

Penta-Ocean Construction Annual Report 2017

Year Ended March 31, 2017



GOING FURTHER

その先の向こうへ

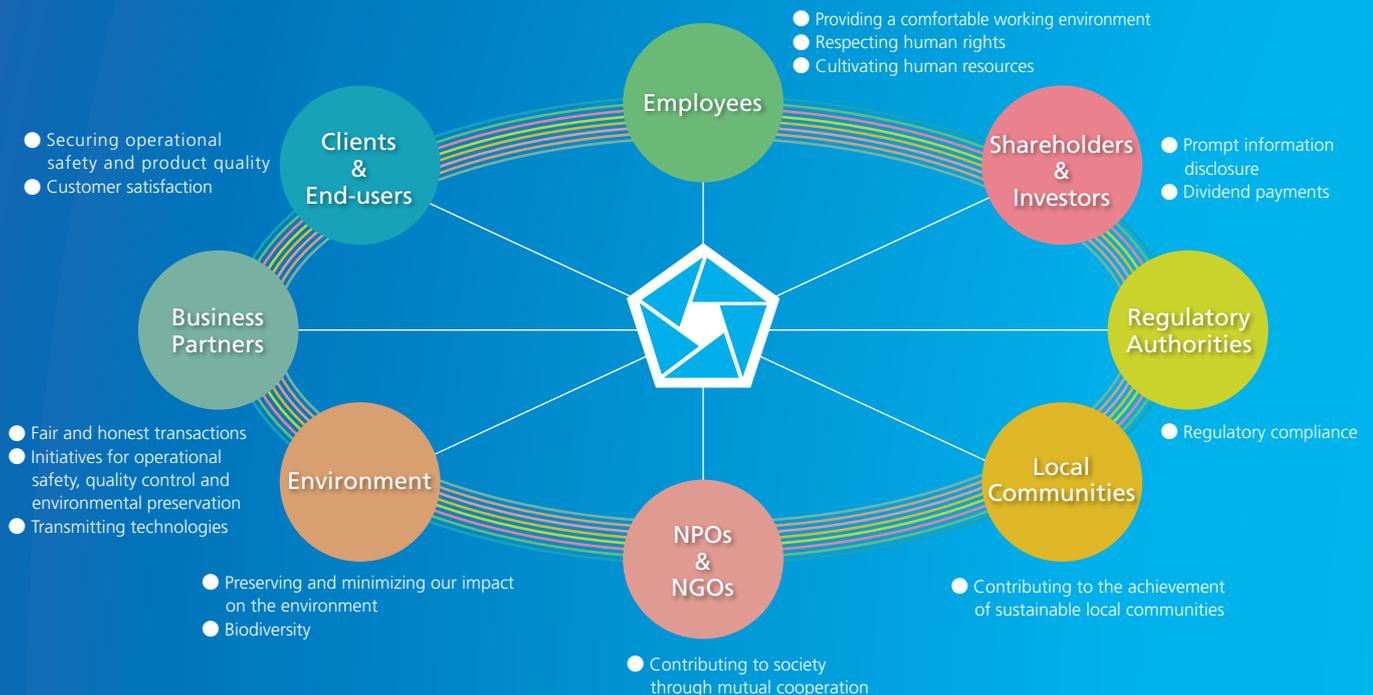
GOING FURTHER

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. Today, after our founding, a mentality of continually seeking challenges in new fields remains part of our 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



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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 rich social environment through our earth conscientious operations.

Cherishing a Pioneering Spirit

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

Corporate Visions

“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



Contribution to the
sustained growth
of society

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 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)

1960



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

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)

1990



Completion of the World Cargo Distribution Center (1993)

1996



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



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



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)

Historical Events

1896

First modern Olympic Games (1896)

Great Kanto Earthquake (1923)
World War 2 (1939-1945)

Arab- Israeli Conflict (1948-1973)

1950

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

1996

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, 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)



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



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

2020



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



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



Completion of Kure City Hall (2015)

Contracts awarded for consecutive construction of large-scale hospitals in Singapore (2014,2016)

2000

Adoption of the Kyoto Protocol (1997)
Nagano Olympic Winter Games (1998)

September 11 attacks, USA (2001)

Iraq War (2003)

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

2010

Bankruptcy of Lehman Brothers (2008)

Great East Japan Earthquake (2011)

2020

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

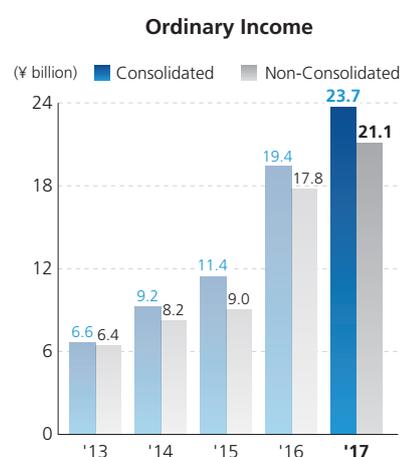
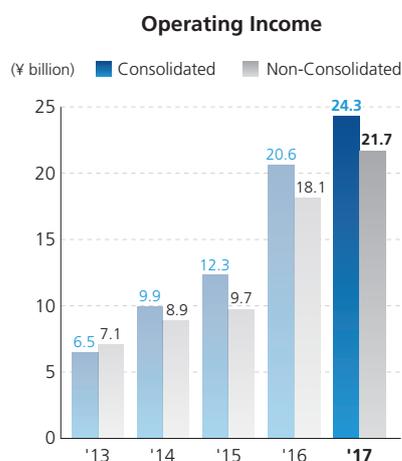
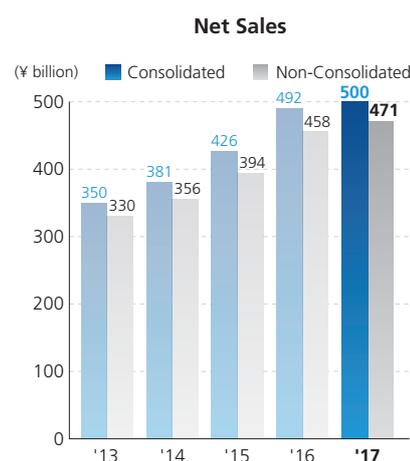
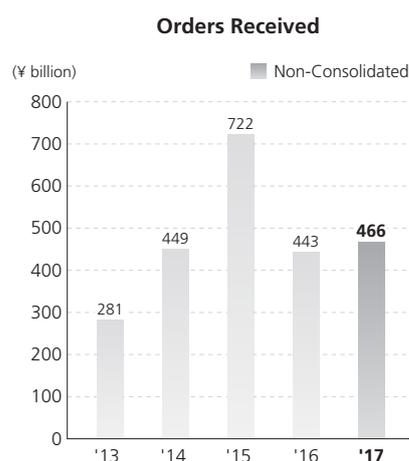
Consolidated Financial Highlights

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Net Sales	¥491,564	¥500,336	\$4,459,722
Total Assets	378,766	372,311	3,318,576
Net Assets Excluding Non-Controlling Interests	80,588	96,377	859,052
Ordinary Income	19,409	23,709	211,330
Income before Income Taxes and Non-Controlling Interests	14,242	23,028	205,258
Net Income	7,806	15,272	136,124
Cash Dividends	1,715	3,431	30,581

Per share of common stock:	Yen		U.S. dollars
	2016	2017	2017
Net Assets Excluding Non-Controlling Interests	¥281.87	¥337.10	\$3.00
Net Income	27.30	53.42	0.48
Cash Dividends	6.00	12.00	0.11

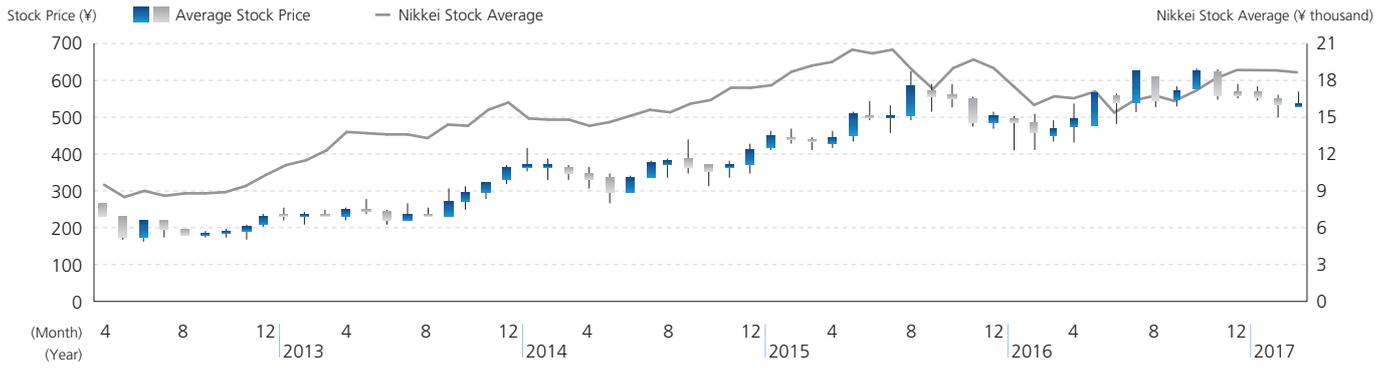
Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥112.19 per U.S.\$1, prevailing on March 31, 2017.



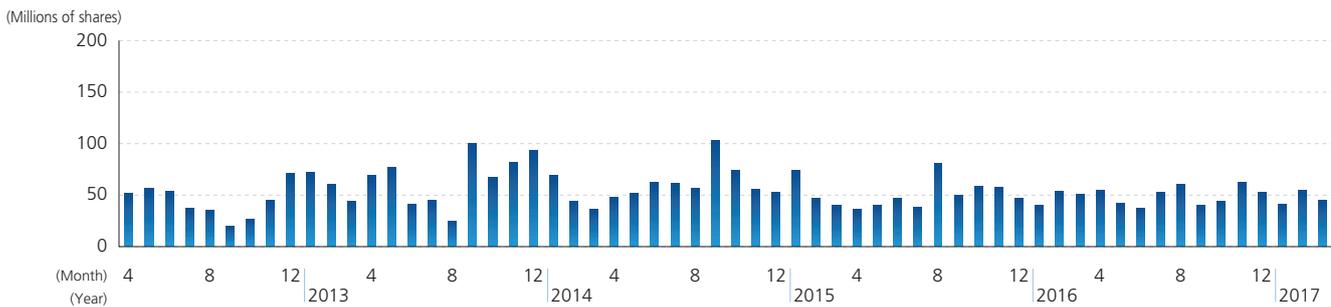
Disclaimer

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.

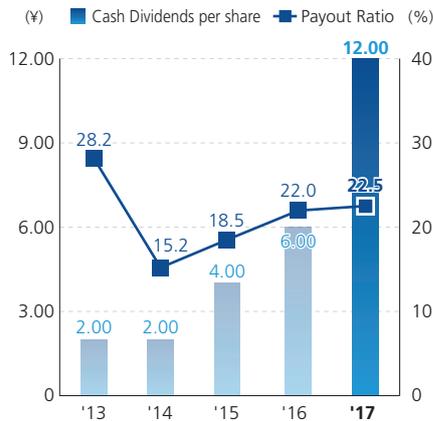
Stock Price Range



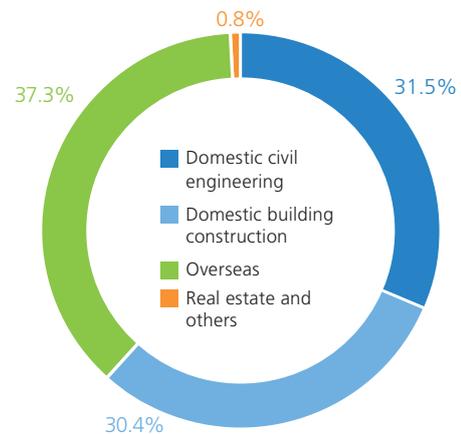
Trading Volume



Cash Dividends per Share and Payout Ratio



Sales by Segments

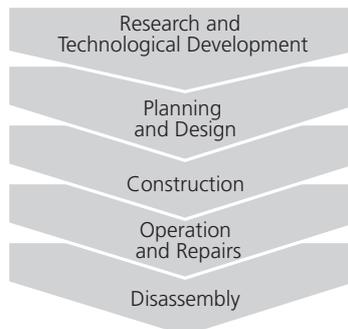


Business Activities and Environmental Burden

INPUT

Power (kWh)*	20,399,000
Light oil (kl)	21,388,000
Heavy oil (kl)	30,551,000
Kerosene (kl)*	153,000
Concrete (t)	13,068,000
Asphalt concrete (t)	643,000
Rubble (m ³)	8,232,000
Earth and sand (m ³)	28,509,000

* Site + office combined number



OUTPUT

Amount of CO ₂ emissions (t-CO ₂)	134,000
Amount of construction waste (t)	420,000
Final disposal rate (%)	4.3
Recycling rate (%)	95.7
Amount of soil generated from construction (m ³)	1,537,000

Environmental conservation/
restoration and communication

Creation of abundant environments

Handing over to the
next generation

Message from the President



"We are aiming to become a globally No.1 contractor in port, coastal and waterfront areas."

