$4,959.5 million), an increase of ¥26,566 million (US$250.1 million) (5.3%) compared to the previous consolidated fiscal year, and operating profit totaled ¥27,618 million (US$260.0 million), an increase of ¥3,343 million (US$31.5 million) (13.8%) compared to the previous consolidated fiscal year. Ordinary profit totaled ¥25,683 million (US$241.7 million), an increase of ¥1,974 million (US$18.6 million) (8.3%) compared to the previous consolidated fiscal year. And, current net profit totaled ¥17,826 million (US$167.8 million), an increase of ¥2,554 million (US$24.0 million) (16.7%) compared to the previous consolidated fiscal year.

Gross operating profit increased due to the construction revenue improvement, and an increase in the operating profit, ordinary profit and current net profit was achieved.

Segment Information

In our Domestic Civil Engineering Business, sales amounted to ¥183,910 million (US$1,731.1 million), an increase of ¥28,565 million (US$268.9 million) (18.4%) compared to the previous consolidated fiscal year and segment profit totaled ¥14,015 million (US$131.9 million), an increase of ¥4,319 million (US$40.7 million) (44.5%) compared to the previous consolidated fiscal year due to the smooth progress of the many projects on hand.

In our Domestic Building Construction Business, sales amounted to ¥140,091 million (US$1,318.6 million), a decrease of ¥9,781 million (US$92.1 million) (-6.5%) compared to the previous consolidated fiscal year and segment profit totaled ¥8,129 million (US$76.5 million), a decrease of ¥3,062 million (US$28.8 million) (-27.4%) compared to the previous consolidated fiscal year mainly due to delay in acceptance of orders in the period.

In our Overseas Construction Business, sales amounted to ¥195,120 million (US$1,836.6 million), an increase of ¥11,560 million (US$108.8 million) (6.3%) compared to the previous consolidated fiscal year and segment profit totaled ¥4,791 million (US$45.1 million), an increase of ¥2,622 million (US$24.7 million) (120.8%) compared to the previous consolidated fiscal year due to the smooth progress of the many projects on hand.

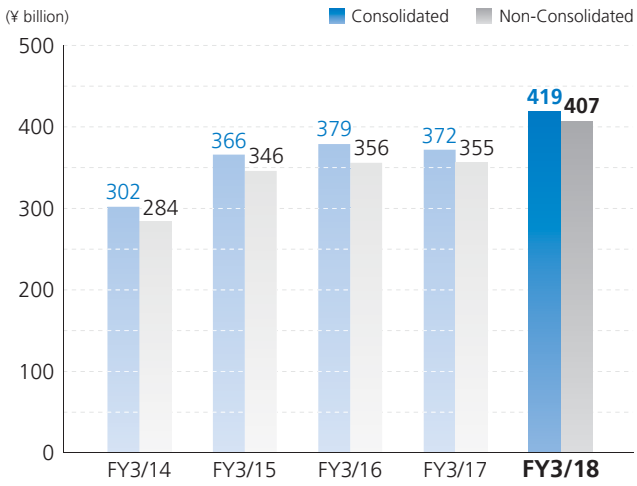
In our Domestic Real Estate Development Business, sales amounted to ¥723 million (US$6.8 million), a decrease of ¥3,370 million (US$31.7 million) (-82.3%) compared to the previous consolidated fiscal year and segment loss totaled ¥9 million (US$0.1 million) (segment profit in the previous consolidated fiscal year was ¥529 million (US$5.0 million).

In our Other Businesses, mainly consisting of shipbuilding, sales of construction materials, machine leasing and environment business, sales amounted to ¥9,753 million (US$91.8 million), a decrease of ¥271 million (US$2.5 million) (-2.7%) compared to the previous consolidated fiscal year and segment profit totaled ¥688 million (US$6.5 million), an increase of ¥4 million (US$40 thousands) compared to the previous consolidated fiscal year.

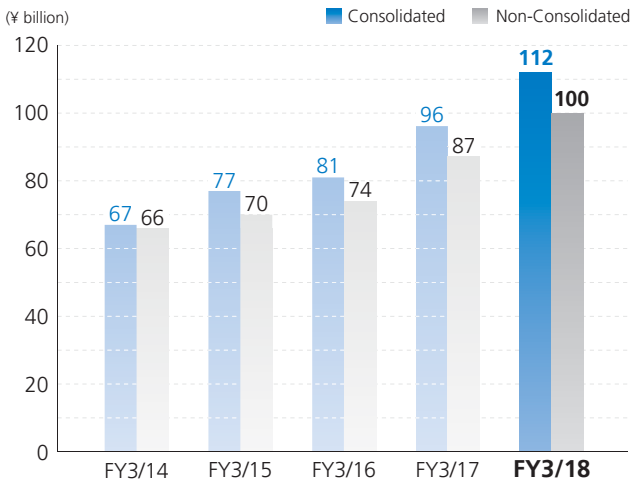
Orders Received and Contract Backlog

As for our non-consolidated construction orders received: Domestic Civil Engineering Business decreased by 11.0% to ¥166,789 million (US$1,569.9 million) due to the recoil after the undertaking of large-scale private offshore construction work in the previous year; Domestic Building Construction Business increased by 13.8% to ¥200,544 million (US$1,887.6 million) due to the undertaking of several large-scale construction works; Overseas Construction Business increased by 199.9% to ¥300,585 million (US$2,829.3 million) due to the undertaking of several large-scale overseas construction works; in total, there was an increase of 43.5% to ¥667,918 million (US$6,286.9 million).

Total Assets



Total Net Assets



Financial Position

The total assets of our group increased by ¥46,513 million (US$437.8 million) to ¥418,824 million (US$3,942.2 million) compared to the end of the previous consolidated fiscal year mainly due to the increase of notes receivable and accounts receivable from completed constructs. Liabilities increased by ¥30,926 million (US$291.1 million) to ¥306,793 million (US$2,887.7 million) compared to the end of the previous consolidated fiscal year mainly due to the issue of bonds and advances received on uncompleted construction contracts. Net assets increased by ¥15,586 million (US$146.7 million) to ¥112,031 million (US$1,054.5 million) compared to the end of the previous consolidated fiscal year mainly due to the increase of retained earnings through the posting of current net profit.

Cash Flows

With regard to cash flow from operations, it resulted in an excess of ¥3,445 million (US$32.4 million) in revenue due to the decrease of revenue by ¥27,848 million (US$262.1 million) compared to the previous consolidated fiscal year although net profit before income taxes was ¥25,290 million (US$238.0 million) (an excess of ¥31,294 million (US$294.6 million) in revenue in the previous consolidated fiscal year).

With regard to cash flow from investments, expenditures increased by ¥4,040 million (US$38.0 million) compared to the previous consolidated fiscal year mainly due to work vessel construct investments, and it resulted in an excess of ¥13,129 million (US$123.6 million) in expenditures (an excess of ¥9,090 million (US$85.6 million) in expenditures in the previous consolidated fiscal year).

Free cash flow, the total of cash flow from operations and investments, resulted in an excess of ¥9,684 million (US$91.2 million) in expenditures (an excess of ¥22,204 million (US$209.0 million) in revenue in the previous consolidated fiscal year).

With regard to cash flow from financial activities, although expenditures decreased by ¥19,658 million (US$185.0 million) compared to the previous consolidated fiscal year, it resulted in an excess of ¥4,125 million (US$38.8 million) in revenue mainly due to the income from bonds (an excess of ¥15,533 million (US$146.2 million) in revenue in the previous consolidated fiscal year).

From these results, "cash and cash equivalents" as of the end of this consolidated fiscal year decreased by ¥6,658 million (US$62.7 million) (9.3%) compared to the end of the previous consolidated fiscal year to ¥65,112 million (US$612.9 million), and the balance of interest-bearing debts at the end of this fiscal year resulted in ¥67,493 million (US$635.3 million).

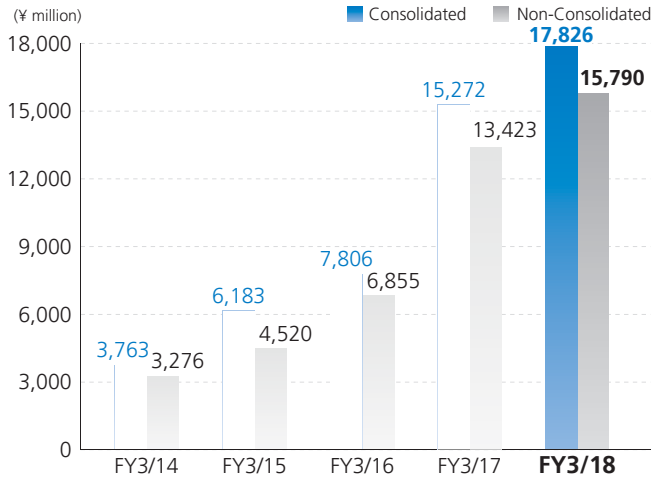
Dividends

Our basic policies are to improve profitability and increase corporate value by forward-looking reinforcement of business infrastructure and implementation of technology development and capital investment, as well as to distribute continuous and stable dividends to shareholders. Under these policies, we aim to achieve a consolidated dividend payout ratio of 20% to 25%. In addition, we plan to make use of internal reserves to the investment for engineering development or equipment investment to improve our corporate value. Regarding the performance of the current fiscal year, there was comprehensive consideration of progress in improving financial soundness and business deployment in the future, and dividends from surplus of the current fiscal year were determined at ¥14 per common share. The total amount of dividends was ¥4,003 million (US$37.7 million).

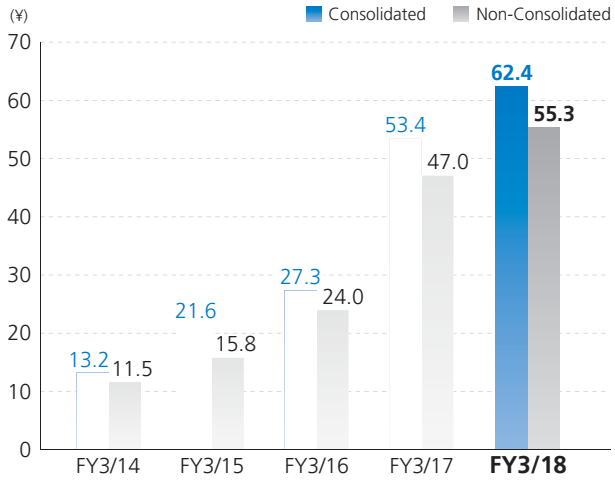
It is also our basic policy to pay a year-end dividend annually, determined by the general shareholders' meetings.