T. Shimizu

Takuzo Shimizu
President, Chief Executive Officer and Representative Director

Penta-Ocean Construction Co., Ltd. is now celebrating its 121st anniversary since its founding as Mizuno Gumi in Kure City, Hiroshima Prefecture in 1896. Our initial business in marine civil engineering works has significantly expanded to land civil engineering works and building construction works. We have had historical involvement in numerous and notable major projects overseas, particularly the Suez Canal Widening and Deepening project in Egypt, etc. This year is the 53rd year since the establishment of our Singapore Branch Office. This office has also functioned as the headquarters of our International Business Unit since April of 2015. We are now aiming to become a globally No.1 contractor in port, coastal and waterfront areas. Therefore, we will continue consistent efforts to thoroughly master the contracting business and pursue a professional behavior.

The business environment surrounding the construction industry remains favorable both in Japan and overseas. In addition to steady public and private investments with the implementation of Abenomics, construction projects related to the Tokyo Olympic and Paralympic Games will enter a crucial stage, and increasing inbound related demand, such as for cruise terminals, accommodation facilities and commercial

facilities, is expected. In the overseas market, we also anticipate continued healthy investment in construction projects in Singapore and Hong Kong, which are our bases. Furthermore, we expect the expansion of infrastructure investment in Southeast Asia and Africa owing to the government's promotion of high quality infrastructure exports.

FY3/17 was the final fiscal year of our Medium Term Management Plan. Thanks to plenty of backlog of construction projects and improvement of our construction margin, our company could record our highest profit in three consecutive terms as well as an increase in both sales and profits for three consecutive terms. In our new Medium Term Management Plan for three years, whose beginning year is FY3/18, our goal in the final fiscal year, FY3/20, is for 580 billion yen in net sales, 17 billion yen in net income and a 30% or higher equity ratio.

Penta-Ocean Construction Group is practicing CSR management in thinking that our greatest contribution to society is the construction of superior infrastructure. We will establish a corporate culture of openness while always having high ethical standards and cherishing technologies, and build a workplace where diverse personnel can actively work, regardless of gender or nationality.



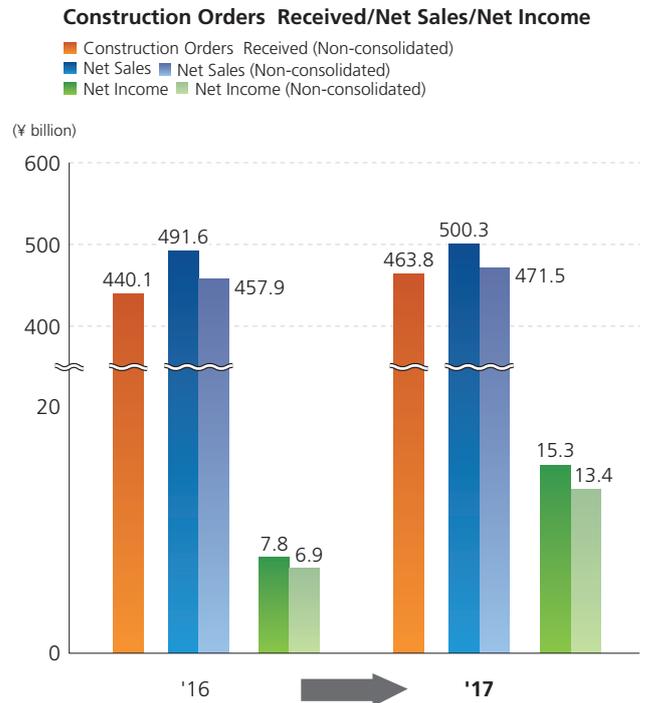
Could you explain the consolidated results in FY3/17?



All three units of domestic civil engineering, domestic building construction and overseas vastly increased their amount of construction compared to the targets of the plan. The increase in the profit of the domestic building construction unit was also remarkable and all three units gradually established organization together for well-balanced profit contribution.

In FY3/17, net sales were 500.3 billion yen (1.8% increase from FY3/16), operating income was 23.7 billion yen (17.7% increase from FY3/16), ordinary income was 23.7 billion yen (22.2% increase from FY3/16), profit attributable to owners of parent was 15.2 billion yen (95.6% increase from FY3/16).

In addition, further improvement of our financial standing including the adequacy of our equity capital, reduction in our interest-bearing debt or improvement in our ROE has been achieved, which has led to a dividend increase for three consecutive terms.

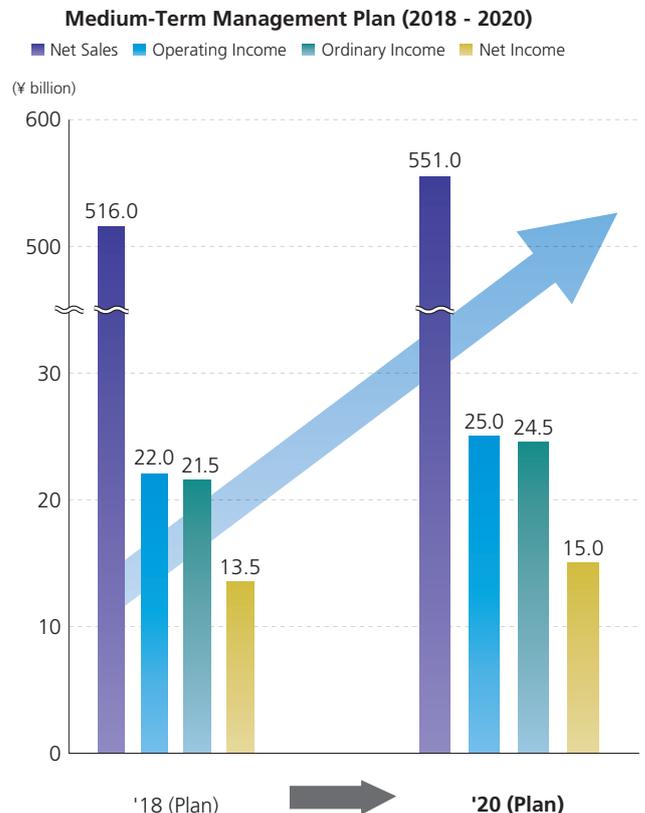


Could you explain the New Medium-Term Management Plan?



In our new management plan, oriented to FY3/22, we will build strong foundations and aim to gradually expand our business considering our 125th anniversary. As a manufacturing company, we will enhance our sales force supported by technology, on-site capabilities and technical strengths. Additionally, we will master the contracting business, and make sure to take on the challenge of works worth being done as Penta Ocean Construction. Our goal in the final fiscal year, FY3/20, is 580 billion yen in net sales (15.9% increase from FY3/17), 17 billion yen in net income (11.3% increase from FY3/17) and a 30% or higher equity ratio.

In order to secure our workforce in the future, we will prevent long working hours, promote working style reforms for scheduled acquisition of holidays, and strive to realize a two-day weekend system. For that purpose, it is essential to increase productivity. While proactively pursuing the systemic innovation of construction production backed by technologies, such as computerized construction methods by utilizing ICT, labor saving and industrialized methods, we will achieve safety and quality improvement as well as an increase in productivity.



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

Now, we have established our "Medium-Term Management Plan (FY3/18 to 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

Globally No.1 contractor in port, coastal and waterfront areas
(a corporate group that constantly achieves net sale exceeding \$500 billion)

Basic Policies

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 operation and technology: "Mastering the contracting business"

- Reinforcing site operation 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 the Penta-Ocean Standards of Safety and Quality
- Future-oriented business development: Offshore wind power plants, and recycling of construction generated sludge and dredged soil, etc.

2

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

- Development of productivity improvement technology and its active introduction to construction sites
- Promotion of labor-saving, industrialization, robotization, ICT/AI and BIM/CIM
- Company-wide collaboration across units (Domestic vs. Overseas and Civil Engineering vs. Building Construction)

3

Securing and nurturing our future work force and promoting work style reform: Realized by productivity enhancement

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

4

Initiatives for CSR based management: Stakeholder oriented management

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

Earnings Targets under Management Plan

Medium-Term Management Plan

(¥ billion)

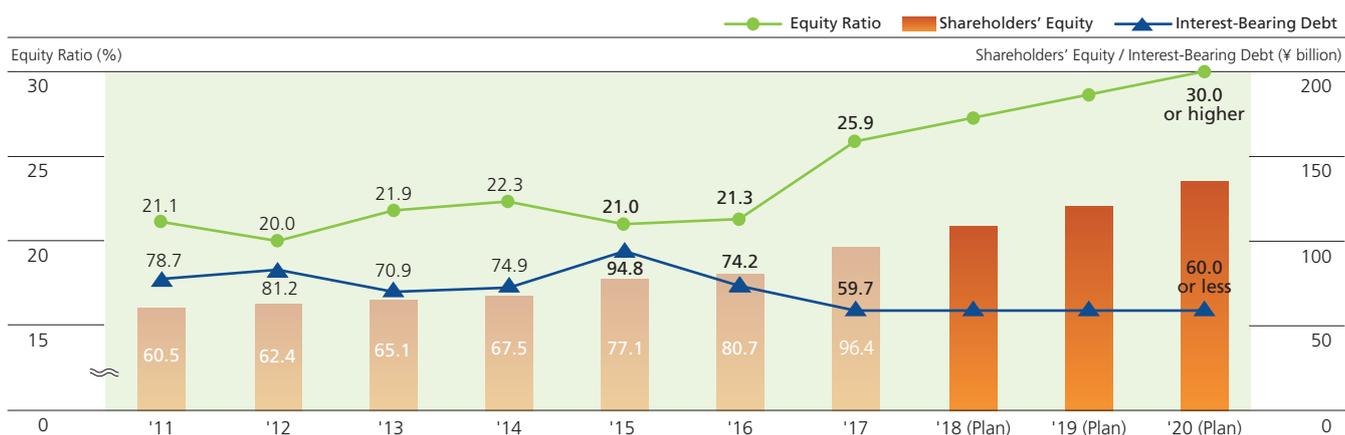
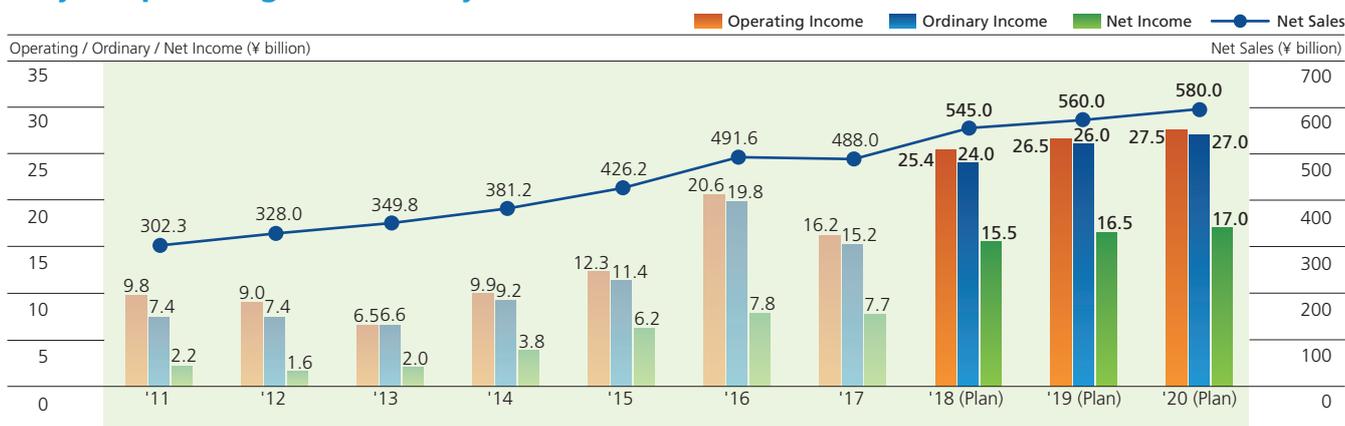
	FY 3/17 Result		FY 3/20 Plan	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Construction Orders Received	—	¥463.8	—	¥500.0
Net Sales	¥500.3	471.5	¥580.0	551.0
Gross Profit	40.9	36.9	47.0	43.0
Operating Income	24.3	21.7	27.5	25.0
Ordinary Income	23.7	21.1	27.0	24.5
Net Income	15.3	13.4	17.0	15.0
Earnings Per Share (¥)	53.4	47.0	59.5	52.5

Earnings Targets

Consolidated Financial Targets

Equity Ratio	25.9%	30.0% or higher
Interest-Bearing Debt (¥ billion)	¥59.7	¥60.0 or less
Net D/E Ratio	(0.1)times	about 0.2times
ROE	17.3%	8% or higher
Payout Ratio	22.5%	20~25%

Major Operating Trends/Projection (Consolidated)



Mastering the Contracting Business

As a unique general contractor with distinctive features in port, coastal and waterfront areas, as well as overseas, our company is pursuing consistent efforts to thoroughly master the contracting business through manufacturing toward FY3/22, our 125th anniversary. Our company is a human-and-technology-oriented company with high ethical standards, which aggressively continues to challenge any business worth doing.

Mastering the Contracting Business

As a professional contractor, we place ourselves in our customers' or end-users' positions to provide integrated services from the planning and designing stages through construction and maintenance.



Discussion with Employees Theme: Mastering the Contracting Business

Enhancement of Technology



Tetsushi Noguchi

Managing Executive officer,
Member of the Board,
Head of Civil Engineering Divisions Group,
Civil Engineering Business Unit

■ Achievements and Trust

Our construction industry concludes contracts with customers before providing what we constructed for them. This is the main difference from other general manufacturing industries. We have to conclude a contract first before starting construction. Therefore, we must gain the trust of our customers, which cannot be achieved until our technology is endorsed. The required technology changes with the times. Our company dedicates itself to technology every day as our most important management policy. To "master the contracting business," we think assessing the technology field currently required and continuing to pursue the cutting-edge level in the field are needed.

■ Social Contribution by Technology

Can we contribute to society? We must be aware that this question is always being asked. Infrastructure development contributing to the next generation may be an issue to be considered by the government or business operators. However, we believe that this very social contribution is implemented with consideration of "By when, how much, how to construct? How do we perform maintenance?" We want to continue to be a company which doesn't just simply construct based on drawings, but can consider how we should construct in cooperation with our customers. Therefore, we will have to continue to enhance technology required by our customers constantly.



SEP-type multipurpose crane vessel
(Scheduled to be completed in 2018)



Tokyo International Airport Runway D
(at the time of execution)

Productivity Improvement

◎ Civil Engineering Business Unit



Tsunehiro Sekimoto

Executive Officer:
Executive of the Institute of Technology

- *1: Information Construction (Introduction of information technology to construction sites)
- *2: Information & Communication Technology
- *3: Civil Information Modeling/Management (Management system by 3D display in civil engineering construction)
- *4: Artificial Intelligence

■ Promotion of i-Construction

Promoting i-Construction*¹ to improve the productivity of construction sites is expected to lead to “work style reform” and “securing human resources” for the next generation of the construction industry. Saving labor and promoting efficiency in construction are called for by making use of ICT*² or the precast construction method to perform design or construction based on 3D data. Now, our company is also proactively developing technology to promote ICT and the precast construction method in construction sites. In addition, we started to apply CIM*³, enabling reproducing construction in computers, to marine civil projects earlier than any other company. Furthermore, we are going to promote the utilization of AI*⁴ from design to construction.

■ Aim for Overall Optimization

We think investigating and developing technology with a viewpoint of overall optimization will greatly contribute to productivity improvement. For example, when a caisson-type breakwater with long extension is built, constructing caissons whose cross section is the same even if the safety level is somewhat excessive may be more economical than considering caissons reasonable for design wave for each water depth. Although local optimization is important, promoting overall optimization considering planning, design as well as construction is expected not only in the cost and construction period but also in quality.



Usage example of the precast concrete construction method

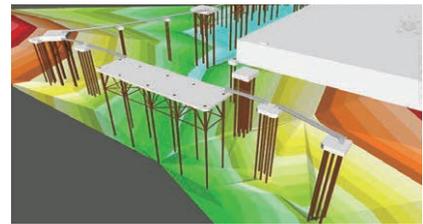


Image of CIM

◎ Building Construction Business Unit



Nario Yoshida

Executive Officer:
Executive of the Building Construction Business Unit

- *Building Information Modeling (Management system by 3D display in building construction)

■ Promotion of Labor Saving and Automation

Building construction consists of a lot of materials and types of work, so we promote labor saving and industrialization to improve productivity of site construction. At construction sites, we positively introduce technology to industrialize and unitize components of the buildings such as columns, beams or walls for labor savings. At the design stage, we are introducing the industrialization method and developing the structural work method or construction technology for labor saving in design construction works. We promote and share the site application of these construction technologies, leading to an improvement of the construction quality of the entire company and productivity.

■ Introduction of ICT Technology and BIM

To achieve the work efficiency from design to construction management, as well as productivity improvement of site construction, we promote informatization construction by the introduction of ICT technology and utilization of BIM*, in which a building is displayed in 3D in the same way as CIM. We also promote work efficiency in site management and inspections such as information sharing and inspection recording by making use of ICT tablet terminals. In addition, our company has already established a lot of achievements in Singapore, where BIM is mandatory and preceding. Now, we arrange BIM utilizing technology through cooperation in Japan and overseas and promote the efficiency of site work by the early determination and accuracy improvement of construction plans or drawings, leading to improvement of construction quality and productivity.



Adoption of column precast/beam steel frame structure construction method to design construction project



Utilization of BIM in a General Hospital in Singapore

Diversified Human Resources

Female Engineer

Passion for Constructing

I joined the company 19 years ago since I was attracted to “manufacturing” and hoped to directly engage in construction. I dared to choose the civil engineering field with a huge scale and where few women work. My first job was in the construction of Kansai International Airport. I learned at the site to build a relationship of trust with customers or partner companies and “constructing quality structure with our advanced technology.” This is the most important foundation to “master the contracting business”. I was later assigned to the Institute of Technology and the Civil Engineering Design Department I currently belong to, I have always carried out business activities keeping in mind to use our technologies to provide the best quality for our customers.



Kaori Oshima

Senior Manager
Design and Engineering Division,
Civil Engineering Divisions Group,
Civil Engineering Business Unit

It has been seven years since I joined Penta-Ocean with a strong desire to work abroad, and this year is my third year in Singapore. Now, I am working in large hospital construction and making shop drawings and coordinating in the BIM model. Before working abroad, I was completely absorbed in working to keep up with site management. After coming to Singapore, I started to think about what “contracts” and “contracting business” are. Thinking about business from the foundation changed my viewpoint of details following them such as the conditions of contract or construction range, etc. I think acquiring more experience and knowledge through site works or technical coordination, taking on the challenge of new things such as BIM and expanding my skill as an engineer will ultimately lead to “mastering the contracting business” for years to come.



Kyo Fujioka

Architectural coordinator
Singapore Sengkang General and
Community Hospitals Construction
project

Foreign Engineer

To Be a Real “Global Contractor”

With the globalization of the world economy, the challenges and competition faced by contractors in securing projects in the global construction market have become more intense. Customers and end-users have become more informed and demanding in the expectation of the end products. To be a real “Global Contractor,” our company must “master the contracting business.” It is essential to know our customers and end-users’ expectations before we embark on conceptualization, planning and designing of a project by enhancing collaboration across all stakeholders. We regard continuously carrying out the pursuit of safety, reduction of energy consumption, enhancement of technology and enhancement of human resources as the mission entrusted to our company.

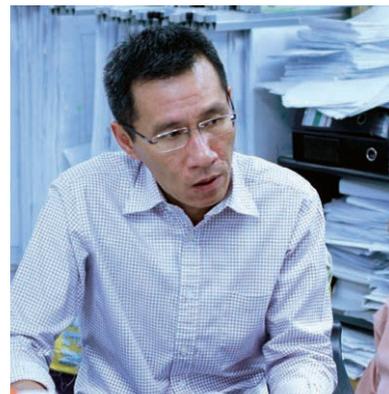


Ong Ai Bin

Executive General Manager, Deputy
Head of International Civil
Construction Divisions Group
International Business Unit

Since I started working in Penta-Ocean in 2009, I have witnessed the Company’s shift in emphasis to achieving high customer satisfaction. Ensuring timely project completion and high quality and EHS* standard are extremely important. As one of the leading Global Contractor, the Company embraces huge social responsibility and potential. I’m currently in charge of the construction of a large hospital and working for completion with staff from 10 countries. Our company comes up with diversity as a management policy and gathers a wide range of excellent talent. It is necessary for us to capitalize on our expertise across our diverse portfolio to “master the contracting business” in a professional way.

*Environment and Health and Safety



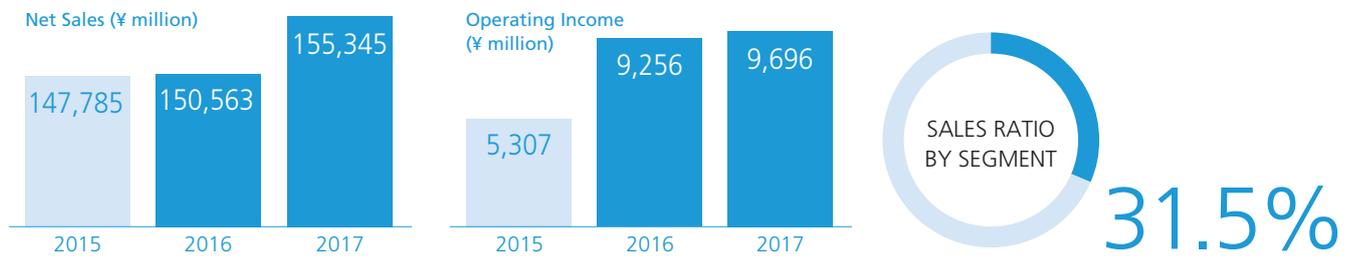
John Koh

Project Manager
Singapore Sengkang General and
Community Hospitals Construction
project

Major Projects in 2016

We will introduce some examples of our construction work that are contributing to domestic and overseas social infrastructure and regional development.