* Exchange rate at the term end: US$1 = ¥106.24

Net Profit



Net Profit per Share



Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
As of March 31

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Current assets:			
Cash and deposits (Note 20)	¥ 72,464	**¥ 65,706**	**$ 618,468**
Trade receivables: (Note 20)			
Notes	8,678	**10,112**	**95,181**
Accounts	172,780	**213,975**	**2,014,067**
Inventories: (Note 3 (5))			
Costs on uncompleted construction contracts	10,512	**14,383**	**135,381**
Real estate for sale and development projects in progress	4,444	**3,873**	**36,459**
Other	2,142	**2,497**	**23,506**
Deferred tax assets (Note 18)	2,561	**2,644**	**24,888**
Other	4,382	**3,241**	**30,497**
Allowance for doubtful accounts (Note 3 (9))	(757)	**(832)**	**(7,827)**
Total current assets	277,206	**315,599**	**2,970,620**
Property, plant and equipment: (Notes 3 (6) and 3 (8))			
Land	31,855	**33,721**	**317,402**
Buildings and structures	36,473	**37,115**	**349,353**
Machinery, equipment and vehicles	20,792	**23,446**	**220,693**
Dredgers and vessels	68,072	**68,141**	**641,388**
Construction in progress	4,223	**8,126**	**76,478**
Total property, plant and equipment	161,415	**170,549**	**1,605,314**
Less: accumulated depreciation	(88,713)	**(92,158)**	**(867,450)**
Property, plant and equipment — net	72,702	**78,391**	**737,864**
Intangible assets (Note 3 (7))	1,407	**1,400**	**13,185**
Investments and other assets:			
Investment securities (Notes 3(3), 6, 7 and 20)	16,044	**18,098**	**170,346**
Long–term loans receivables	147	**114**	**1,072**
Deferred tax assets (Note 18)	337	**93**	**872**
Net defined benefit asset (Note 19)	1,771	**2,414**	**22,721**
Other (Note 7)	3,009	**3,893**	**36,654**
Allowance for doubtful accounts (Note 3(9))	(352)	**(1,200)**	**(11,295)**
Total investments and other assets	20,956	**23,412**	**220,370**
Deferred assets (Notes 3(19))	40	**22**	**203**
Total assets	¥372,311	**¥418,824**	**$3,942,242**

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Current liabilities:			
Short–term loans payable (Note 8 and 20)	¥ 16,278	**¥ 17,528**	**$ 164,986**
Current portion of long–term loans payable and bonds payable (Note 8 and 20)	7,853	**17,610**	**165,759**
Trade payable: (Note 20)			
Notes	22,906	**19,364**	**182,263**
Accounts	94,103	**113,066**	**1,064,246**
Electronically recorded obligations–operating	26,059	**12,883**	**121,268**
Advance received on uncompleted construction contracts	29,708	**44,528**	**419,125**
Deposits received	24,540	**30,496**	**287,051**
Income taxes payable	5,420	**5,552**	**52,256**
Provision for loss on construction contracts (Note 3(12))	2,038	**1,332**	**12,536**
Provision for warranties for completed construction (Note 3(10))	1,573	**1,476**	**13,896**
Provision for bonuses (Note 3(11))	2,161	**2,489**	**23,425**
Other	2,712	**2,663**	**25,071**
Total current liabilities	235,351	**268,987**	**2,531,882**
Non-current liabilities:			
Bonds payable (Note 8 and 20)	20,000	**20,000**	**188,253**
Long–term loans payable (Note 8 and 20)	15,590	**12,354**	**116,286**
Provision for directors' retirement benefits	152	**—**	**—**
Provision for board benefit trust (Note 3(13))	—	**87**	**818**
Net defined benefit liability (Note 3(14) and 19)	357	**492**	**4,631**
Deferred tax liabilities for land revaluation (Note 9(2))	3,691	**3,680**	**34,634**
Other	725	**1,193**	**11,226**
Total non–current liabilities	40,515	**37,806**	**355,848**
Total liabilities	275,866	**306,793**	**2,887,730**
Commitments and contingent liabilities (Note 17)			
Net assets:			
Shareholders' equity:			
Capital stock	30,450	**30,450**	**286,615**
Authorized — 599,135,000 shares			
Issued shares — 286,013,910 shares 2017 and 2018			
Capital surplus (Note 9(1))	18,387	**18,387**	**173,068**
Retained earnings (Note 9(1))	39,842	**54,247**	**510,611**
Less: Treasury shares	(26)	**(326)**	**(3,070)**
Total shareholders' equity	88,653	**102,758**	**967,224**
Accumulated other comprehensive income:			
Valuation difference on available–for–sale securities (Note 3(3) and 9(3))	3,242	**4,435**	**41,742**
Deferred gains or losses on hedges	69	**26**	**251**
Revaluation reserve for land (Note 9(2))	3,921	**3,910**	**36,807**
Foreign currency translation adjustment (Note 3(2))	(78)	**(161)**	**(1,511)**
Remeasurements of defined benefit plans (Note 3(14) and 19)	570	**1,003**	**9,437**
Total accumulated other comprehensive income	7,724	**9,213**	**86,726**
Non–controlling interests	68	**60**	**562**
Total net assets	96,445	**112,031**	**1,054,512**
Total liabilities and net assets	¥372,311	**¥418,824**	**$3,942,242**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Income

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Construction business: (Note 3 (15))			
Net sales	¥487,133	**¥517,526**	**$4,871,291**
Cost of sales	448,922	**474,851**	**4,469,604**
Gross profit	38,211	**42,675**	**401,687**
Development business and other:			
Net sales	13,203	**9,376**	**88,254**
Cost of sales	10,544	**7,105**	**66,877**
Gross profit	2,659	**2,271**	**21,377**
Total:			
Total net sales	500,336	**526,902**	**4,959,545**
Total cost of sales	459,466	**481,956**	**4,536,481**
Total gross profit	40,870	**44,946**	**423,064**
Selling, general and administrative expenses	16,595	**17,328**	**163,108**
Operating profit	24,275	**27,618**	**259,956**
Non–operating income:			
Interest and dividends income	621	**492**	**4,631**
Reversal of allowance for doubtful accounts	158	**20**	**190**
Other (Note 10)	441	**391**	**3,681**
	1,220	**903**	**8,502**
Non–operating expenses:			
Interest expenses	792	**715**	**6,727**
Provision of allowance for doubtful accounts	12	**952**	**8,961**
Foreign exchange losses	818	**913**	**8,593**
Other (Note 11)	164	**258**	**2,429**
	1,786	**2,838**	**26,710**
Ordinary profit	23,709	**25,683**	**241,748**
Extraordinary income (Note 12)	120	**153**	**1,443**
Extraordinary losses (Note 13)	801	**546**	**5,147**
Profit before income taxes	23,028	**25,290**	**238,044**
Income taxes: (Notes 3(18) and 18)			
Current	7,698	**7,614**	**71,665**
Deferred	59	**(144)**	**(1,358)**
	7,757	**7,470**	**70,307**
Profit (loss) attributable to:	15,271	**17,820**	**167,737**
Non–controlling interests	(1)	**(6)**	**(54)**
Owners of parent	¥ 15,272	**¥ 17,826**	**$ 167,791**

	Yen		U.S. dollars
Profit attributable to owners of parent per share of common stock (Note 22)			
Basic	¥53.42	**¥62.41**	**$0.59**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Profit	¥15,271	**¥17,820**	**$167,737**
Valuation difference on available–for–sale securities	943	**1,192**	**11,223**
Deferred gains or losses on hedges	48	**(42)**	**(400)**
Foreign currency translation adjustments	4	**(86)**	**(807)**
Remeasurements of defined benefit plans	1,238	**433**	**4,075**
Total other comprehensive income (Note 15)	2,233	**1,497**	**14,091**
Comprehensive income	¥17,504	**¥19,317**	**$181,828**
(Breakdown)			
Comprehensive income attributable to owners of parent	¥17,505	**¥19,326**	**$181,904**
Comprehensive income attributable to non-controlling interests	(1)	**(9)**	**(76)**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Net Assets

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries

For the year ended March 31, 2017

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	¥30,450	¥18,387	¥25,903	¥(26)	¥74,714
Changes of items during period					
Dividends of surplus			(1,715)		(1,715)
Profit attributable to owners of parent			15,272		15,272
Reversal of revaluation reserve for land			382		382
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	13,939	(0)	13,939
Balance at the end of current period	¥30,450	¥18,387	¥39,842	¥(26)	¥88,653

Millions of yen

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available–for–sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	¥2,300	¥21	¥4,303	¥ (81)	¥ (669)	¥5,874	¥69	¥80,657
Changes of items during period								
Dividends of surplus								(1,715)
Profit attributable to owners of parent								15,272
Reversal of revaluation reserve for land								382
Purchase of treasury shares								(0)
Net changes of items other than shareholders' equity	942	48	(382)	3	1,239	1,850	(1)	1,849
Total changes of items during period	942	48	(382)	3	1,239	1,850	(1)	15,788
Balance at the end of current period	¥3,242	¥69	¥3,921	¥ (78)	¥ 570	¥7,724	¥68	¥96,445

For the year ended March 31, 2018

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	¥30,450	¥18,387	¥39,842	¥ (26)	¥ 88,653
Changes of items during period					
Dividends of surplus			(3,431)		(3,431)
Profit attributable to owners of parent			17,826		17,826
Reversal of revaluation reserve for land			10		10
Purchase of treasury shares				(300)	(300)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	14,405	(300)	14,105
Balance at the end of current period	¥30,450	¥18,387	¥54,247	¥(326)	¥102,758

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available–for–sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥3,242	¥69	¥3,921	¥ (78)	¥ 570	¥7,724	¥68	¥ 96,445
Changes of items during period								
Dividends of surplus								(3,431)
Profit attributable to owners of parent								17,826
Reversal of revaluation reserve for land								10
Purchase of treasury shares								(300)
Net changes of items other than shareholders' equity	1,193	(43)	(11)	(83)	433	1,489	(8)	1,481
Total changes of items during period	1,193	(43)	(11)	(83)	433	1,489	(8)	15,586
Balance at the end of current period	¥4,435	¥26	¥3,910	¥(161)	¥1,003	¥9,213	¥60	¥112,031

For the year ended March 31, 2018

	Thousands of U.S dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	$286,615	$173,068	$375,017	$ (245)	$834,455
Changes of items during period					
Dividends of surplus			(32,293)		(32,293)
Profit attributable to owners of parent			167,791		167,791
Reversal of revaluation reserve for land			96		96
Purchase of treasury shares				(2,825)	(2,825)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	135,594	(2,825)	132,769
Balance at the end of current period	$286,615	$173,068	$510,611	$(3,070)	$967,224

	Thousands of U.S. dollars							
	Accumulated other comprehensive income							
	Valuation difference on available–for–sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	$30,519	$651	$36,903	$ (726)	$5,363	$72,710	$638	$ 907,803
Changes of items during period								
Dividends of surplus								(32,293)
Profit attributable to owners of parent								167,791
Reversal of revaluation reserve for land								96
Purchase of treasury shares								(2,825)
Net changes of items other than shareholders' equity	11,223	(400)	(96)	(785)	4,074	14,016	(76)	13,940
Total changes of items during period	11,223	(400)	(96)	(785)	4,074	14,016	(76)	146,709
Balance at the end of current period	$41,742	$251	$36,807	$(1,511)	$9,437	$86,726	$562	$1,054,512