Domestic Civil Engineering



Construction of the Slag Shipment Berth for Nippon Steel & Sumitomo Metal Corporation

Oita Prefecture

This steel factory possesses two of the world's biggest blast furnaces and is an important base for crude steel production sharing 10% of its domestic market. In this work, we constructed a dedicated loading berth for shipping granulated blast-furnace slag created as a by-product through the pig iron manufacturing process and a connecting bridge to the existing berths. The dedicated berth offers a ship loader and conveyor belt, which enables the shipment of granulated blast furnace slag effectively and continuously. Furthermore, since the shipment of granulated blast furnace slag, which had been conducted at the product wharf, is done at the new berth, the product wharf has spare capacity, which is expected to improve the ability to ship steel products.

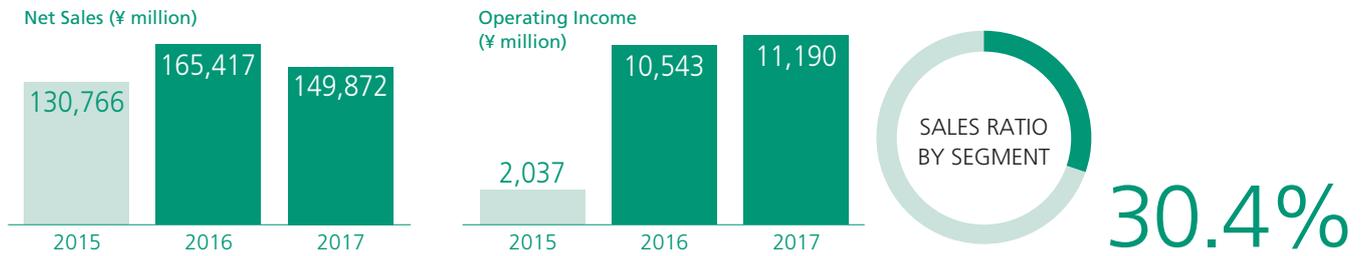


Construction of Kita-Bessho Elevated Bridge for Kihoku-Nishi Road

Wakayama Prefecture

This work is to develop the Kihoku-nishi Road, which is the last section of Kinara Expressway Project in Wakayama Prefecture connecting Kyoto, Nara and Wakayama. We constructed the superstructure and substructure of Kita-Bessho elevated bridge with a length of 559m. Since we had to build five bridge piers with a maximum height of up to 70m, we went through extremely strict conditions, due to the restrictions regarding the adjacent Hanwa Expressway. Owing to its opening as one section of the Konawa Expressway in March 2017, the road contributes to less traffic congestion on general roads and local revitalization in various fields such as distribution, disaster prevention and tourism.

Domestic Building Construction



High Staff Hall (Kan-Onji City Center Hall)

Kagawa Prefecture

This hall was built as a new central culture and art facility of Kan-onji City, Kagawa Prefecture. It consists of a large hall with 1,200 seats surrounded by a wall made of Japanese cedar grown in Shikoku and cedar-plated decorative concrete, a small hall with 334 seats surrounded by Adi stone produced in Kagawa and a multi-purpose hall which was converted from the gym of a former elementary school. Moreover, each hall features the unique beauty of each material used and we can feel the wonder of the music hall to the accompaniment of timbre with high echo. The opening of the hall was highly praised by performers as well as audiences.

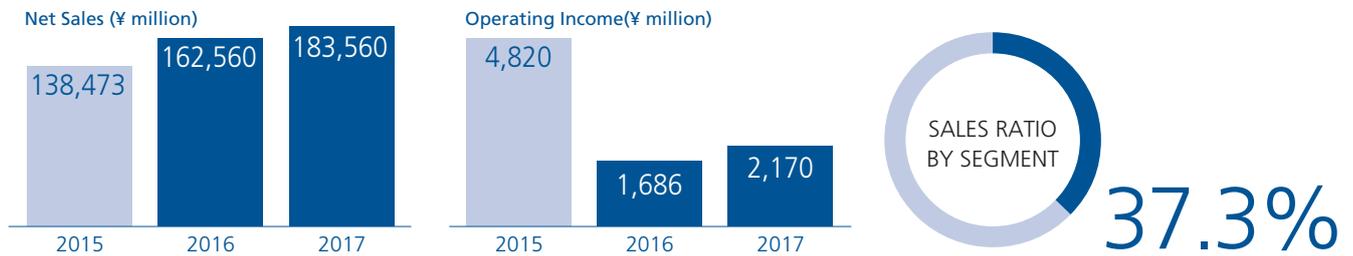


The New Academic Commons "Meitokukan" of Hiroshima University of Economics

Hiroshima Prefecture

Japan's largest academic commons "Meitokukan" was constructed as a project to commemorate the 50th anniversary of the founding of the university. It is a 10-storey school building that majestically stands beside the front gate, which captures the full view of the city of Hiroshima. The building provides students with the ingenuity to learn positively and freely express themselves creatively. The building has orange tile walls that are the symbolic color of the university and piled steel-frame eaves which make its simple and monumental appearance stand out even in the campus. Since its opening, it has served as an "idea creating space," crowded with many students who motivate each other every day.

Overseas



Preparatory Works for Power Plant and Port Facilities Under Matarbari Ultra Super Critical Coal-Fire Power Project

Bangladesh

Infrastructure development in Bangladesh is one of the important issues for the government. This project is preparatory works for the construction of an ultra super critical coal-fired power plant in the Matarbari area, which is located about 70km south of the Chittagong Port, as one of the country's most important national projects.

Matarbari Island faces the open waters of the Bay of Bengal, which leads to significant changes in weather and sea conditions with frequent monsoons. Under such severe environment, we mobilized our "CASSIOPEIA V," one of the world's most modern self-propelled cutter suction dredgers, to dredge the temporary channel (approximately 2,750m long; 100m wide and 7m deep) and carried out reclamation work using dredged sand materials.

Note: Pictures are Inter-Changed

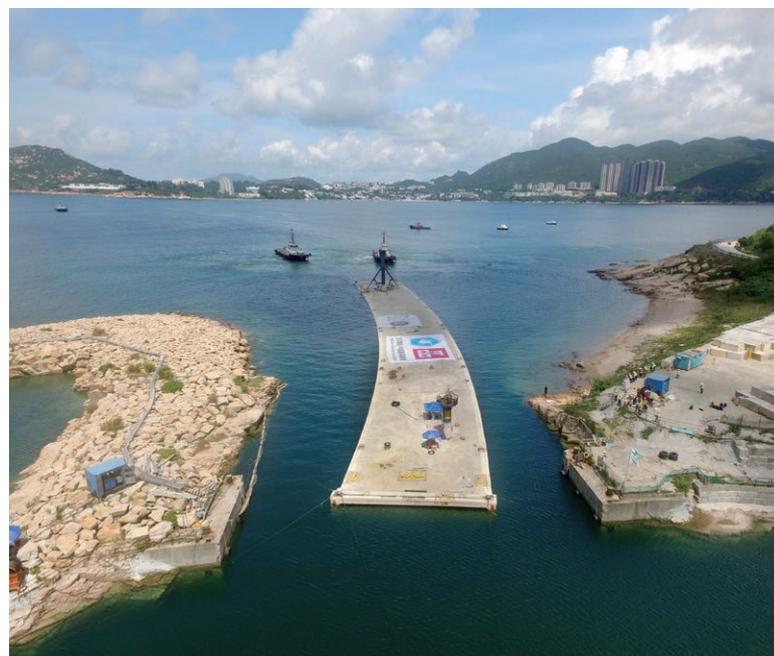


Shatin to Central Link Contract 1121-NSL Cross Harbour Tunnels

Hong Kong

The Shatin to Central Link (SCL) currently under construction, is one of the 10 major infrastructure projects in Hong Kong. We are involved in the construction of an undersea tunnel of the Project, comprising of 11 Immersed Tube elements to extend the existing East Rail Line across the Victoria Harbour connecting Hung Hom in Kowloon and Causeway Bay, the northern part of Hong Kong Island. In June 2017, the Joint Venture, led by Penta-Ocean Construction Co. Ltd, completed the Sinking Operation of the 1st element, a milestone achievement.

Upon completion of this line, passengers travelling from North East side of the New Territories to Hong Kong Island would benefit significantly by saving in travelling time and a more convenient rail service. In addition, the new Line would act as catalyst for redevelopment and growth of older districts.



Corporate Governance

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.

Corporate Governance Structure

1 Management and Business Execution

In order to strengthen the audit functions for management, we have appointed an external director and are working to cooperate with the Audit Board and Internal Audit / Internal Regulation Directors.

We are aiming to revitalize the Board of Directors and speed up decision making, so we have introduced an Executive Officer System to clarify the responsibilities in business execution and we have also established a Human Affairs Committee that reports on executive candidates and executive compensation proposals to the Board of Directors. As a general rule, the members of the Board of Directors meet twice a month and make decisions upon engaging in lively discussions on important matters. We have introduced an Executive Performance Evaluation System that links performance with remuneration in order to clarify responsibilities in regards to the compensation of company directors and executive officers.

Furthermore, the Company has adopted an Auditor System and has appointed three external auditors. In addition to attending Board of Directors' Meetings, the auditors also actively participate in

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.

important meetings in the Company (e.g. Executive Board Meetings) and have set up a system to thoroughly monitor the work performance of company directors. (The number of external directors and external auditors is current as of June 27, 2017.)

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 Risk Management Committee that was established in our Head 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 of November 11th, 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 policies 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 excluding shareholders
4. Structure of corporate governance

Compliance

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.

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.

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.

Examples of Accident Prevention Activities

1 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 sent 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.

2 Efforts to Prevent Crane Accidents

We are implementing hands-on slinging education that incorporates

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."

3 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.

Environmental Initiatives

Our environmental preservation initiatives include actions to fight against global warming and to counter the environmental impact of

our business activities and the inappropriate management of chemical products.

Against Global Warming

Efforts for reducing carbon dioxide emissions

We have set the goal of reducing our 1990 CO₂ emissions by 20% by 2020, and have acted on this goal by surveying and keeping records on CO₂ emissions since 2004. In 2015, we took samples from a total of 122 construction sites (83 civil engineering sites and 39 building construction sites) to aggregate CO₂ emissions. The results showed emissions of 83.1t CO₂/100 million JPY in civil engineering, 10.8t CO₂/100 million JPY in building construction, and 45.8t CO₂/100 million JPY across the organization, which exceeded the total reduction target of under 47.5t CO₂/100 million JPY. By 2016, we had achieved a 19.6% reduction on 1990 emissions, falling short of the long-term reduction target of 20% by 2020.

Energy Saving in the Office

As a measure to fight against global warming, we implement the "Cool Biz & Warm Biz" energy-saving campaign, which involves dressing to suit the weather. In 2014, our main office building underwent seismic resistant repairs and equipment renewal, and our offices are now equipped with LED lighting and new air conditioning devices. In 2016, we recorded a 1.76% year-on-year reduction in electricity consumption. We take meticulous energy-saving measures across the organization, which include turning off lights during lunch breaks, partial lights out when leaving the office, setting more eco-friendly air conditioner temperatures, limiting the zones occupied by overtime workers, using fans instead of air conditioners, and limiting the number of elevators in use during weekdays and weekends.

Basic Environmental Guidelines

1. We shall contribute to a recycling-oriented society and preserve the natural environment by preventing 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.

Corporate Social Responsibility

Penta-Ocean Construction Group views that its greatest contribution to society is the construction of superior infrastructure.

● Dignified Business Conduct

We take an honest approach to our business operations at all times, aside from observing the laws and ordinances, and respecting social norms and ethics.

● Coexistence with the Environment and Nature

- We enhance global environment preservation by developing environmentally friendly infrastructures and technologies.
- We develop safe living environment through developing disaster measure technologies applicable to both system and structures.
- In time of emergency, we also implement quick-responding support activities.

● Human Propriety

- We create a working environment that motivates our employees, and respect their individuality and enabling them to fully demonstrate their abilities.
- We respect human rights and adhere to the diversity of not only our employees but of all people connected with the Company.

● Information Transparency

We are committed to broad-based communications with our stakeholders (including shareholders, customers, business partners, employees, and the local communities), and at the same time, demonstrate maximum accountability by timely disclosing of appropriate information.



Corporate Identity

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



Communication Character

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

CSR Activities

Activities in 2016

Good-quality Infrastructure Construction

With our company considering that “good-quality social infrastructure construction is the best contribution to society,” we took a proactive approach to technological development and capital investment as a corporate group which promises reliable manufacturing in 2016. In addition, we were able to win various awards regarding quality under our thorough construction management. We will continue to contribute to good-quality social capital improvement both in Japan and overseas.

Main Events in 2016

- 1 Participated in The Sixth Tokyo International Conference on African Development (TICAD-VI).
- 2 Completed the construction of a tunnel in the Taro district on the Miyako Taro Road.
- 3 Won the Excellent Construction Director Award in 2015 presented by the Kanto Regional Development Bureau.



Human Rights, Occupational Health & Safety and the Environment

Our company's basic approach is to ensure the respect of human rights and diversity of all people concerned. We implement various education and training programs as well as install or revise systems to create a safety-first environment comfortable for workers and partner companies to exercise their full potential. Furthermore, we make environmentally conscious manufacturing a matter of importance and strive to achieve construction which does not burden the environment.

Main Events in 2016

- 4 Implemented the 2nd “Tsunami Evacuation Training”.
- 5 Fukui wharf Improvement project Office and Kanda Port channel dredging project Office won the “Comfortable Workplace” special award from the Japan Federation of Construction Contractors.
- 6 Won the “Promoting Advancement of Female Construction Workers” special award from the Japan Federation of Construction Contractors.



Communication with Stakeholders

We are actively developing social contribution activities that respect communication and conversation with our stakeholders. We are engaging in a wide variety of activities including cooperation with local events, volunteer activities and tours of sites or technology research centers. Through various activities, we aim to be a corporate group that is trusted and supported by our stakeholders.

Main Events in 2016

- 7 Held our first “tour for private investors” at Tokyo Port.
- 8 Participated in cleanup activities held across Japan as volunteers.
- 9 Invited foreign staff to Japan to hold a “tour of the technology research center”.



Won the "International Contribution Award" in 2016 from the Japan Society of Civil Engineers

On June 9 of this year, the "International Contribution Award" in 2016 was given to Mr. Akihiko Togo (Executive Vice President, Member of the Board) by the Japan Society of Civil Engineers. This award was established to commemorate the 80th anniversary of the foundation of the society and is a dignified award with a history that dates back to 1994. It is given to Japanese people whose contribution to the progress and development of civil engineering or social capital improvement in international society is highly rated or foreign people whose contribution to the development of civil engineering in Japan etc. is highly rated. Vice President Togo was rewarded for his commitment to overseas construction for over 30 years since he joined the company as well as for his contribution to the progress

and development of civil engineering and social capital improvement. In 1988, he quickly addressed the overseas diffusion of Japanese technology such as by introducing the sand compaction pile construction method to Singapore for the first time. In 2007, he completed mass and rapid reclamation in the Jurong 4 Tuas Reclamation Project (pictured) without accident, and won the Safety Award from the International Association of Dredging Companies. After that, he was elected as the vice chairman of the association. In addition, he won awards regarding CIM from the Singapore government in 2015 and 2016. Currently, he is held in high value for building a construction system consisting mainly of as many as 1,900 foreign engineers overseas.



Akihiko Togo
Executive Vice President,
Member of the Board,
Executive of International
Business Unit



Jurong 4 Tuas Reclamation Project
(Singapore)



Winner of the International Contribution Award, etc.

Third Party Opinion

I fully understand the traditional attitude toward the engineering development of Penta-Ocean from the fact that it submits a new technology evaluation application almost every year to the "Coastal Development Institute of Technology" where I serve as Chairman.

If engineering development is neglected, de-evolution would start without a chance for development. It is thought that unyielding deliberation on new technology development, not only relying on existing technology, is quite important for any type of construction. Unlike factory production which repeatedly produces the same products, construction work is similar to art work. I believe that the challenges for the R&D, preservation and succession of new technology will become more important in the future in the sense of "to contribute to society by means of technology." I stayed in the research center of Suez Canal

Authority for about two months in the mid-80's. The children there lightheartedly called out "Penta! Penta!" when they saw us Japanese people. The construction work in Suez was even picked up by a television program. It was really difficult work at that time. I understood that the local sense of trust in Japanese people was imparted to the children. I consider that the core of "contributing to society through advanced technology" lies in the fact that the company can acquire the respect and recognition of many people by thoroughly completing the work. The pyramids are constructions still attracting many people, although they were built thousands of years ago. Great things always contribute to society.

I hope that the company contributes to society with uncompromised technologies in the future.



Kouki Zen

Research Professor
Kyushu University Faculty of Engineering

In response to the Opinion

I would like to express my sincere gratitude to Professor Zen for his valuable opinion.

Twelve years have passed since our CSR activity officially started after establishing the CSR promotion committee in 2005. Under the basic policy of "the greatest contribution to society is the construction superior infrastructure," we will strive to meet social needs both at home and abroad, returning again to that starting point.

We will improve our corporate value over our whole group to continuously develop and evolve

with society; reconfirming the suggested expectations for us, the importance of technologies and the significance of contributing to society.



Michio Inatomi

Managing Executive Officer,
Member of the Board,
Head of Corporate Administration
Divisions Group and CSR Planning Office

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
	2013	2014	2015	2016	2017	2017
Net sales	¥349,839	¥381,182	¥426,238	¥491,564	¥500,336	\$4,459,722
Construction	341,067	372,367	414,892	477,164	487,133	4,342,032
Development business	1,143	2,447	1,912	4,803	3,963	35,328
Other	7,629	6,368	9,434	9,597	9,240	82,362
Total assets	296,726	301,627	366,170	378,766	372,311	3,318,576
Net assets excluding non-controlling interests	65,080	67,339	77,033	80,588	96,377	859,052
Ordinary income	6,560	9,160	11,393	19,409	23,709	211,330
Profit before income taxes	5,018	8,740	10,176	14,242	23,028	205,258
Profit attributable to owners of parent	2,030	3,763	6,183	7,806	15,272	136,124
Cash dividends	572	572	1,144	1,715	3,431	30,581
Per share of common stock:	Yen					U.S. dollars
Net assets excluding non-controlling interests	¥227.63	¥235.53	¥269.44	¥281.87	¥337.10	\$3.00
Profit attributable to owners of parent	7.10	13.16	21.63	27.30	53.42	0.48
Cash dividends	2.00	2.00	4.00	6.00	12.00	0.11
Number of employees	2,911	2,905	2,949	3,025	3,074	

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥112.19 per U.S.\$1, prevailing on March 31, 2017.

Business Performance

The net sales for the group amounted to ¥500,336 million (US\$4,459.7 million), an increase of ¥8,772 million (US\$78.2 million) (1.8%) compared to the previous consolidated fiscal year, and operating profits totaled ¥24,275 million (US\$216.4 million), an increase of ¥3,657 million (US\$32.6 million) (17.7%) compared to the previous consolidated fiscal year. Ordinary profits totaled ¥23,709 million (US\$211.3 million), an increase of ¥4,300 million (US\$38.3 million) (22.2%) compared to the previous consolidated fiscal year. And, current net profits totaled ¥15,272 million (US\$136.1 million), an increase of ¥7,466 million (US\$66.5 million) (95.6%) compared to the previous consolidated fiscal year.

Gross operating profits increased due to the construction revenue improvement, and an increase in the operating profits, ordinary profits and current net profits attributable to owners of parent was achieved.

Segment Information

In our domestic Civil Engineering Business, under the circumstances where public works showed steady growth, sales amounted to ¥155,345 million (US\$1,384.7 million), an increase of ¥4,782 million (US\$42.6 million) (3.2%) compared to the previous consolidated fiscal year and segment profits totaled ¥9,696 million (US\$86.4 million), an increase of ¥440 million (US\$3.9 million) (4.8%) compared to the previous consolidated fiscal year.

Our domestic Building Construction Business showed steady growth through the increase of redevelopment projects and inbound related demand supported by the robust private equipment investment due to improved corporate earnings. Under these circumstances, sales amounted to ¥149,872 million (US\$1,335.9 million), a decrease of ¥15,545 million (US\$138.6 million) (-9.4%) compared to the previous consolidated fiscal year and segment profits totaled ¥11,190 million (US\$99.7 million), an increase of ¥647 million (US\$5.8 million) (6.1%) compared to the previous consolidated fiscal year.

In our overseas Construction Business, the construction investment continued to remain solid in our main market of Southeast Asia, such as Singapore and Hong Kong. Under these circumstances, sales amounted to ¥183,560 million (US\$1,636.2 million), an increase of ¥21,000 million (US\$187.2 million) (12.9%) compared to the previous consolidated fiscal year and segment profits totaled ¥2,170 million (US\$19.3 million), an increase of ¥484 million (US\$4.3 million) (28.7%) compared to the previous consolidated fiscal year.

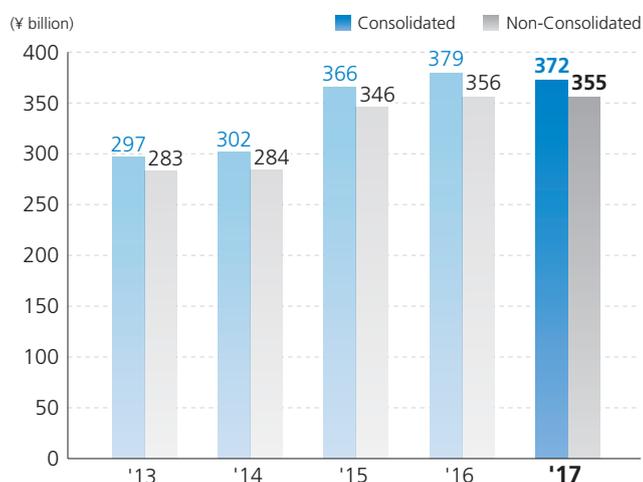
In our domestic Development Business, sales amounted to ¥4,093 million (US\$36.5 million), a decrease of ¥869 million (US\$7.7 million) (-17.5%) compared to the previous consolidated fiscal year and segment profits totaled ¥529 million (US\$4.7 million) (segment profits in the previous consolidated fiscal year was ¥630 million (US\$5.6 million)).

In our Other businesses, mainly consisting of shipbuilding, sales of construction materials, machine leasing and environmental business, sales amounted to ¥10,023 million (US\$89.3 million), a decrease of ¥774 million (US\$6.9 million) (-7.2%) compared to the previous consolidated fiscal year and segment profits totaled ¥683 million (US\$6.1 million). (segment loss in the previous consolidated fiscal year was ¥250 million (US\$2.2 million)).

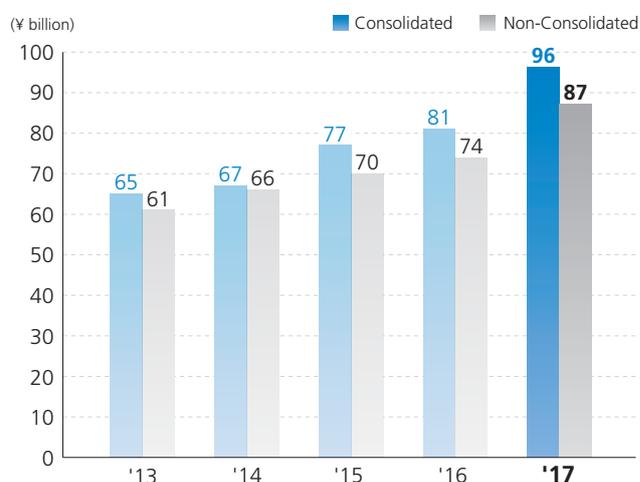
Orders received and contract backlog

As for our non-consolidate construction orders received: domestic Civil Engineering Business increased by 22.3% to ¥187,402 million (US\$1,670.4 million) due to the undertaking of large-scale private construction work; domestic Building Construction Business increased by 21.4% to ¥176,188 million (US\$1,570.4 million) due to the undertaking of several large-scale construction works both public and private; overseas Construction Business decreased by 29.3% to ¥100,231 million (US\$893.4 million) due to the recoil after the undertaking of several large-scale construction works in the previous consolidated fiscal year; in total, there was an increase of 5.1% to ¥465,939 million (US\$4,153.1 million).