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Cash flows from operating activities:			
Profit before income taxes	¥23,028	**¥ 25,290**	**$ 238,044**
Adjustment to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	5,614	**6,847**	**64,447**
Impairment loss	694	**39**	**366**
Increase (Decrease) in allowance for doubtful accounts	(757)	**923**	**8,691**
Increase (Decrease) in net defined benefit liability	66	**65**	**613**
Decrease (Increase) in net defined benefit asset	(358)	**(494)**	**(4,646)**
Interest and dividends income	(621)	**(492)**	**(4,631)**
Interest expenses	792	**715**	**6,727**
Foreign exchange losses (gains)	242	**702**	**6,611**
Equity in (earnings) losses of affiliates	(8)	**(8)**	**(74)**
Loss (Gain) on sales of property, plant and equipment	(11)	**(60)**	**(569)**
Loss (Gain) on sales of investment securities	(61)	**(34)**	**(320)**
Loss on valuation of securities and investment securities	2	**4**	**34**
Change in assets and liabilities:			
Decrease (Increase) in notes and accounts receivable-trade	7,235	**(27,915)**	**(262,753)**
Decrease (Increase) in costs on uncompleted construction contracts	1,825	**(3,874)**	**(36,466)**
Decrease (Increase) in real estate for sale and development projects in progress and other inventories	2,232	**186**	**1,746**
Increase (Decrease) in notes and accounts payable-trade	(6,820)	**2,098**	**19,748**
Increase (Decrease) in advances received on uncompleted construction contracts	3,151	**14,819**	**139,490**
Increase (Decrease) in other provision	(92)	**(292)**	**(2,746)**
Other, net	3,954	**(7,446)**	**(70,083)**
Subtotal	40,107	**11,073**	**104,229**
Interest and dividends income received	620	**487**	**4,588**
Interest expenses paid	(799)	**(733)**	**(6,900)**
Income taxes paid	(8,634)	**(7,382)**	**(69,487)**
Net cash provided by operating activities	31,294	**3,445**	**32,430**
Cash flows from investing activities:			
Purchase of investment securities	(304)	**(429)**	**(4,034)**
Proceeds from sales and redemption of short-term and long-term investment securities	277	**125**	**1,175**
Purchase of property, plant and equipment	(9,107)	**(12,917)**	**(121,587)**
Proceeds from sales of property, plant and equipment	94	**429**	**4,036**
Collection of loans receivable	32	**33**	**307**
Other, net	(82)	**(370)**	**(3,479)**
Net cash used in investing activities	¥ (9,090)	**¥(13,129)**	**$(123,582)**

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	¥ (6,670)	**¥ 1,475**	**$ 13,880**
Proceeds from long-term loans payable	3,030	**4,374**	**41,171**
Repayment of long-term loans payable	(10,075)	**(7,853)**	**(73,919)**
Proceeds from issuance of bonds payable	—	**9,951**	**93,663**
Cash dividends paid	(1,710)	**(3,421)**	**(32,203)**
Other, net	(108)	**(401)**	**(3,762)**
Net cash provided by (used in) financing activities	(15,533)	**4,125**	**38,830**
Effect of exchange rate change on cash and cash equivalents	(335)	**(1,099)**	**(10,347)**
Net increase (decrease) in cash and cash equivalents	6,336	**(6,658)**	**(62,669)**
Cash and cash equivalents at the beginning of the period	65,434	**71,770**	**675,548**
Cash and cash equivalents at the end of the period	¥71,770	**¥65,112**	**$612,879**
(Notes) (1)Cash and cash equivalents are comprised as follows:			
Cash and deposits	¥72,464	**¥65,706**	**$618,468**
Less–Time deposits with maturity over three months	(694)	**(594)**	**(5,589)**
Cash and cash equivalents (Note 3(17))	¥71,770	**¥65,112**	**$612,879**

See accompanying Notes to Consolidated Financial Statements.

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries

1. Basis of preparation of consolidated financial statements

The accompanying consolidated financial statements of Penta-Ocean Construction Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The accounting principles and practices adopted by the overseas consolidated subsidiaries conform to those adopted by the Company.

The figures in these financial statements are shown in U.S. dollars at the conversion rate of U.S.$1=¥106.24, the exchange rate prevailing on March 31, 2018. This is solely for the convenience of readers outside Japan and does not mean that assets and liabilities originating in yen can be converted into or settled in dollars at the above rate.

2. Consolidation

(1) Scope of consolidation and application of equity method

The Company has 25 subsidiaries and 5 affiliated company as at March 31, 2018.

The Company consolidated all subsidiaries and applied the equity method to one affiliated company.

Jupiter Five Pte. Ltd. and Neptune Five Pte. Ltd. were liquidated and have been excluded from the scope of consolidation.

4 affiliated companies were not included in the scope of equity method, due to small impact on consolidated financial statements and insignificant on the whole.

(2) Consolidated closing date

Consolidated closing date is March 31.

Closing date for the Company, 10 domestic subsidiaries and 14 overseas subsidiaries including Andromeda Five Pte, Ltd. is March 31.

Closing date for one overseas subsidiary is December 31. The Company compiled the consolidated financial statements using the financial statements of each company's closing date, and adjustments were made for any material difference incurred between their closing dates and the consolidated closing date.

3. Summary of significant accounting policies

(1) Conversion method of foreign currency transactions of the Company and its domestic subsidiaries and affiliated companies

Transactions in foreign currencies are converted into yen at the exchange rate prevailing at the time of the transactions. Monetary receivables and payables denominated in foreign currencies including foreign cash are converted into yen at the exchange rate prevailing on the closing date. Non-monetary items denominated in foreign currencies are converted into yen at the historical rate. Held-to-maturity bonds denominated in foreign currencies are translated into yen at the exchange rate prevailing on the closing date, securities for purpose of sale and investment securities other than the above are converted into yen from the fair value based on foreign currencies at the exchange rate prevailing on the closing date and stock of subsidiaries and affiliated companies at the exchange rate prevailing at the time of acquisition by the Company, and those are written down, when declined remarkably. The valuation amount of derivative financial instruments resulting from derivative transaction denominated in foreign currencies are translated at the exchange rate prevailing on the closing date based on the fair value or the actual value estimated in foreign currencies excluding those applying hedge accounting.

Exchange gains or losses, realized or unrealized, are included in current income.

(2) Conversion method of financial statements of overseas subsidiaries stated in foreign currency

Financial statements stated in foreign currency are translated into yen at the exchange rate prevailing on the closing date except for the components of Net assets which are translated at the exchange rate prevailing at the time of acquisition by the Company and at the historical rate to their increase thereafter.

Exchange differences arising from conversion of balance sheet accounts are stated as foreign currency translation adjustments in Net assets.

(3) Investment securities

Held-to-maturity bonds are determined by the amortized cost method.

Other securities with fair value are stated at fair value based on the market price at the closing date. Valuation differences are included in Net assets as valuation difference on available-for-sale securities and cost of sales are determined by the moving average method.

Other investment securities with no fair value are stated at moving average cost.

(4) Derivative financial transactions

Derivative financial instruments are stated at fair value.

Hedge accounting is adopted for derivative financial instruments which conform to requirements of hedge accounting.

(5) Inventories

Inventories are stated at identified cost, except for raw materials and supplies which are stated at cost determined by the first-in first-out method.

In the case that the net realizable value falls below the historical cost at the end of the year, inventories except for cost on uncompleted construction contracts are carried at the net realizable value on the closing date.

(6) Property, plant, equipment and Depreciation (excluding leased assets)

Property, plant and equipment are stated at cost and for the

Company and its domestic subsidiaries. Depreciation is calculated using the declining-balance method, except for buildings (other than building fixtures) acquired on or after April 1, 1998 and building fixtures and structures acquired on or after April 1, 2016, which are calculated by the straight-line method. The straight-line method is applied to property, plant and equipment of overseas subsidiaries.

The Company and its domestic subsidiaries primarily use the useful lives and the residual value in accordance with the Corporation Tax Law.

(7) Research and development costs and computer software

Research and development costs are charged to income as incurred.

Computer software purchased for internal use is amortized by the straight-line method over 5 years, the estimated useful life.

(8) Leased assets

For leased assets under finance lease transactions that transfer ownership, the depreciation expense is calculated based on the same depreciation method as is applied to fixed assets owned by the Company and its subsidiaries.

For leased assets under finance lease transactions that do not transfer ownership, the depreciation expense is calculated under the straight-line method based on the assumption that the useful life equals to the lease term and the residual value equals to zero.

(9) Allowance for doubtful accounts

Allowance for doubtful accounts is accounted for using the estimated doubtful account ratio determined based on the past actual bad debt losses for general receivable and on the individual estimated uncollectible amount for any specific doubtful receivables.

(10) Provision for warranties for completed construction

The Company and its consolidated subsidiaries provide provision for the costs of repairs for damages related to completed construction works based on actual damages in the past and estimated amount of compensation for damages in the future.

(11) Provision for bonuses

To provide provision for the payment of bonuses for employees, the expected payment amount at end of this fiscal year is calculated.

(12) Provision for loss on construction contracts

The Company and its consolidated subsidiaries provide provision for future losses from construction contracts outstanding at the fiscal year end.

(13) Provision for board benefit trust

The provision for board benefit trust is recorded for providing stock for directors and executive officers in the future at the estimated amount calculated based on predetermined stock benefit regulation for directors at the fiscal year end.

(14) Net defined benefit liability

Net defined benefit liability is provided based on the projected benefit obligation and plan assets at end of the fiscal year.

Regarding determination of retirement benefit obligation, the benefit formula basis is adopted as the method of attributing expected benefit to the periods until this fiscal year end.

Prior service costs are recognized as an expense when incurred.

Actuarial gain and loss are equally amortized by the straight-line method over the average remaining employees' service years, which should be over 10 years and the amortization starts in the next fiscal year of the respective accrual years.

Regarding lump-sum severance indemnity plan for some of the consolidated subsidiaries, the amount is calculated based on simplified method which assumes that the retirement benefit obligation would be the amount to be paid to employees who voluntarily retired at the year-end.

(15) Recognition of sales and cost of sales

For the construction projects with uncertain work progress by the end of the year, the percentage-of-completion method (based on cost proportion method to estimate the progress of such construction project) has been applied.

For other construction projects, the completed-contract method has been applied.

(16) Hedge accounting

1) Hedge accounting method

Derivative transactions are accounted for primarily using deferral hedge accounting. The special method is applied to interest rate swap agreements that meet the requirements for special treatments.

2) Hedging instruments and hedged items

Hedging instruments are interest rate swap agreements and forward exchange contracts.

Hedged items are long-term loans and monetary receivables and payables denominated in foreign currencies.

3) Hedging policy

The Company enters into interest rate swap agreements and forward exchange contracts to hedge risk from fluctuations in interest rate and forward exchange rates, respectively.

4) Evaluation of the effectiveness of hedge accounting

Control procedures for hedge transactions are executed according to the Company's bylaw. The Examination Committee of Derivative Instruments and the Financial Division in the Company periodically evaluates the effectiveness of hedging.

(17) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows, consist of cash, deposits which can be drawn out freely and easily converted into cash and short-term investments which have an original maturity of 3 months or less and are not exposed to significant valuation risks.

(18) Income taxes

The Company and its domestic consolidated subsidiaries declare corporation and other taxes on the basis of taxable income calculated under the provisions of the Corporation Tax Law and other tax regulations. Taxable income thus calculated is different from earnings in the account book.

Japanese corporation and other taxes applicable to the Company and its consolidated domestic subsidiaries comprise (a) corporation tax of 23.4 percent on taxable income, (b) enterprise tax of 3.6 percent on taxable income after certain adjustments, (c) prefectural and municipal taxes averaging 16.3 percent of corporation tax, and

(d) local corporation tax of 4.4 percent on taxable income. Enterprise tax paid is deductible for income tax purposes.

Foreign subsidiaries declare income taxes at the rate applicable in each country. Foreign tax credit related to the amount of income taxes paid to foreign tax offices by the Company directly or indirectly, is subject to certain limitations in accordance with Japanese tax regulations.

(19) Deferred assets

Bond issuance cost is recognized as an expense when incurred.