Total Assets



Total Net Assets



Financial Position

The total assets of our group decreased by ¥6,455 million (US\$57.5 million) to ¥372,311 million (US\$3,318.6 million) compared to the end of the previous consolidated fiscal year mainly due to the decrease of notes receivable and accounts receivable from completed constructs. Liabilities decreased by ¥22,244 million (US\$198.3 million) to ¥275,866 million (US\$2,458.9 million) compared to the end of previous consolidated fiscal year mainly due to the decrease of loans payable. Net assets increased by ¥15,788 million (US\$140.7 million) to ¥96,445 million (US\$859.7 million) compared to the end of the previous consolidated fiscal year mainly due to the increase of retained earnings through the posting of the current net income.

Cash flows

With regard to cash flow from operations, it resulted in an excess of ¥31,294 million (US\$278.9 million) in revenue due to the decrease of revenue by ¥23,909 million (US\$213.1 million) compared to the end of the previous consolidated fiscal year although net income before income taxes was ¥23,028 million (US\$205.3 million) (an excess of ¥55,202 million (US\$492.0 million) in expenditure in the previous consolidated fiscal year).

With regard to cash flow from investments, expenditures increased by ¥4,395 million (US\$39.2 million) compared to the previous consolidated fiscal year mainly due to the expenditures for new work vessel construction, and it resulted in an excess of ¥9,090 million (US\$81.0 million) in expenditure (an excess of ¥4,695 million (US\$41.8 million) in expenditure in the previous consolidated fiscal year).

Free cash flow, the total of cash flow from operations and investments, resulted in an excess of ¥22,204 million (US\$197.9 million) in revenue (an excess of ¥50,507 million (US\$450.2 million) in revenue in the previous consolidated fiscal year).

With regard to cash flow from financial activities, although expenditures decreased by ¥5,181 million (US\$46.2 million) compared to the previous consolidated fiscal year, it resulted in an excess of

¥15,533 million (US\$138.4 million) in expenditure mainly due to the expenditure for repayment of loans payable (an excess of ¥20,713 million (US\$184.6 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 increased by ¥6,336 million (US\$56.5 million) (9.7%) compared to the end of the previous consolidated fiscal year to ¥71,770 million (US\$639.7 million), and the balance of interest-bearing debts at the end of this fiscal year resulted in ¥59,722 million (US\$532.3 million).

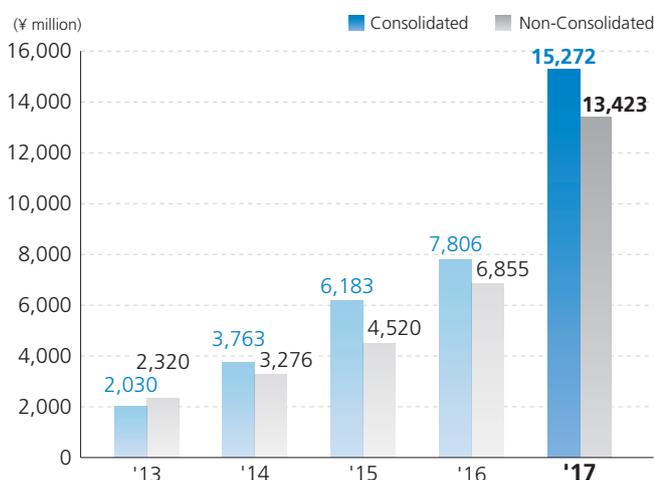
Dividends

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 ¥12 per common share. The total amount of dividends was ¥3,431 million (US\$30.6 million).

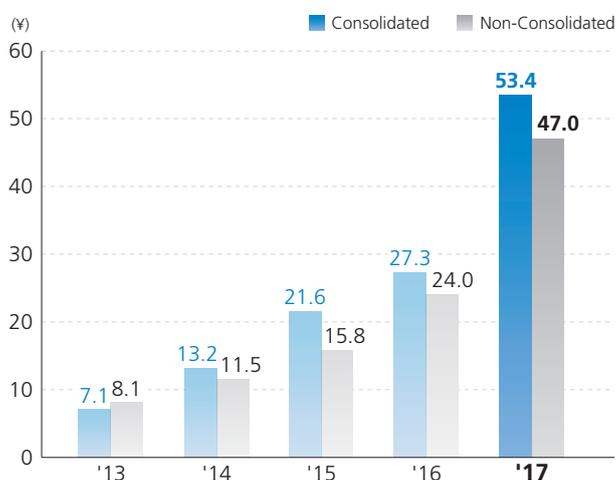
It is also our basic policy to pay a year-end dividend annually, determined by the general shareholders' meetings.

* Exchange rate at the term end US\$1 = ¥112.19

Net Income



Net Income 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
	2016	2017	2017
Current assets:			
Cash and deposits (Note 21)	¥ 66,398	¥ 72,464	\$ 645,902
Securities (Notes 3(3), 6, 7 and 21)	32	—	—
Trade receivables: (Note 21)			
Notes	13,351	8,678	77,355
Accounts	180,368	172,780	1,540,066
Inventories: (Note 3 (5))			
Costs on uncompleted construction contracts	12,340	10,512	93,702
Real estate for sale and development projects in progress (Note 7)	6,307	4,444	39,612
Other	2,331	2,142	19,090
Deferred tax assets (Note 19)	2,708	2,561	22,827
Other	4,025	4,382	39,049
Allowance for doubtful accounts (Note 3 (9))	(903)	(757)	(6,745)
Total current assets	286,957	277,206	2,470,858
Property, plant and equipment: (Notes 3 (6) and 3 (8))			
Land	32,730	31,855	283,938
Buildings and structures	36,222	36,473	325,102
Machinery, equipment and vehicles	20,122	20,792	185,331
Dredgers and vessels	66,735	68,072	606,756
Construction in progress	531	4,223	37,640
Total property, plant and equipment	156,340	161,415	1,438,767
Less: accumulated depreciation	(85,914)	(88,713)	(790,742)
Property, plant and equipment — net	70,426	72,702	648,025
Intangible assets (Note 3 (7))	1,457	1,407	12,538
Investments and other assets:			
Investment securities (Notes 3 (3), 6, 7 and 21)	14,591	16,044	143,003
Long-term loans receivables	179	147	1,307
Deferred tax assets (Note 19)	1,401	337	3,000
Net defined benefit asset (Note 20)	1,092	1,771	15,788
Other	3,567	3,009	26,833
Allowance for doubtful accounts (Note 3 (9))	(962)	(352)	(3,133)
Total investments and other assets	19,868	20,956	186,798
Deferred assets (Note 3 (19))	58	40	357
Total assets	¥378,766	¥372,311	\$3,318,576

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Current liabilities:			
Short-term loans payable (Notes 8 and 21)	¥ 23,709	¥ 16,278	\$ 145,094
Current portion of long-term loans payable and bonds payable (Notes 8 and 21)	10,076	7,853	69,999
Trade payable: (Note 21)			
Notes	31,969	22,906	204,174
Accounts	102,176	94,103	838,780
Electoronically recorded obligations—operating	15,824	26,059	232,273
Advance received on uncompleted construction contracts	26,557	29,708	264,799
Deposits received	26,009	24,540	218,733
Income taxes payable	6,091	5,420	48,314
Provision for loss on construction contracts (Note 3 (12))	2,415	2,038	18,167
Provision for warranties for completed construction (Note 3 (10))	1,473	1,573	14,025
Provision for bonuses (Note 3 (11))	1,877	2,161	19,262
Other	3,315	2,712	24,172
Total current liabilities	251,491	235,351	2,097,792
Non-current liabilities:			
Bonds payable (Notes 8 and 21)	20,000	20,000	178,269
Long-term loans payable (Notes 8 and 21)	20,414	15,590	138,964
Provision for directors' retirement benefits (Note 3 (13))	174	152	1,352
Net defined benefit liability (Notes 3 (14) and 20)	1,085	357	3,185
Deferred tax liabilities for land revaluation (Note 9 (2))	3,869	3,691	32,904
Other	1,076	725	6,453
Total non-current liabilities	46,618	40,515	361,127
Total liabilities	298,109	275,866	2,458,919
Commitments and contingent liabilities (Note 18)			
Net assets:			
Shareholders' equity:			
Capital stock	30,450	30,450	271,414
Authorized — 599,135,000 shares			
Issued shares — 286,013,910 shares 2016 and 2017			
Capital surplus (Note 9 (1))	18,387	18,387	163,889
Retained earnings (Note 9 (1))	25,903	39,842	355,128
Less: Treasury Shares	(26)	(26)	(232)
Total shareholders' equity	74,714	88,653	790,199
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Notes 3 (3) and 9 (3))	2,300	3,242	28,900
Deferred gains or losses on hedges	21	69	617
Revaluation reserve for land (Note 9 (2))	4,303	3,921	34,946
Foreign currency translation adjustment (Note 3 (2))	(81)	(78)	(687)
Remeasurements of defined benefit plans (Notes 3 (14) and 20)	(669)	570	5,078
Total accumulated other comprehensive income	5,874	7,724	68,854
Non-controlling interests	69	68	604
Total net assets	80,657	96,445	859,657
Total liabilities and net assets	¥378,766	¥372,311	\$3,318,576

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
	2016	2017	2017
Construction business: (Note 3 (15))			
Net sales	¥477,164	¥487,133	\$4,342,032
Cost of sales	441,859	448,922	4,001,437
Gross profit	35,305	38,211	340,595
Development business and other:			
Net sales	14,400	13,203	117,690
Cost of sales	13,694	10,544	93,995
Gross profit	706	2,659	23,695
Total:			
Total net sales	491,564	500,336	4,459,722
Total cost of sales	455,553	459,466	4,095,432
Total gross profit	36,011	40,870	364,290
Selling, general and administrative expenses	15,393	16,595	147,919
Operating income	20,618	24,275	216,371
Non-operating income:			
Interest and dividends income	329	621	5,539
Reversal of allowance for doubtful accounts	208	158	1,408
Other (Note 10)	503	441	3,932
	1,040	1,220	10,879
Non-operating expenses:			
Interest expenses	1,066	792	7,058
Foreign exchange losses	843	818	7,294
Other (Note 11)	340	176	1,568
	2,249	1,786	15,920
Ordinary income	19,409	23,709	211,330
Extraordinary income (Note 12)	267	120	1,066
Extraordinary losses (Note 13)	5,434	801	7,138
Profit before income taxes	14,242	23,028	205,258
Income taxes: (Notes 3(18) and 19)			
Current	7,018	7,698	68,612
Deferred	(581)	(59)	527
	6,437	7,757	69,139
Profit (loss) attributable to:	7,805	15,271	136,119
Non-controlling interests	(1)	(1)	(5)
Owners of parent	¥ 7,806	¥ 15,272	\$ 136,124
		Yen	U.S. dollars
Profit attributable to owners of parent per share of common stock (Note 23)			
Basic	¥27.30	¥53.42	\$0.48

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
	2016	2017	2017
Profit	¥7,805	¥15,271	\$136,119
Valuation difference on available-for-sale securities	(1,308)	943	8,401
Deferred gains or losses on hedges	38	48	431
Revaluation reserve for land	221	—	—
Foreign currency translation adjustments	(104)	4	33
Remeasurements of defined benefit plans	(1,958)	1,238	11,038
Total other comprehensive income (Note 15)	(3,111)	2,233	19,903
Comprehensive income	¥4,694	¥17,504	\$156,022
(Breakdown)			
Comprehensive income attributable to owners of parent	¥4,699	¥17,505	\$156,031
Comprehensive income attributable to non-controlling interests	(5)	(1)	(9)

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, 2016

	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	¥16,646	¥(25)	¥65,458
Changes of items during period					
Dividends of surplus			(1,144)		(1,144)
Profit attributable to owners of parent			7,806		7,806
Reversal of revaluation reserve for land			2,595		2,595
Purchase of treasury shares				(1)	(1)
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	—	9,257	(1)	9,256
Balance at the end of current period	¥30,450	¥18,387	¥25,903	¥(26)	¥74,714

	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	¥3,607	¥(17)	¥6,677	¥ 19	¥ 1,289	¥11,575	¥ 35		
Changes of items during period									
Dividends of surplus								(1,144)	
Profit attributable to owners of parent								7,806	
Reversal of revaluation reserve for land								2,595	
Purchase of treasury shares								(1)	
Net changes of items other than shareholders' equity	(1,307)	38	(2,374)	(100)	(1,958)	(5,701)	34	(5,667)	
Total changes of items during period	(1,307)	38	(2,374)	(100)	(1,958)	(5,701)	34	3,589	
Balance at the end of current period	¥2,300	¥ 21	¥4,303	¥ (81)	¥ (669)	¥ 5,874	¥ 69	¥80,657	

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, 2017

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	\$271,414	\$163,889	\$230,882	\$(229)	\$665,956
Changes of items during period					
Dividends of surplus			(15,290)		(15,290)
Profit attributable to owners of parent			136,124		136,124
Reversal of revaluation reserve for land			3,412		3,412
Purchase of treasury shares				(3)	(3)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	124,246	(3)	124,243
Balance at the end of current period	\$271,414	\$163,889	\$355,128	\$(232)	\$790,199

Thousands of U.S. dollars								
	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	\$20,498	\$185	\$38,358	\$(724)	\$(5,959)	\$52,358	\$613	\$718,927
Changes of items during period								
Dividends of surplus								(15,290)
Profit attributable to owners of parent								136,124
Reversal of revaluation reserve for land								3,412
Purchase of treasury shares								(3)
Net changes of items other than shareholders' equity	8,402	432	(3,412)	37	11,037	16,496	(9)	16,487
Total changes of items during period	8,402	432	(3,412)	37	11,037	16,496	(9)	140,730
Balance at the end of current period	\$28,900	\$617	\$34,946	\$(687)	\$(5,078)	\$68,854	\$604	\$859,657

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash flows from operating activities:			
Profit before income taxes	¥14,242	¥23,028	\$205,258
Adjustment to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	5,550	5,614	50,039
Impairment loss	4,908	694	6,187
Increase (Decrease) in allowance for doubtful accounts	(387)	(757)	(6,744)
Increase (Decrease) in net defined benefit liability	31	66	585
Decrease (Increase) in net defined benefit asset	(1,875)	(358)	(3,191)
Interest and dividends income	(329)	(621)	(5,539)
Interest expenses	1,066	792	7,058
Foreign exchange losses (Gains)	1,676	242	2,156
Equity in (Earnings) losses of affiliates	(7)	(8)	(68)
Loss (Gain) on sales of property, plant and equipment	392	(11)	(99)
Loss (Gain) on sales of investment securities	(209)	(61)	(541)
Loss on valuation of securities and investment securities	2	2	20
Change in assets and liabilities:			
Decrease (Increase) in notes and accounts receivable—trade	(2,567)	7,235	64,492
Decrease (Increase) in costs on uncompleted construction contracts	(2,459)	1,825	16,270
Decrease (Increase) in real estate for sale and development projects in progress and other inventories	4,353	2,232	19,895
Increase (Decrease) in notes and accounts payable—trade	8,833	(6,820)	(60,788)
Increase (Decrease) in advances received on uncompleted construction contracts	5,057	3,151	28,082
Increase (Decrease) in other provision	(270)	(92)	(827)
Other, net	21,584	3,954	35,243
Subtotal	59,591	40,107	357,488
Interest and dividends income received	353	620	5,526
Interest expenses paid	(1,108)	(799)	(7,125)
Income taxes paid	(3,634)	(8,634)	(76,955)
Net cash provided by operating activities	55,202	31,294	278,934
Cash flows from investing activities:			
Purchase of investment securities	(349)	(304)	(2,707)
Proceeds from sales and redemption of short-term and long-term investment securities	624	277	2,471
Purchase of property, plant and equipment	(6,227)	(9,107)	(81,174)
Proceeds from sales of property, plant and equipment	1,253	94	840
Collection of loans receivable	925	32	290
Other, net	(921)	(82)	(742)
Net cash used in investing activities	(4,695)	(9,090)	(81,022)

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(2,268)	(6,670)	(59,449)
Net increase (decrease) in commercial papers	(19,996)	—	—
Proceeds from long-term loans payable	14,050	3,030	27,008
Repayment of long-term loans payable	(11,211)	(10,075)	(89,800)
Cash dividends paid	(1,137)	(1,710)	(15,241)
Other, net	(151)	(108)	(967)
Net cash provided by (used in) financing activities	(20,713)	(15,533)	(138,449)
Effect of exchange rate change on cash and cash equivalents	(2,226)	(335)	(2,989)
Net increase (decrease) in cash and cash equivalents	27,568	6,336	56,474
Cash and cash equivalents at the beginning of the period	37,866	65,434	583,246
Cash and cash equivalents at the end of the period	¥65,434	¥71,770	\$639,720
(Note) (1) Cash and cash equivalents are comprised as follows:			
Cash and deposits	¥66,398	¥72,464	\$645,902
Less—Time deposits with maturity over three months	(964)	(694)	(6,182)
Cash and cash equivalents (Note 3 (17))	¥65,434	¥71,770	\$639,720

See accompanying Notes to Consolidated Financial Statements.

Notes to the 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=112.19, the exchange rate prevailing on March 31, 2017. 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 27 subsidiaries and 3 affiliated company as at March 31, 2017.

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

2 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 16 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.

Thai Penta-Ocean Co., Ltd. and the other 3 subsidiaries have changed their closing date from December 31 to March 31.

Therefore, the financial results of these entities were consolidated covering the period from January 1, 2016 to March 31, 2017 in this consolidated fiscal year.

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 directors' retirement benefits

Some subsidiaries provide provision for the amount required to be paid in accordance with internal rules for payment of severance benefits to directors and statutory auditors on the closing date.

(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, forward exchange contracts and non-deliverable forwards. 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

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. Change in accounting policy

(Application of "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016")

Following the revision of the Corporation Tax Act, the Group has adopted the "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (ASBJ Practical Issues Task Force

(PITF) No.32, June 17, 2016) from the current fiscal year, and changed the depreciation method for building fixtures and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The effect of this change on financial statements for the current fiscal year is insignificant.

5. Additional information

Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26, March 28, 2016) has been applied from the fiscal year ended March 31, 2017.

6. Investment securities

(1) Held-to maturity debt securities

As of March 31, 2016	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	¥238	¥250	¥12
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥238	¥250	¥12
Securities whose fair value doesn't exceed their book value on consolidated B/S:			
National and local government bonds	¥ —	¥ —	¥—
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥ —	¥ —	¥—
Total	¥238	¥250	¥12

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

	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	\$1,852	\$1,922	\$70
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	\$1,852	\$1,922	\$70
Securities whose fair value doesn't exceed their book value on consolidated B/S:			
National and local government bonds	\$ —	\$ —	\$—
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	\$ —	\$ —	\$—
Total	\$1,852	\$1,922	\$70

(2) Other securities

As of March 31, 2016	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	¥ 8,269	¥4,691	¥3,578
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥ 8,269	¥4,691	¥3,578
Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:			
Stock	¥ 3,213	¥3,558	¥ (345)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥ 3,213	¥3,558	¥ (345)
Total	¥11,482	¥8,249	¥3,233

(Note) Since unlisted stocks (balance on consolidated balance sheet ¥2,788 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, 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

	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	\$105,780	\$64,571	\$41,209
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	\$105,780	\$64,571	\$41,209
Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:			
Stock	\$ 9,348	\$ 9,685	\$ (337)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	\$ 9,348	\$ 9,685	\$ (337)
Total	\$115,128	\$74,256	\$40,872

(Note) Since unlisted stocks (balance on consolidated balance sheet ¥2,797 million (U.S.\$24,931 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, 2016	Millions of yen		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	¥515	¥209	¥—
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Total	¥515	¥209	¥—

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

	Thousands of U.S. dollars		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	\$2,475	\$541	\$—
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Total	\$2,475	\$541	\$—

(4) Impairment of investment securities

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Other securities			
Stock	¥2	¥ 2	\$20

7. Pledged assets

The following assets are pledged for fulfillment of construction contracts at March 31, 2016 and 2017.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Securities	¥ 32	¥ —	\$ —
Real estate for sale	645	—	—
Investment securities	303	312	2,785
Other (Investment and other assets)	48	159	1,413
Total	¥1,028	¥471	\$4,198

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

Short-term and long-term loans bonds payable as of March 31, 2016 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Short-term loans from banks and insurance companies (The weighted average interest rate is 0.60%.)	¥23,709	¥16,278	\$145,094
Long-term loans from banks and insurance companies due through 2022 (The weighted average interest rate is 0.90%.)	30,490	23,443	208,963
0.87% unsecured bonds payable due 2019	10,000	10,000	89,135
0.68% unsecured bonds payable due 2022	10,000	10,000	89,135
Less: current portion	(33,785)	(24,131)	(215,093)
Total	¥40,414	¥35,590	\$317,234

The aggregate annual maturity of short-term and long-term loans and bonds payable after March 31, 2017 is as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2018		\$215,093
2019		150,390
2020		58,492
2021		15,919
2022 and thereafter		92,443
Total	¥59,721	\$532,327

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
	2016	2017	2017
The difference between the appraisal value of land at the end of the current fiscal year and the book value	¥7,824	¥6,897	\$61,473

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

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 ¥3,242 million (U.S.\$28,900 thousand) gain as of March 31, 2017.

10. Non-operating income

The composition of Non-operating income—other for the fiscal years ended March 31, 2016 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Real estate rent	¥144	¥155	\$1,384
Other	359	286	2,548
Total	¥503	¥441	\$3,932

11. Non-operating expenses

The composition of Non-operating expenses—other for the fiscal years ended March 31, 2016 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Other	¥340	¥176	\$1,568
Total	¥340	¥176	\$1,568

12. Extraordinary income

The composition of Extraordinary income for the fiscal years ended March 31, 2016 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Gain on sales of non-current assets	¥ 57	¥ 53	\$ 476
Gain on sales of investment securities	209	61	541
Other	1	6	49
Total	¥267	¥120	\$1,066

13. Extraordinary losses

The composition of Extraordinary losses for the fiscal years ended March 31, 2016 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Loss on sales of non-current assets	¥ 449	¥ 42	\$ 376
Loss on retirement of non-current assets	71	59	528
Impairment loss ^(*)	4,908	694	6,187
Other	6	6	47
Total	¥5,434	¥801	\$7,138

(*) The Company recognized impairment loss for the following group of assets in the current fiscal years ended March 31, 2016 and 2017.

For the year ended March 31, 2016

Classification	Type of Assets	Location	Impairment loss
Business assets (site for plant, etc.)	Land	Hokkaido	¥ 686 million
Business assets (for shipbuilding business)	Land and buildings, etc.	Hiroshima	¥2,192 million
Business assets (for materials yard)	Land	Chiba	¥2,022 million
Idle assets	Land	Hokkaido	¥ 8 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 following reasons. The original cash flow plan cannot be expected to meet in revised future business plan based on current market and downturn of business condition for site for plant, etc. (branch assets) and business assets for shipbuilding business. Management decision on disposal has been made and no alternative investment has been planned for the materials yard. The impairment loss (¥4,900 million) was accounted for as an extraordinary losses.

In addition, while one of welfare facilities had been classified into assets for common use, it was written down to recoverable amount since it became idle assets and there is no plan to use it in the future. The impairment loss (¥ 8 million) was accounted for as an extraordinary losses.