Business commencement expenses are amortized using the straight-line method over 5 years and the amortization starts from the fiscal year when the business commenced.

(20) Consumption tax

Transactions subject to consumption taxes are recorded exclusive of consumption taxes.

(21) Adoption of consolidated taxation system

The Company and some of its consolidated subsidiaries have adopted consolidated taxation system.

(22) Reclassifications

Certain amounts in prior year's consolidated financial statements and related footnotes have been reclassified to conform to the presentation in the current year.

4. Additional information

(Performance-linked stock compensation plan for directors and executive officers)

(1) Transaction summary

The Company approved a resolution at the 67th Annual General Meeting of Shareholders held on June 27, 2017 to introduce the Board Benefit Trust (the "BBT"), a performance-linked stock compensation plan for its directors and executive officers (the "Directors"). The BBT plan clarifies how the company's performance and its stock value influence the Directors' compensation, which enables the Directors to share not only the benefits of the stock price rise, but also the risks of the stock price decline with its shareholders. Thereby, the BBT plan leads the Directors to aim for more contributions to the improvement of the Company's performance and corporate value over the medium to long-term period.

The Shares are acquired through the trust funded by the company and established based on the BBT (the "Trust"). The BBT plan enables the Directors to be granted the Company's shares and the amount of cash equivalent to the market price of the Company's shares (the "Shares") through the Trust in accordance with the Directors' Stock Compensation Rules stipulated by the Company.

In principle, the Directors are to receive the shares compensation upon their retirement from the position.

(2) The Company's own stock in the Trust

Since the BBT plan was introduced in the fiscal year 2017, Trust & Custody Services Bank, Ltd. (Trust E) has acquired 456,100 shares of the company.

The Company's outstanding shares of the Trust are included in the treasury shares of the net assets based on the book value of the Trust (excluding ancillary expenses). The book value of the treasury shares was JPY 299 million and the number of the stocks was 456,100 shares as of March 31, 2018.

5. Accounting standards issued but not yet effective

- "Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan Guidance No.28, issued February 16, 2018)
- "Implementation Guidance on Recoverability of Deferred Tax Assets" (revised 2018) (Accounting Standards Board of Japan Guidance No.28, issued February 16, 2018)

1) Overview

The accounting treatment for taxable temporary differences related to investments in subsidiaries when an entity prepares separate financial statements was modified. In addition, the accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1 was clarified.

2) Scheduled date of adoption

The Company expects to adopt the implementation guidance from the beginning of the fiscal year ending March 31, 2019.

3) Impact of the adoption of implementation guidance

The Company is currently evaluating the effect of the adoption of this implementation guidance on its consolidated financial statements.

- "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan Statement No.29, issued March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan Guidance No.30, issued March 31, 2018)

1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

3) Impact of the adoption of implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

6. Investment securities

(1) Held-to-maturity debt securities

As of March 31, 2017	Millions of yen		
	Book value on consolidated B/S	Fair value	Difference
Securities whose fair value exceeds their book value on consolidated B/S:			
National and local government bonds	¥208	¥216	¥ 8
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥208	¥216	¥ 8
Securities whose fair value doesn't exceed their book value on consolidated B/S:			
National and local government bonds	¥ —	¥ —	¥—
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥ —	¥ —	¥—
Total	¥208	¥216	¥ 8

As of March 31, 2018	Millions of yen		
	Book value on consolidated B/S	Fair value	Difference
Securities whose fair value exceeds their book value on consolidated B/S:			
National and local government bonds	¥210	¥215	¥ 5
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥210	¥215	¥ 5
Securities whose fair value doesn't exceed their book value on consolidated B/S:			
National and local government bonds	¥ —	¥ —	¥—
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥ —	¥ —	¥—
Total	¥210	¥215	¥ 5

	Thousands of U.S. dollars		
	Book value on consolidated B/S	Fair value	Difference
Securities whose fair value exceeds their book value on consolidated B/S:			
National and local government bonds	$1,972	$2,027	$55
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	$1,972	$2,027	$55
Securities whose fair value doesn't exceed their book value on consolidated B/S:			
National and local government bonds	$ —	$ —	$—
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	$ —	$ —	$—
Total	$1,972	$2,027	$55

(2) Other securities

As of March 31, 2017	Millions of yen		
	Book value on consolidated B/S	Acquisition cost	Difference
Securities whose book value on consolidated B/S exceeds their acquisition cost:			
Stock	¥11,867	¥7,244	¥4,623
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥11,867	¥7,244	¥4,623
Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:			
Stock	¥ 1,049	¥1,087	¥ (38)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥ 1,049	¥1,087	¥ (38)
Total	¥12,916	¥8,331	¥4,585

(Notes) Since unlisted stocks (balance on consolidated balance sheet ¥2,797 Million have no market value, have no estimated future cash flows and are quite difficult to determine the fair value, they are not included in "Other securities" above.

As of March 31, 2018	Millions of yen		
	Book value on consolidated B/S	Acquisition cost	Difference
Securities whose book value on consolidated B/S exceeds their acquisition cost:			
Stock	¥14,515	¥8,191	¥6,324
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥14,515	¥8,191	¥6,324
Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:			
Stock	¥ 492	¥ 521	¥ (29)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥ 492	¥ 521	¥ (29)
Total	¥15,007	¥8,712	¥6,295

	Thousands of U.S. dollars		
	Book value on consolidated B/S	Acquisition cost	Difference
Securities whose book value on consolidated B/S exceeds their acquisition cost:			
Stock	$136,622	$77,102	$59,520
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	$136,622	$77,102	$59,520
Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:			
Stock	$ 4,630	$ 4,904	$ (274)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	$ 4,630	$ 4,904	$ (274)
Total	$141,252	$82,006	$59,246

(Notes) Since unlisted stocks (balance on consolidated balance sheet ¥2,715 Million (U.S. $ 25,555 thousand)) have no market value, have no estimated future cash flows and are quite difficult to determine the fair value, they are not included in "Other securities" above.

(3) Other securities sold during the fiscal year

As of March 31, 2017	Millions of yen		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	¥278	¥ 61	¥ 0
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Total	¥278	¥ 61	¥ 0

As of March 31, 2018	Millions of yen		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	¥125	¥ 34	¥—
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Total	¥125	¥ 34	¥—

	Thousands of U.S. dollars		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	$1,175	$320	$—
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Total	$1,175	$320	$—

(4) Impairment of investment securities

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Other securities			
Stock	¥2	**¥4**	**$34**

7. Pledged assets

The following assets are pledged for fulfillment of construction contracts at March 31, 2017 and 2018.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Investment securities	¥312	**¥322**	**$3,032**
Other (Investment and other assets)	159	**160**	**1,509**
Total	¥471	**¥482**	**$4,541**

8. Short-term loans, long-term loans, and bonds payable

Short-term and long-term loans and bonds payable as of March 31, 2017 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Short-term loans from banks and insurance companies (The weighted average interest rate is 0.88%.)	¥16,278	**¥17,528**	**$164,986**
Long-term loans from banks and insurance companies due through 2023 (The weighted average interest rate is 0.77%.)	23,443	**19,964**	**187,918**
0.87% unsecured bonds payable due 2019	10,000	**10,000**	**94,127**
0.14% unsecured bonds payable due 2021	—	**10,000**	**94,127**
0.68% unsecured bonds payable due 2022	10,000	**10,000**	**94,127**
Less: current portion	(24,131)	**(35,138)**	**(330,745)**
Total	¥35,590	**¥32,354**	**$304,540**

The aggregate annual maturity of short-term and long-term loans and bonds payable after March 31, 2018 is as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	**¥35,138**	**$330,745**
2020	**7,300**	**68,714**
2021	**12,524**	**117,884**
2022	**11,428**	**107,568**
2023 and thereafter	**1,102**	**10,374**
Total	**¥67,492**	**$635,285**

9. Net assets

(1) Legal retained earnings and legal capital surplus

The Japanese Corporate Law requires to provide a legal retained earnings equal to 10 percent of cash out flow, that is, payment of dividends approved by the Shareholders' meeting every fiscal years, until the total amounts of legal retained earnings plus legal capital surplus or either of them reach 25 percent of capital stock.

In the consolidated financial statements, those are included in retained earnings and capital surplus, respectively.

(2) Revaluation reserve for land

Lands used for business purposes has been revaluated on March 31, 2000 based on the "Law Concerning Land Revaluation (Law No.34, promulgated on March 31, 1998)" and the "Partial Revision of the Law Concerning Land Revaluation (Law No.24, promulgated on March 31, 1999)". Relating to revaluation excess, the deferred tax on the revaluation is accounted for as a long-term deferred tax liabilities and the remaining revaluation difference is accounted for as revaluation reserve for land in net assets.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
The difference between the appraisal value of land at the end of the current fiscal year and the book value	¥6,897	**¥7,128**	**$67,092**

Fair values were determined on the basis of Article 2 No.4 and 5 of an Enforcement ordinance No.119 of the Law concerning Land Revaluation promulgated on March 31, 1998.

(3) Valuation difference on available-for-sale securities

Valuation difference on available-for-sale securities is based on the difference between fair market value and book value at March 31.

This amounted to ¥ 4,435 million (U.S. $ 41,742 thousand) gain as of March 31, 2018.

10. Non–operating income

The composition of Non-operating income-other for the fiscal years ended March 31, 2017 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Real estate rent	¥155	**¥122**	**$1,148**
Other	286	**269**	**2,533**
Total	¥441	**¥391**	**$3,681**

11. Non-operating expenses

The composition of Non-operating expenses-other for the fiscal years ended March 31, 2017 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Other	¥176	**¥258**	**$2,429**
Total	¥176	**¥258**	**$2,429**

12. Extraordinary income

The composition of Extraordinary income for the fiscal years ended March 31, 2017 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Gain on sales of non-current assets	¥ 53	**¥ 86**	**$ 812**
Gain on sales of investment securities	61	**34**	**320**
Gain on liquidation of subsidiaries	—	**28**	**263**
Other	6	**5**	**48**
Total	¥120	**¥153**	**$1,443**

13. Extraordinary losses

The composition of Extraordinary losses for the fiscal years ended March 31, 2017 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Loss on sales of non-current assets	¥ 42	**¥ 26**	**$ 243**
Loss on retirement of non-current assets	59	**476**	**4,479**
Impairment loss (*1)	694	**39**	**366**
Other	6	**5**	**59**
Total	¥801	**¥546**	**$5,147**

(*1) The Company recognized impairment loss for the following group of assets in the fiscal years ended March 31, 2017 and 2018.

For the year ended March 31, 2017

Classification	Type of Assets	Location	Impairment loss
Business assets (for materials yard)	Land	Osaka	¥694 million

In principle, the Company and its consolidated subsidiaries have classified the fixed assets by business control unit (company, branch office, and business line), for which revenue and expenditure are continuously recorded. And the Company and its consolidated subsidiaries has classified the idle assets individually.

Book values of above assets classified into business assets were written down to recoverable amounts due to a following reason. During the current fiscal year, management decided to hold the land for material yard described above as selling-purpose. The impairment loss (¥ 694 million) was accounted for as an extraordinary losses.

The recoverable amount was measured at net realizable value based on a real-estate appraisal.

The recoverable amounts were measured by net realizable value. The business assets are assessed by reasonably estimated value based on inheritance tax, real-estate appraisal or expected sales price and the idle assets are assessed by reasonably estimated value base on inheritance tax.

For the year ended March 31, 2018
This information is omitted since it is immaterial.

14. Research and development costs

Research and development costs charged to income are ¥ 1,953 million for the fiscal year 2017 and ¥ 2,123 million (U.S. $ 19,981 thousand) for the fiscal year 2018, respectively.

15. Other comprehensive income

The following table presents reclassification and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2017 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Valuation difference on available–for–sale securities			
Amount arising during the year	¥1,413	**¥1,743**	**$16,404**
Reclassification adjustment for gains and losses realized in net profit	(60)	**(34)**	**(319)**
Amount before tax effect	1,353	**1,709**	**16,085**
Tax effect	(410)	**(517)**	**(4,862)**
Valuation difference on available-for-sale securities	943	**1,192**	**11,223**
Deferred gains or losses on hedges			
Amount arising during the year	0	**(471)**	**(4,435)**
Reclassification adjustment for gains and losses realized in net profit	0	**411**	**3,870**
Amount before tax effect	70	**(60)**	**(565)**
Tax effect	(22)	**18**	**165**
Deferred gains or losses on hedges	48	**(42)**	**(400)**
Foreign currency translation adjustments			
Amount arising during the year	4	**(58)**	**(544)**
Reclassification adjustment for gains and losses realized in net profit	—	**(28)**	**(263)**
Amount before tax effect	4	**(86)**	**(807)**
Tax effect	—	—	—
Foreign currency translation adjustments	4	**(86)**	**(807)**
Remeasurements of defined benefit plans			
Amount arising during the year	1,115	**80**	**749**
Reclassification adjustment for gains and losses realized in net profit	670	**544**	**5,124**
Amount before tax effect	1,785	**624**	**5,873**
Tax effect	(547)	**(191)**	**(1,798)**
Remeasurements of defined benefit plans	1,238	**433**	**4,075**
Total of other comprehensive income	¥2,233	**¥1,497**	**$14,091**

16. Derivative financial transactions

(1) Matters concerning derivative financial transactions

The Company and its consolidated subsidiaries have entered into interest rate swap agreements and forward exchange contracts only for hedging risks from fluctuation in interest rates and foreign exchange rates, not for speculative purposes.

The derivative financial transactions are mainly performed by the Company, and have been made in accordance with the bylaw, which clearly describes purposes, execution and control for transaction.

(2) Matters concerning fair value

The current value for derivative transactions is calculated based on the prices provided by relevant financial institutions. And hedge accounting has been adopted for derivative financial instruments which conform to requirements for hedge accounting. However the transactions that apply to special treatment of interest rate swap are accounted for as if they were integral part of the hedged long-term loans payable, its fair value is included in the fair value of long-term loans payable.

17. Commitments and contingent liabilities

As of March 31, 2018, the Company has liabilities for guarantee to bank loans made by customers amounting to ¥ 309 million (U.S. $ 2,904 thousand).

The Company also has the guarantee amounting to ¥ 131 million (U.S. $ 1,236 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

The Company has agreements on commitment line with 22 banks totaling ¥20,000 million (U.S. $ 188,253 thousand) for the purpose of flexible financing. Unused commitment line as of March 31, 2017 and 2018 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Commitment line			
Total of commitment line	¥40,000	**¥20,000**	**$188,253**
Use of commitment	—	**—**	**—**
Total of unused commitment line	¥40,000	**¥20,000**	**$188,253**

18. Tax effect accounting

1. The significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Deferred tax assets			
Employees' retirement benefits trust	¥ 1,976	**¥ 2,023**	**$ 19,043**
Loss on valuation of real estate for sale	1,396	**1,473**	**13,868**
Impairment loss	992	**901**	**8,482**
Provision for bonuses	670	**765**	**7,205**
Allowance for doubtful accounts	366	**643**	**6,054**
Provision for loss on construction contracts	627	**408**	**3,840**
Net operating loss carryforwards	265	**268**	**2,518**
Net defined benefit liability	118	**116**	**1,095**
Foreign tax credit carryforwards	1,579	**—**	**—**
Other	1,544	**1,759**	**16,543**
Total: deferred tax assets	9,533	**8,356**	**78,648**
Less: valuation allowance	(4,448)	**(3,128)**	**(29,442)**
Deferred tax assets	¥ 5,085	**¥ 5,228**	**$ 49,206**
Deferred tax liabilities			
Valuation difference on available–for–sale securities	¥ (1,343)	**¥ (1,860)**	**$ (17,504)**
Prepaid pension cost	(540)	**(739)**	**(6,957)**
Unrealized intercompany profit	(105)	**(105)**	**(990)**
Other	(203)	**(188)**	**(1,769)**
Total: deferred tax liabilities	(2,191)	**(2,892)**	**(27,220)**
Net: deferred tax assets	¥ 2,894	**¥ 2,336**	**$ 21,986**

2. The principal details of the material differences between the statutory effective tax rate and the actual burden tax rates after application of tax-effect accounting:

	2017
The statutory effective tax rate	**30.86%**
(Adjustments)	
Permanent differences (expense)	**1.82**
Permanent differences (income)	**(0.33)**
Per capita levy on inhabitant tax	**0.85**
Consolidated adjustments	**0.28**
Increase (Decrease) in valuation allowance	**(0.40)**
Foreign corporation tax	**3.19**
Other	**(2.59)**
Actual burden tax rate after the application of tax effect accounting	**33.68%**

For the year ended March 31, 2018, a reconciliation is omitted because the difference between the statutory effective tax rate and actual burden tax rates after tax effect accounting is less than 5%.

19. Retirement benefits

The Company and its other consolidated subsidiaries have funded or unfunded type defined benefit plan and defined contribution plan.

The Company has introduced cash balance plan as defined benefit corporate pension plan (funded only and that solely adopted by the Company), which establishes nominal individual accounts equivalent to funds of funded and annuity amounts. In the nominal individual accounts interest credit based on market interest and contribution credit based on classification and evaluation are accumulated. Retirement benefit trust has established for the defined benefit corporate pension plan.

Based on lump-sum payment plans (unfunded but become funded as a result of establishment of retirement benefit trust), lump-sum payment based on classification and evaluation as retirement benefit.

In lump-sum payment plans held by other consolidated subsidiaries, the simplified calculation methods are applied for retirement benefit liability and service costs.

(1) The changes in the retirement benefit obligation during the years ended March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Retirement benefit obligation at the beginning of year	¥26,679	**¥26,638**	**$250,731**
Service cost	1,233	**1,266**	**11,919**
Interest cost	—	**26**	**246**
Actuarial gain and loss	221	**189**	**1,782**
Retirement benefits paid	(1,495)	**(1,908)**	**(17,965)**
Retirement benefit obligation at the end of year	¥26,638	**¥26,211**	**$246,713**

(2) The changes in the plan assets during the years ended March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Plan assets at the beginning of year	¥26,686	**¥28,052**	**$264,040**
Expected return on plan assets	448	**471**	**4,437**
Actuarial gain	1,336	**269**	**2,531**
Contributions by the Company	794	**820**	**7,717**
Retirement benefits paid	(1,212)	**(1,479)**	**(13,922)**
Plan assets at the end of year	¥28,052	**¥28,133**	**$264,803**

(3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2017 and 2018 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Funded retirement benefit obligation	¥26,176	**¥25,719**	**$242,082**
Plan assets at fair value	(28,052)	**(28,133)**	**(264,803)**
	¥ (1,876)	**¥ (2,414)**	**$ (22,721)**
Unfunded retirement benefit obligation	462	**492**	**4,631**
Net liability for retirement benefits in the balance sheet	¥ (1,414)	**¥ (1,922)**	**$ (18,090)**
Net defined benefit liability	¥ 357	**¥ 492**	**$ 4,631**
Net defined benefit asset	(1,771)	**(2,414)**	**(22,721)**
Net liability for retirement benefits in the balance sheet	¥ (1,414)	**¥ (1,922)**	**$ (18,090)**

(4) The components of retirement benefit expense for the years ended March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Service cost	¥ 1,233	**¥ 1,266**	**$ 11,919**
Interest cost	—	**26**	**246**
Expected return on plan assets	(448)	**(471)**	**(4,437)**
Amortization of actuarial gain and loss	670	**544**	**5,124**
Retirement benefit expense	¥ 1,455	**¥ 1,365**	**$ 12,852**

Note: Retirement benefit expense of consolidated subsidiaries which adopt the simplified method are included in "Service cost."

(5) The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Actuarial gain and loss	¥ 1,785	**¥ 624**	**$ 5,873**
Total	¥ 1,785	**¥ 624**	**$ 5,873**

(6) The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Unrecognized actuarial gain and loss	¥(821)	**¥(1,445)**	**$(13,602)**
Total	¥(821)	**¥(1,445)**	**$(13,602)**

(7) The fair value of plan assets, major category, as a percentage of total plan assets as of March 31, 2017 and 2018 are as follows:

	2017	**2018**
Bonds	39%	**43%**
Stocks	47	**47**
General accounts	6	**5**
Cash and deposits	1	**1**
Others	7	**4**
Total	100%	**100%**

Note: Total plan assets include retirement benefit trusts of 12% and 12% that are set up for a corporate pension plan as of March 31, 2017 and 2018, respectively.

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

(8) The assumptions used in accounting for the above plans are as follows:

	2017	**2018**
Discount rates	0.1%	**0.1%**
Expected rates of long-term return on plan assets	1.0-2.0%	**1.1-2.0%**
Expected rates of increase in salary	3.1-4.9%	**3.2-4.9%**

20. Financial instruments

(1) Policy for financial instruments

The Company and its consolidated subsidiaries have limited the instruments of fund investment to short term deposits and other, and relied on bonds payable or bank loans for fund procurement.

Regarding credit risk to customers related to notes receivable, accounts receivable from completed construction contracts and other the Company and its consolidated subsidiaries' bylaw has been applied to reduce the risk. Additionally notes receivable, accounts receivable from completed construction contracts and other in foreign currencies are exposed to foreign currency risk, and the Company enters into forward exchange contracts to hedge the risk.

Investment securities include mainly stocks and held-to-maturity bonds are exposed to fluctuation of market value. Those fair values, financial status of the issuers and so on are checked regularly.

Accounts receivable-other is mainly credit other than accounts receivable associated with operating transactions and most of the accounts are collected in short term and detail of the balance is reviewed on monthly basis.

Bonds payable and Loans payable are mainly for procurement for operating funds and the Company enters into interest rate swap agreements and manages to fix its interest cost to hedge the risk from interest volatility related to long-term loans payable.

Execution and control of derivative transaction is held in accordance with the Company's bylaw where its purpose, action and control of such transaction are clearly stated and derivative transactions shall not be used for speculative purpose.

(2) Estimated fair value of financial instruments

Book value on consolidated balance sheet, fair value and the difference as of March 31, 2017 are as follows:

	Millions of yen		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	¥ 72,464	¥ 72,464	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	164,461	164,461	—
(3) Accounts receivable–other	16,998	16,998	—
(4) Investment securities	13,124	13,132	8
Total Assets	¥267,047	¥267,055	¥ 8
Liabilities			
(1) Notes payable, accounts payable for construction contracts and other	¥111,818	¥111,818	¥ —
(2) Electronically recorded obligations–operating	26,059	26,059	—
(3) Short-term loans payable	16,278	16,278	—
(4) Bonds payable	20,000	20,329	329
(5) Long-term loans payable (*1)	23,443	23,512	69
Total Liabilities	¥197,598	¥197,996	¥398
Derivative transaction (*2)	¥ 51	¥ 51	¥ —

(*1) Long-term loans payable includes the current portion of long-term loans payable.
(*2) The debit and credit balances recorded by derivative transaction are offset each other.

(Note 1) Calculation method of financial instruments' fair value and securities and derivative transaction

Assets

(1) Cash and deposits, (3) Accounts receivable-other
Since these items are settled within the short term, the fair values are nearly equivalent to the book values therefore the book value is used.
(2) Notes receivable, accounts receivable from completed construction contracts and other
These items' fair values are the present value, discounted by using interest rate determined based on the term until maturity and credit risk with respect to the receivables categorized by a certain period.
(4) Investment securities
The fair value of stocks and bonds present the market values.

Liabilities

(1) Notes payable, accounts payable for construction contracts and other, (2) Electronically recorded obligations-operating, (3) Short-term loans payable
Since these items are settled within short term, the fair values are nearly equivalent to book values, therefore the current book value is used.
(4) Bonds payable, (5) Long-term loans payable
The fair value of these items are calculated by discounting the total of principal and interest using interest rate calculated assuming the loan is newly made or the bond is newly issued. Long-term loans payable with floating rate is subject to a special treatment of interest rate swap and is calculated by discounting the total of principal and interest, accounted for as if they were integral part of the interest rate swap, by interest rate that is reasonably estimated and applied in the case of similar loan.

Derivative transaction

It is forward exchange contracts, and fair value is calculated by using a forward exchange rate. However the transactions that apply to a special treatment of interest rate swap are accounted for as if they were integral part of the hedged long-term loans payable, its fair value is included in the fair value of long-term loans payable.

(Notes 2) Since unlisted stocks (balance on consolidated balance sheet ¥2,920 million) have no market value, have no estimated future cash flows and are quite difficult to recognize the fair value, they are not included in "(4) Investment securities".

(Notes 3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2017

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits				
Deposits	¥ 72,416	¥ —	¥ —	¥—
Notes receivable, accounts receivable from completed construction contracts and other	159,740	4,721	—	—
Accounts receivable–other	16,998	—	—	—
Investment securities				
Held–to–maturity bonds				
National and local government bonds	—	137	71	—
Corporate bonds	—	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	—	—
Other	—	—	—	—
Total	¥249,154	¥4,858	¥ 71	¥—

(Note 4) The redemption schedule for short-term and long-term loans, and bonds payable is disclosed in Note 8

Book value on consolidated balance sheet, fair value and the difference as of March 31, 2018 are as follows:

	Millions of yen		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	¥ 65,706	¥ 65,706	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	192,720	192,720	—
(3) Accounts receivable – other	31,367	31,367	—
(4) Investment securities	15,216	15,222	6
Total Assets	¥305,009	¥305,015	¥ 6
Liabilities			
(1) Notes payable, accounts payable for construction contracts and other	¥127,446	¥127,446	¥ —
(2) Electronically recorded obligations – operating	12,883	12,883	—
(3) Short-term loans payable	17,528	17,528	—
(4) Bonds payable (*1)	30,000	30,176	176
(5) Long–term loans payable (*1)	19,964	20,028	64
Total Liabilities	¥207,821	¥208,061	¥240
Derivative transaction (*2)	¥ 102	¥ 102	¥ —

	Thousands of U.S. dollars		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	$ 618,468	$ 618,468	$ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	1,814,005	1,814,005	—
(3) Accounts receivable – other	295,243	295,243	—
(4) Investment securities	143,225	143,279	54
Total Assets	$2,870,941	$2,870,995	$ 54
Liabilities			
(1) Notes payable, accounts payable for construction contracts and other	$1,199,606	$1,199,606	$ —
(2) Electronically recorded obligations – operating	121,268	121,268	—
(3) Short–term loans payable	164,986	164,986	—
(4) Bonds payable (*1)	282,380	284,036	1,656
(5) Long–term loans payable (*1)	187,918	188,515	597
Total Liabilities	$1,956,158	$1,958,411	$2,253
Derivative transaction (*2)	$ 963	$ 963	$ —

(*1) Bonds payable includes the current portion of bonds payable, and long-term loans payable includes the current portion of long-term loans payable.
(*2) The debit and credit balances recorded by derivative transaction are offset each other.

(Note 1) Calculation method of financial instruments' fair value and securities and derivative transaction

Assets

(1) Cash and deposits, (3) Accounts receivable – other
Since these items are settled within the short term, the fair values are nearly equivalent to the book values therefore the book value is used.
(2) Notes receivable, accounts receivable from completed construction contracts and other
These items' fair values are the present value, discounted by using interest rate determined based on the term until maturity and credit risk with respect to the receivables categorized by a certain period.
(4) Investment securities
The fair value of stocks and bonds present the market values.

Liabilities

(1) Notes payable, accounts payable for construction contracts and other, (2) Electronically recorded obligations - operating, (3) Short-term loans payable
Since these items are settled within short term, the fair values are nearly equivalent to book values, therefore the current book value is used.

(4) Bonds payable, (5) Long-term loans payable
The fair value of these items are calculated by discounting the total of principal and interest using interest rate calculated assuming the loan is newly made or the bond is newly issued.
Long-term loans payable with floating rate is subject to a special treatment of interest rate swap and is calculated by discounting the total of principal and interest, accounted for as if they were integral part of the interest rate swap, by interest rate that is reasonably estimated and applied in the case of similar loan.

Derivative transaction

It is forward exchange contracts, and fair value is calculated by using a forward exchange rate. However the transactions that apply to a special treatment of interest rate swap are accounted for as if they were integral part of the hedged long-term loans payable, its fair value is included in the fair value of long-term loans payable.

(Notes 2) Since unlisted stocks (balance on consolidated balance sheet ¥2,881 million (U.S. $27,121 thousand)) have no market value, have no estimated future cash flows and are quite difficult to recognize the fair value, they are not included in "(4) Investment securities".

(Notes 3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2018

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits				
Deposits	¥ 65,654	¥ —	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts and other	172,667	20,053	—	—
Accounts receivable – other	31,367	—	—	—
Investment securities				
Held–to–maturity bonds				
National and local government bonds	—	157	53	—
Corporate bonds	—	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	—	—
Other	—	—	—	—
Total	¥269,688	¥20,210	¥53	¥—

	Thousands of U.S. dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits				
Deposits	$ 617,978	$ —	$ —	$—
Notes receivable, accounts receivable from completed construction contracts and other	1,625,253	188,752	—	—
Accounts receivable – other	295,243	—	—	—
Investment securities				
Held–to–maturity bonds				
National and local government bonds	—	1,475	497	—
Corporate bonds	—	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	—	—
Other	—	—	—	—
Total	$2,538,475	$190,228	$497	$—

(Note 4) The redemption schedule for short-term and long-term loans, and bonds payable is disclosed in Note 8

21. Segment information

(Segment information)

1. General information about reportable segments

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Company is organized into business units based on their products and services and has four reported segments as follows:

(1) Domestic civil engineering segment ····· Construction of domestic civil engineering and other
(2) Domestic building construction segment ····· Construction of domestic building construction and other
(3) Overseas segment ····· Construction of overseas and other
(4) Domestic real estate development segment ····· Sale or rent of domestic real estate and other

2. Information about basis of measurement of reported segment sales, profit or loss, assets, and other items

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in Note 3. Segment performance is evaluated based on operating profit or loss.

Intersegment sales and transfers are based on prevailing market price.

The Company do not allocate assets to business segments.

3. Information about amount of reportable segment sales, profit or loss, and other items

Millions of yen

Year ended March 31, 2017	Reportable segment					Other (Note1)	Total	Adjustments (Note 2)	Recorded amount on consolidated statement of income (Note 3)
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Domestic real estate development segment	Total				
Net sales:									
Sales to third parties	¥154,890	¥149,867	¥183,560	¥3,951	¥492,268	¥8,068	¥500,336	¥ —	¥ 500,336
Intersegment sales and transfers	455	5	—	142	602	1,955	2,557	(2,557)	—
Total	155,345	149,872	183,560	4,093	492,870	10,023	502,893	(2,557)	500,336
Segment profit	9,696	11,190	2,170	529	23,585	683	24,268	7	24,275
Other item:									
Depreciation	1,998	600	2,534	57	5,189	431	5,620	(6)	5,614

Millions of yen

Year ended March 31, 2018	Reportable segment					Other (Note1)	Total	Adjustments (Note 2)	Recorded amount on consolidated statement of income (Note 3)
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Domestic real estate development segment	Total				
Net sales:									
Sales to third parties	¥183,231	¥140,076	¥195,120	¥577	¥519,004	¥7,898	¥526,902	¥ —	¥ 526,902
Intersegment sales and transfers	679	15	—	146	840	1,855	2,695	(2,695)	—
Total	183,910	140,091	195,120	723	519,844	9,753	529,597	(2,695)	526,902
Segment profit (loss)	14,015	8,129	4,791	(9)	26,926	688	27,614	4	27,618
Other item:									
Depreciation	2,030	562	3,777	55	6,424	427	6,851	(4)	6,847

Thousands of U.S. dollars

Year ended March 31, 2018	Reportable segment					Other (Note1)	Total	Adjustments (Note 2)	Recorded amount on consolidated statement of income (Note 3)
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Domestic real estate development segment	Total				
Net sales:									
Sales to third parties	$1,724,694	$1,318,484	$1,836,598	$5,430	$4,885,206	$74,339	$4,959,545	$ —	$4,959,545
Intersegment sales and transfers	6,388	146	—	1,370	7,904	17,459	25,363	(25,363)	—
Total	1,731,082	1,318,630	1,836,598	6,800	4,893,110	91,798	4,984,908	(25,363)	4,959,545
Segment profit (loss)	131,920	76,514	45,100	(88)	253,446	6,474	259,920	36	259,956
Other item:									
Depreciation	19,108	5,290	35,556	516	60,470	4,012	64,482	(35)	64,447

Notes
(1) Division of "Other" includes shipbuilding, leasing business, insurance business and environment business.
(2) The adjustment of segment profit (loss) is intersegment elimination.
(3) Segment profit is adjusted with operating profit in the consolidated statement of income.

(Related information)

For the year ended March 31, 2017

1. Information of each products and service
   Please refer to above.

2. Geographical information
   (1) Net sales

Japan	Southeast Asia	Other	Total
¥316,776 million	¥177,405 million	¥6,155 million	¥500,336 million

Note: Net sales are based on customer location, and are divided by country or region.

(2) Property, plant and equipment

Japan	Southeast Asia	Other	Total
¥54,183 million	¥17,680 million	¥839 million	¥72,702 million

3. Each main customer

Name of Customer	Net sales	Related segment
Government of Singapore	¥99,629 million	Overseas segment

For the year ended March 31, 2018

1. Information of each products and service
   Please refer to above.

2. Geographical information
   (1) Net sales

Japan	Southeast Asia	Other	Total
¥331,782 million $3,122,948 thousand	¥185,228 million $1,743,490 thousand	¥9,892 million $93,107 thousand	¥526,902 million $4,959,545 thousand

Note: Net sales are based on customer location, and are divided by country or region.

(2) Property, plant and equipment

Japan	Southeast Asia	Other	Total
¥60,099 million $565,687 thousand	¥14,423 million $135,757 thousand	¥3,869 million $36,420 thousand	¥78,391 million $737,864 thousand

3. Each main customer

Name of Customer	Net sales	Related segment
Government of Singapore	¥85,278 million $802,696 thousand	Overseas segment
Ministry of Land, Infrastructure, Transport and Tourism	¥56,628 million $533,023 thousand	Domestic civil engineering segment Domestic building construction segment

(Information related to Impairment loss on fixed assets by reportable segment)

For the year ended March 31, 2017

There is no impairment loss divided by reportable segment.

The amount and contents of impairment loss which is not divided by reportable segment are omitted to disclose to Note 13 Extraordinary losses.

For the year ended March 31, 2018

There is no impairment loss divided by reportable segment.

The amount and contents of impairment loss which is not divided by reportable segment are omitted since they are immaterial.

(Information related to the amortization of goodwill and unamortized balances)

For the year ended March 31, 2017

None

For the year ended March 31, 2018

None

(Information related to gains on negative goodwill by reportable segments)

For the year ended March 31, 2017

None

For the year ended March 31, 2018

None

22. Amounts per share

1. Per share information is summarized as follows:

	Yen		U.S. dollars
	2017	**2018**	**2018**
Net assets per share	¥337.10	**¥392.27**	**$3.69**
Profit attributable to owners of parent per share	53.42	**62.41**	**0.59**

Basic profit attributable to owners of parent per share is calculated by the weighted average number of outstanding common stocks during the year. Incidentally, shares held by BBT are included in treasury shares to be deducted from the average number of shares during of the year in calculating it. The average number of treasury shares issued and outstanding at March 31, 2017 and 2018 were 110 thousand and 387 thousand, respectively, including 276 thousand of shares held by BBT only in 2018.

2. For the year ended March 31, 2017 and 2018, diluted profit attributable to owners of parent per share is not disclosed, because the dilutive potential of shares of common stock is none.

23. Significant subsequent events

Dividends

For the year ended March 31, 2018

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2018, was approved at the annual general shareholders' meeting held on June 26, 2018 and became effective June 27, 2018:

	Millions of yen	Thousands of U.S. dollars
	2018	**2018**
Cash dividends (¥14 (U.S. $0.13) per share)	**¥4,003**	**$37,675**

Dividends for shares held by BBT amounted to ¥6 million are included in dividends in accordance with the resolution at the annual general shareholders' meeting on June 26, 2018.

Independent Auditor's Report

Building a better working world

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Independent Auditor's Report

The Board of Directors
PENTA-OCEAN CONSTRUCTION CO., LTD.

We have audited the accompanying consolidated financial statements of PENTA-OCEAN CONSTRUCTION CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PENTA-OCEAN CONSTRUCTION CO., LTD. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 26, 2018
Tokyo, Japan

Non-Consolidated Financial Statements

Non-Consolidated Five-Year Summary

Penta-Ocean Construction Co., Ltd.
Fiscal years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2014	2015	2016	2017	**2018**	**2018**
Orders received	¥449,146	¥722,341	¥443,182	¥465,939	**¥668,572**	**$6,293,037**
Civil engineering	274,182	405,004	195,832	241,165	**465,190**	**4,378,670**
Building construction	172,482	311,453	244,240	222,656	**202,728**	**1,908,207**
Development business and other	2,482	5,884	3,110	2,118	**654**	**6,160**
Net sales	355,927	393,711	457,862	471,459	**499,165**	**4,698,461**
Civil engineering	191,384	216,009	235,976	251,329	**275,911**	**2,597,058**
Building construction	162,101	175,633	216,925	216,037	**222,531**	**2,094,602**
Development business and other	2,442	2,069	4,961	4,093	**723**	**6,801**
Contract backlog	416,885	762,370	719,343	707,213	**875,260**	**8,238,513**
Civil engineering	251,106	452,830	391,952	378,001	**566,711**	**5,334,257**
Building construction	165,701	305,647	325,349	329,144	**308,549**	**2,904,256**
Development business and other	78	3,893	2,042	68	**—**	**—**
Total assets	283,701	345,576	356,335	355,313	**406,547**	**3,826,683**
Net assets	65,578	69,795	74,456	87,156	**100,345**	**944,513**
Ordinary profit	8,152	9,044	17,807	21,117	**22,932**	**215,852**
Profit before income taxes	7,526	7,611	12,615	20,431	**22,497**	**211,760**
Profit	3,276	4,520	6,855	13,423	**15,790**	**148,621**
Cash dividends	572	1,144	1,715	3,431	**4,003**	**37,675**

Per share of common stock:	Yen					U.S. dollars
Net assets	¥229.37	¥244.12	¥260.43	¥304.84	**¥351.54**	**$3.31**
Profit	11.46	15.81	23.98	46.95	**55.28**	**0.52**
Cash dividends	2.00	4.00	6.00	12.00	**14.00**	**0.13**
Number of employees	2,390	2,441	2,522	2,572	**2,673**	

Note: 1. Figures in U.S. dollars are converted for convenience only, at the rate of ¥106.24 per U.S.$1, prevailing on March 31, 2018.
2. Cash dividends for shares held by BBT amounted to ¥6 million are included in cash dividends above.

Non-Consolidated Balance Sheet

Penta-Ocean Construction Co., Ltd.
As of March 31

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Current assets:			
Cash and deposits	¥ 64,443	**¥ 60,174**	**$ 566,402**
Trade receivables:			
Notes	7,857	**9,619**	**90,537**
Accounts	164,201	**206,422**	**1,942,983**
Subsidiaries and affiliates	5,126	**5,439**	**51,199**
Inventories:			
Costs on uncompleted construction contracts	10,022	**14,112**	**132,835**
Real estate for sale and development projects in progress	3,839	**3,306**	**31,114**
Raw materials and supplies	844	**1,072**	**10,092**
Deferred tax assets	2,484	**2,540**	**23,906**
Other	4,106	**3,021**	**28,423**
Allowance for doubtful accounts	(777)	**(851)**	**(8,010)**
Total current assets	262,145	**304,854**	**2,869,481**
Property, plant and equipment:			
Land	29,884	**31,738**	**298,738**
Buildings and structures	33,224	**33,855**	**318,666**
Machinery, equipment and vehicles	15,331	**17,885**	**168,342**
Dredgers and vessels	28,102	**29,609**	**278,704**
Construction in progress	4,223	**8,125**	**76,478**
Other	350	**356**	**3,345**
Total property, plant and equipment	111,114	**121,568**	**1,144,273**
Less: Accumulated depreciation	(57,755)	**(60,658)**	**(570,953)**
Property, plant and equipment — net	53,359	**60,910**	**573,320**
Intangible assets:	1,370	**1,339**	**12,604**
Investments and other assets:			
Stock of and long-term loans receivable from subsidiaries and affiliates	18,154	**17,517**	**164,878**
Investment securities	15,910	**17,920**	**168,678**
Long-term loans receivable	28	**—**	**—**
Deferred tax assets	253	**—**	**—**
Other	4,423	**5,180**	**48,763**
Allowance for doubtful accounts	(329)	**(1,173)**	**(11,041)**
Total investments and other assets	38,439	**39,444**	**371,278**
Total assets	¥355,313	**¥406,547**	**$3,826,683**

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Current liabilities:			
Short-term loans payable			
Bank	¥ 14,578	**¥15,878**	**$149,455**
Current portion of long–term loans payable and bonds payable	7,853	**17,610**	**165,759**
Trade payable:			
Notes	17,037	**15,575**	**146,600**
Accounts	85,353	**105,966**	**997,418**
Electronically recorded monetary payable	25,411	**12,326**	**116,017**
Subsidiaries and affiliates	6,765	**7,205**	**67,822**
Advance received on uncompleted construction contracts	28,617	**43,980**	**413,971**
Deposits received	28,968	**37,499**	**352,967**
Income taxes payable	5,273	**5,362**	**50,470**
Provision for loss on construction contracts	2,023	**1,328**	**12,501**
Provision for warranties for completed construction	1,552	**1,457**	**13,715**
Other provision	1,998	**2,298**	**21,630**
Other	2,359	**2,363**	**22,240**
Total current liabilities	227,787	**268,847**	**2,530,565**
Non–current liabilities:			
Bonds payable	20,000	**20,000**	**188,253**
Long–term loans payable	15,590	**12,354**	**116,286**
Provision for retirement benefits	787	**743**	**6,996**
Provision for board benefit trust	—	**87**	**818**
Deferred tax liabilities	—	**174**	**1,637**
Deferred tax liabilities for land revaluation	3,691	**3,680**	**34,634**
Other	302	**317**	**2,981**
Total non–current liabilities	40,370	**37,355**	**351,605**
Total liabilities	268,157	**306,202**	**2,882,170**
Net assets:			
Capital stock	30,450	**30,450**	**286,615**
Authorized — 599,135,000 shares			
Issued shares — 286,013,910 shares in 2017 and 2018			
Capital surplus			
Legal capital surplus	12,380	**12,380**	**116,525**
Other capital surplus	6,007	**6,007**	**56,543**
Total capital surplus	18,387	**18,387**	**173,068**
Retained earnings			
Reserve for advanced depreciation of non–current assets	112	**99**	**936**
General reserve	10,000	**20,000**	**188,253**
Retained earnings brought forward	21,001	**23,383**	**220,096**
Total retained earnings	31,113	**43,482**	**409,285**
Less: Treasury stock	(26)	**(326)**	**(3,070)**
Valuation difference on available–for–sale securities	3,242	**4,434**	**41,736**
Deferred gains or losses on hedges	69	**8**	**72**
Revaluation reserve for land	3,921	**3,910**	**36,807**
Total net assets	87,156	**100,345**	**944,513**
Total liabilities and net assets	¥355,313	**¥406,547**	**$3,826,683**

Non-Consolidated Statement of income

Penta-Ocean Construction Co., Ltd.
For the years ended March 31

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Construction business:			
Net sales	¥467,366	**¥498,442**	**$4,691,660**
Cost of sales	431,149	**457,753**	**4,308,669**
Gross profit	36,217	**40,689**	**382,991**
Development business and other:			
Net sales	4,093	**723**	**6,801**
Cost of sales	3,403	**686**	**6,449**
Gross profit	690	**37**	**352**
Total:			
Total net sales	471,459	**499,165**	**4,698,461**
Total cost of sales	434,552	**458,439**	**4,315,118**
Total gross profit	36,907	**40,726**	**383,343**
Selling, general and administrative expenses	15,251	**15,938**	**150,024**
Operating profit	21,656	**24,788**	**233,319**
Non–operating income:			
Interest and dividends income	606	**473**	**4,455**
Interest and dividends income from subsidiaries and affiliates	277	**232**	**2,185**
Other	381	**260**	**2,443**
	1,264	**965**	**9,083**
Non–operating expenses:			
Interest expenses	799	**726**	**6,831**
Provision of allowance for doubtful accounts	12	**952**	**8,961**
Foreign exchange losses	850	**915**	**8,614**
Other	142	**228**	**2,144**
	1,803	**2,821**	**26,550**
Ordinary profit	21,117	**22,932**	**215,852**
Extraordinary income	103	**108**	**1,018**
Extraordinary losses	789	**543**	**5,110**
Profit before income taxes	20,431	**22,497**	**211,760**
Income taxes:			
Current	7,066	**6,838**	**64,359**
Deferred	(58)	**(131)**	**(1,220)**
Total income taxes	7,008	**6,707**	**63,139**
Profit	¥ 13,423	**¥ 15,790**	**$ 148,621**

Profit per share of common stock

	Yen		U.S. dollars
Basic	¥ 46.95	**¥ 55.28**	**$ 0.52**

Company Outline

(As of March 31, 2018)

Company Name	Penta–Ocean Construction Co., Ltd.
Founded	April 1896
Established	April 1950
Headquarters	2–8, Koraku 2–chome, Bunkyo–ku, Tokyo 112–8576, Japan Tel: 81–3–3817–7181 Fax: 81–3–3817–7642
Paid–in Capital	¥30,450 million (U.S.$286.6 million)
Employees	2,673 (3,175 consolidated)
Website	http://www.penta–ocean.co.jp

Members of the Board and Audit & Supervisory Board Members

(As of June 26, 2018)

President, Chief Executive Officer and Representative Director

Takuzo Shimizu

Executive Vice President, Representative Director

Kazuya Ueda Akihiko Togo

Members of the Board

Tetsushi Noguchi Ryoji Tahara Michio Inatomi
Hiroshi Watanabe Tomoyuki Yamashita Yasuhiro Kawashima*
Hidenori Takahashi* Naoki Furuya*

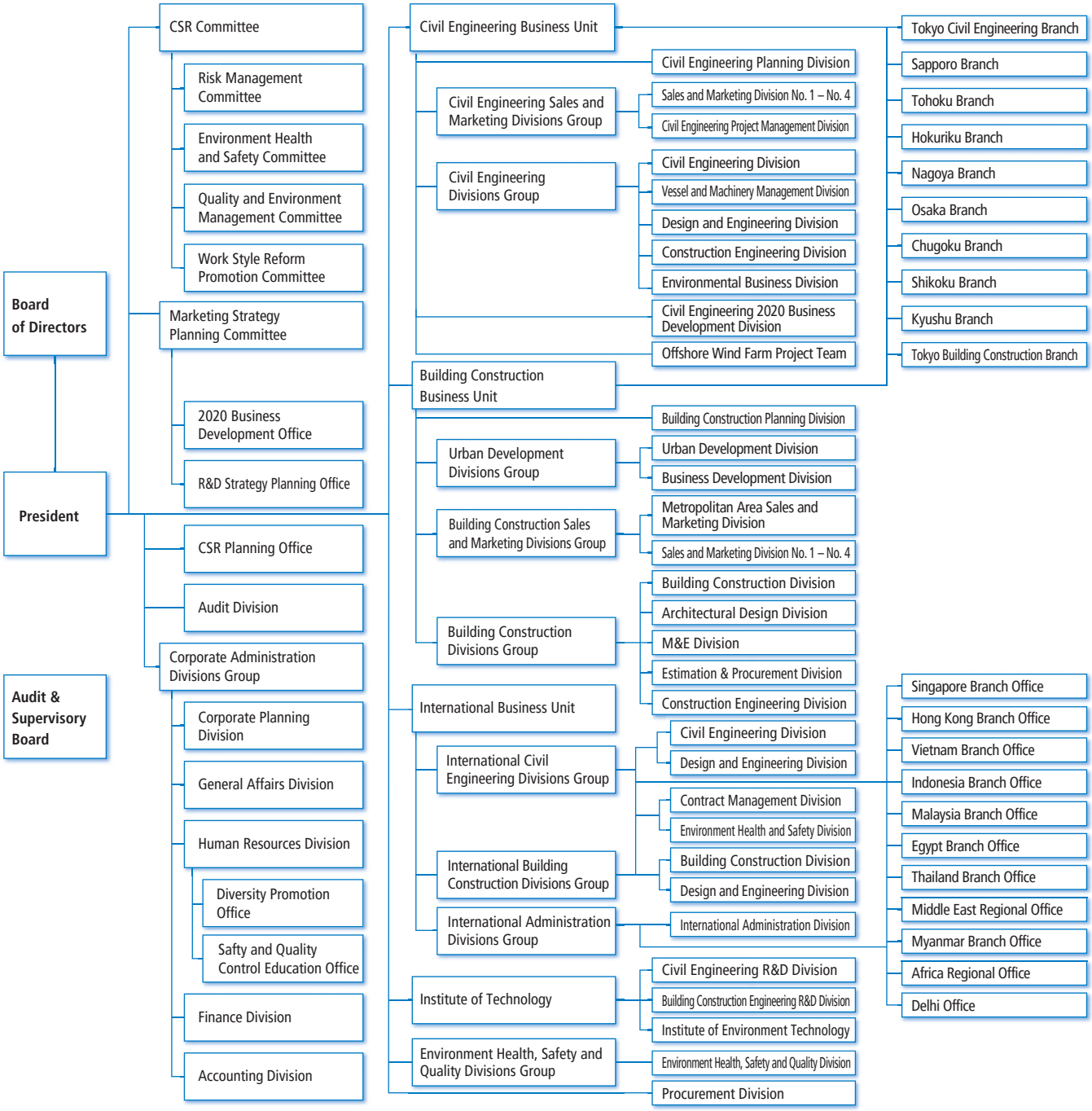
Audit & Supervisory Board Members

Takeshi Miyazono Hironaga Fukuda* Yoshiaki Ohashi*
Kyota Shigemoto*

* Indicates external members.

Organization Chart

(As of June 5, 2018)



Penta–Ocean Construction Network

(As of July 31, 2018)

❶ Headquarters
2–2–8, Koraku, Bunkyo–ku, Tokyo 112–8576, Japan
Tel: 81–3–3817–7181 Fax: 81–3–3817–7642

❷ International Business Unit Headquarters in Singapore -International Civil Engineering Divisions Group -International Building Construction Divisions Group Singapore Branch Office
1 HarbourFront Place, #13-01 HarbourFront Tower One,
Singapore 098633
Tel: 65–6338–8966 Fax: 65–6337–0987

❸ Hong Kong Branch Office
Unit 601, K Wah Centre, 191 Java Road, North Point,
Hong Kong
Tel: 852–2833–1098 Fax: 852–2572–4080

❹ Vietnam Branch Office
4th Floor, 18 Tran Hung Dao Street, Hanoi, Vietnam
Tel: 84–24–3824–1360 Fax: 84–24–3824–1444

❺ Indonesia Branch Office
Mid Plaza II, 24th Floor, JL. Jenderal Sudirman Kav. 10–11,
Jakarta 10220, Indonesia
Tel: 62–21–570–5484 Fax: 62–21–570–5485

❻ Malaysia Branch Office
Suite 3B–20–6, Level 20, Block 3B Plaza Sentral,
Jalan Stesen Sentral 5
Kuala Lumpur Sentral 50470 Kuala Lumpur, Malaysia
Tel: 60–3–2260–6736 Fax: 60–3–2260–6737

❼ Egypt Branch Office
27 El Falah Street, off Shehab Street, Flat No. 5, 2nd Floor,
Mohandeseen, Giza, Egypt
Tel: 20-2–3345–3207 Fax: 20–2–3345–3206

❽ Thailand Branch Office
17th Floor, Room 1704, Vanit II Building, 1126/2
New Petchburi Road, Makkasan Rajthevee,
Bangkok 10400, Thailand
Tel: 66–2–069–2183 Fax: 66–2–069–2185

❾ Middle East Regional Office
Office No.15327, Jafza LOB 15, P.O. Box 118791, Dubai, U.A.E.
Tel: 971–4–880–8824 Fax: 971–4–880–8834

❿ Myanmar Branch Office
Room 202, La Pyi Wun Plaza, No.37 Alanpya Pagoda Road,
Dagon Township, Yangon 11191, Myanmar
Tel: 95–1–370839 Fax: 95–1–370839

⓫ Africa Regional Office
Av. Julius Nyerere, no. 140, 5 Andar, Maputo, Mozambique
Tel: 258–84–8666114 Fax: 258–21–483144

⓬ Delhi Office
Unit No.1120, 11th Floor, JMD Megapolis, Sector-48, Sohana Road,
Gurgaon–122018, Haryana, India
Tel: 91–124–436 8355 Fax: 91–124–436 8356

Penta–Ocean Construction Group

(As of March 31, 2018)

Consolidated Affiliates

Penta–Ocean Dredging Co., Ltd.	Tokyo, Japan
Yoshin Construction Co., Ltd.	Hiroshima, Japan
Penta Builders Corporation	Tokyo, Japan
Kegoya Dock Co., Ltd.	Hiroshima, Japan
Penta Techno Service Co., Ltd.	Tochigi, Japan
Sand Techno Co., Ltd.	Chiba, Japan
Domi Environmental Solutions Co., Ltd.	Tokyo, Japan
Penta Insurance Services Co., Ltd.	Tokyo, Japan
Jaiwat Co., Ltd.	Miyagi, Japan
Miki Biotech Co., Ltd.	Hyogo, Japan
Penta–Ocean Marine Holdings Pte. Ltd.	Singapore
Andromeda Five Pte. Ltd.	Singapore
Cassiopeia Five Pte. Ltd.	Singapore
Mercury Five Pte. Ltd.	Singapore
Mars Five Pte. Ltd.	Singapore
Cherry Five Pte. Ltd.	Singapore
Penta–Ocean (Malaysia) SDN. BHD.	Malaysia
Angkutlaut Ltd.	Malaysia
PT. Penta Ocean Construction	Indonesia
Siam Goyo Co., Ltd.	Thailand
Thai Penta–Ocean Co., Ltd.	Thailand
Penta–Ocean Construction (Hong Kong) Ltd.	Hong Kong
Penta–Ocean Construction (India) Pvt. Ltd.	India
Brichwood Co., Ltd.	Hong Kong
Penta–Ocean Technology Information Advisory (Shenzhen) Ltd.	China

Equity Affiliate

Haneda International Airport Apron PFI Co., Ltd.	Tokyo, Japan

Non–Equity Affiliates

Miyajima Aqua Partners Co., Ltd.	Hiroshima, Japan
Matsuyama Environment Technology Co., Ltd.	Ehime, Japan
Wakkanai Environment Technology Co., Ltd.	Hokkaido, Japan
Zentsuji, Kotohira, and Tadotsu School meal Supplier Co., Ltd.	Kagawa, Japan

Investor Information

(As of March 31, 2018)

Fiscal Year April 1 – March 31

Common Stock Authorized: 599,135,000
Issued: 285,902,666 (excluding 111,244 shares of treasury stock)

Stock Listing First Section of the Tokyo and Nagoya Stock Exchanges

Shareholders 31,190

Transfer Agency Mizuho Trust & Banking Co., Ltd.
2–8–4, Izumi, Suginami–ku,
Tokyo 168–8507, Japan

Major Shareholders

Shareholders	Number of shares held (thousands)	Percentage of shares held (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	36,108	12.6
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,242	6.7
Mizuho Bank, Ltd.	7,059	2.5
Meiji Yasuda Life Insurance Company	6,656	2.3
Trust & Custody Services Bank, Ltd. (Security Investment Trust Account)	5,431	1.9
STATE STREET BANK AND TRUST COMPANY 505103	5,257	1.8
Japan Trustee Services Bank, Ltd. (Trust Account 5)	5,090	1.8
JUNIPER	4,547	1.6
Sompo Japan Nipponkoa Insurance Inc.	4,280	1.5
GOVERNMENT OF NORWAY	4,127	1.4

www.penta-ocean.co.jp

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