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, 2017

Classification	Type of Assets	Location	Impairment loss
Business assets (for materials yard)	Land	Osaka	¥694 million \$6,187 thousand

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, U.S.\$6,187 thousand) was accounted for as an extraordinary losses.

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

14. Research and development costs

Research and development costs charged to income are ¥1,730 million for the fiscal year 2016 and ¥1,953 million (U.S.\$17,404 thousand) for the fiscal year 2017, 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, 2016 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Valuation difference on available-for-sale securities			
Amount arising during the year	¥(1,782)	¥1,413	\$12,592
Reclassification adjustment for gains and losses realized in net income	(209)	(60)	(533)
Amount before tax effect	(1,991)	1,353	12,059
Tax effect	683	(410)	(3,658)
Valuation difference on available-for-sale securities	(1,308)	943	8,401
Deferred gains or losses on hedges			
Amount arising during the year	(99)	311	2,770
Reclassification adjustment for gains and losses realized in net income	155	(241)	(2,146)
Amount before tax effect	56	70	624
Tax effect	(18)	(22)	(193)
Deferred gains or losses on hedges	38	48	431
Revaluation reserve for land			
Tax effect	221	—	—
Foreign currency translation adjustments			
Amount arising during the year	(104)	4	33
Reclassification adjustment for gains and losses realized in net income	—	—	—
Amount before tax effect	(104)	4	33
Tax effect	—	—	—
Foreign currency translation adjustments	(104)	4	33
Remeasurements of defined benefit plans			
Amount arising during the year	(2,981)	1,115	9,937
Reclassification adjustment for gains and losses realized in net income	112	670	5,972
Amount before tax effect	(2,869)	1,785	15,909
Tax effect	911	(547)	(4,871)
Remeasurements of defined benefit plans	(1,958)	1,238	11,038
Total of other comprehensive income	¥(3,111)	¥2,233	\$19,903

16. Summary of operating lease transactions

Future lease payments, about non-cancelable operating lease assets as of March 31, 2016 and 2017 are as follows:

<Borrower>	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Within one year	¥453	—	—
Over one year	189	—	—
Total	¥642	—	—

17. Derivative financial transactions

(1) Matters concerning derivative financial transactions

The Company and its consolidated subsidiaries have entered into interest rate swap agreements, forward exchange contracts and non-deliverable forwards 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.

18. Commitments and contingent liabilities

As of March 31, 2017, the Company has liabilities for guarantee to bank loans made by customers amounting to ¥ 436 million (U.S.\$3,890 thousand).

The Company also has the guarantee amounting to ¥ 1,675 million (U.S. \$ 14,929 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

The Company has agreements on commitment line with 22 banks totaling ¥ 40,000 million (U.S.\$356,538 thousand) for the purpose of flexible financing. Unused commitment line as of March 31, 2016 and 2017 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Commitment line			
Total of commitment line	¥40,000	¥40,000	\$356,538
Use of commitment	¥ 4,000	—	—
Total of unused commitment line	¥36,000	¥40,000	\$356,538

19. 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
	2016	2017	2017
Deferred tax assets			
Employees' retirement benefits trust	1,946	1,976	17,613
Foreign tax credit carryforwards	—	1,579	14,070
Net defined benefit liability	341	118	1,053
Impairment loss	963	992	8,840
Loss on valuation of real estate for sale	1,717	1,396	12,439
Provision for loss on construction contracts	747	627	5,593
Allowance for doubtful accounts	612	366	3,266
Provision for bonuses	582	670	5,971
Net operating loss carryforwards	243	265	2,358
Other	1,753	1,544	13,773
Total: deferred tax assets	8,904	9,533	84,976
Less: valuation allowance	(3,275)	(4,448)	(39,652)
Deferred tax assets	¥ 5,629	¥ 5,085	\$ 45,324
Deferred tax liabilities			
Prepaid pension cost	¥ (332)	¥ (540)	\$ (4,817)
Valuation difference on available-for-sale securities	(933)	(1,343)	(11,972)
Unrealized intercompany profit	(105)	(105)	(937)
Other	(150)	(203)	(1,807)
Total: deferred tax liabilities	(1,520)	(2,191)	(19,533)
Net: deferred tax assets	¥ 4,109	¥ 2,894	\$ 25,791

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:

	2016	2017
The statutory effective tax rate	33.06%	30.86%
(Adjustments)		
Permanent differences (expense)	4.09	1.82
Permanent differences (income)	(2.38)	(0.33)
Per capita levy on inhabitant tax	1.42	0.85
Consolidated adjustments	2.21	0.28
Increase (Decrease) in valuation allowance	2.07	(0.40)
Foreign corporation tax	6.19	3.19
Downward adjustment of deferred tax assets at the year end due to the change in corporate tax rates	1.57	—
Other	(3.03)	(2.59)
Actual burden tax rates after the application of tax effect accounting	45.20%	33.68%

20. 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, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Retirement benefit obligation at the beginning of year	¥25,696	¥26,679	\$237,803
Service cost	1,133	1,233	10,989
Interest cost	152	—	—
Actuarial gain and loss	1,442	221	1,972
Retirement benefits paid	(1,744)	(1,495)	(13,330)
Retirement benefit obligation at the end of year	¥26,679	¥26,638	\$237,434

(2) The changes in the plan assets during the years ended March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Plan assets at the beginning of year	¥26,840	¥26,686	\$237,864
Expected return on plan assets	430	448	3,992
Actuarial gain	(1,540)	1,336	11,909
Contributions by the Company	2,370	794	7,078
Retirement benefits paid	(1,414)	(1,212)	(10,806)
Plan assets at the end of year	¥26,686	¥28,052	\$250,037

(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, 2016 and 2017 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Funded retirement benefit obligation	¥26,241	¥26,176	\$233,317
Plan assets at fair value	(26,686)	(28,052)	(250,037)
	¥ (445)	¥ (1,876)	\$ (16,720)
Unfunded retirement benefit obligation	438	462	4,117
Net liability for retirement benefits in the balance sheet	¥(7)	¥ (1,414)	\$ (12,603)
Net defined benefit liability	¥ 1,085	¥ 357	\$ 3,185
Net defined benefit asset	(1,092)	(1,771)	(15,788)
Net liability for retirement benefits in the balance sheet	¥ (7)	¥ (1,414)	\$ (12,603)

(4) The components of retirement benefit expense for the years ended March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Service cost	¥ 1,133	¥ 1,233	\$ 10,989
Interest cost	152	—	—
Expected return on plan assets	(430)	(448)	(3,992)
Amortization of actuarial gain and loss	112	670	5,972
Retirement benefit expense	¥ 967	¥ 1,455	\$ 12,969

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, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Actuarial gain and loss	¥ (2,870)	¥ 1,785	\$ 15,909
Total	¥ (2,870)	¥ 1,785	\$ 15,909

(6) The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrecognized actuarial gain and loss	¥964	¥(821)	\$(7,320)
Total	¥964	¥(821)	\$(7,320)

(7) The fair value of plan assets, major category, as a percentage of total plan assets as of March 31, 2016 and 2017 are as follows:

	2016	2017
Bonds	39%	39%
Stocks	44	47
General accounts	6	6
Cash and deposits	2	1
Others	9	7
Total	100%	100%

Note: Total plan assets include retirement benefit trusts of 10% and 12% that are set up for a corporate pension plan as of March 31, 2016 and 2017, 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:

	2016	2017
Discount rates	0.0%	0.1%
Expected rates of long-term return on plan assets	0.9-2.0%	1.0-2.0%
Expected rates of increase in salary	3.2-5.0%	3.1-4.9%

21. 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 and non-deliverable forwards to hedge the risk.

Securities and 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, 2016 are as follows:

	Millions of yen		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	¥ 66,398	¥ 66,398	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	172,410	172,410	—
(3) Securities and investment securities	11,720	11,731	11
(4) Accounts receivable — other	21,310	21,310	—
Total Assets	¥271,838	¥271,849	¥ 11
Liabilities			
(1) Notes payable, accounts payable for construction contracts and other	¥129,562	¥129,562	¥ —
(2) Electronically recorded obligations—operating	15,824	15,824	—
(3) Short-term loans payable	23,709	23,709	—
(4) Bonds payable	20,000	20,290	290
(5) Long-term loans payable ^(*)	30,490	30,630	140
Total Liabilities	¥219,585	¥220,015	¥430
Derivative transaction ^(*)	¥ (35)	¥ (35)	¥ —

(*) Long-term loans payable includes the current portion of long-term loans payable.

(*) 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, (4) 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.

(3) Securities and 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, (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.

(Note 2) Since unlisted stocks (balance on consolidated balance sheet ¥2,903 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 "(3) Securities and investment securities."

Notes to the Consolidated Financial Statements

(Note 3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2016

	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	¥ 66,351	¥ —	¥ —	¥—
Notes receivable, accounts receivable from completed construction contracts and other	164,453	7,957	—	—
Securities and investment securities				
Held-to-maturity bonds				
National and local government bonds	32	127	79	—
Corporate bonds	—	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	—	—
Other	—	—	—	—
Accounts receivable – other	21,310	—	—	—
Total	¥252,146	¥8,084	¥ 79	¥—

(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, 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) Securities and investment securities	13,124	13,132	8
(4) Accounts receivable – other	16,998	16,998	—
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 ^(*)	23,443	23,512	69
Total Liabilities	¥197,598	¥197,996	¥398
Derivative transaction ^(*)	¥ 51	¥ 51	¥ —

	Thousands of U.S. dollars		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	\$ 645,902	\$ 645,902	\$ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	1,465,914	1,465,914	—
(3) Investment securities	116,980	117,050	70
(4) Accounts receivable – other	151,507	151,507	—
Total Assets	\$2,380,303	\$2,380,373	\$ 70
Liabilities			
(1) Notes payable, accounts payable for construction contracts and other	\$ 996,681	\$ 996,681	\$ —
(2) Electronically recorded obligations – operating	232,273	232,273	—
(3) Short-term loans payable	145,094	145,094	—
(4) Bonds payable	178,269	181,202	2,933
(5) Long-term loans payable ^(*)	208,963	209,583	619
Total Liabilities	\$1,761,280	\$1,764,832	\$3,552
Derivative transaction ^(*)	\$ 458	\$ 458	\$ —

(*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, (4) 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.

(3) 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.

(Note 2) Since unlisted stocks (balance on consolidated balance sheet ¥2,920 million (U.S.\$26,023 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 "(3) Investment securities."

(Note 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	¥ 72,416	¥ —	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts and other	159,740	4,721	—	—
Investment securities				
Held-to-maturity bonds				
National and local government bonds	—	137	71	—
Corporate bonds	—	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	—	—
Other	—	—	—	—
Accounts receivable – other	16,998	—	—	—
Total	¥249,154	¥4,858	¥71	¥—

	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	\$ 645,479	\$ —	\$ —	\$—
Notes receivable, accounts receivable from completed construction contracts and other	1,423,834	42,080	—	—
Investment securities				
Held-to-maturity bonds				
National and local government bonds	—	1,224	628	—
Corporate bonds	—	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	—	—
Other	—	—	—	—
Accounts receivable – other	151,507	—	—	—
Total	\$2,220,820	\$43,304	\$628	\$—

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

22. 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 income 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

	Reportable segment				Total	Other (Note 1)	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					
Year ended March 31, 2016									
Net sales:									
Sales to third parties	¥150,241	¥165,413	¥162,560	¥4,784	¥482,998	¥8,566	¥491,564	¥ —	¥ 491,564
Intersegment sales and transfers	322	4	—	178	504	2,231	2,735	(2,735)	—
Total	150,563	165,417	162,560	4,962	483,502	10,797	494,299	(2,735)	491,564
Segment profit (loss)	9,256	10,543	1,686	(630)	20,855	(250)	20,605	13	20,618
Other item:									
Depreciation	1,937	443	2,574	57	5,011	548	5,559	(10)	5,549

Millions of yen

	Reportable segment				Total	Other (Note 1)	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					
Year ended March 31, 2017									
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

Thousands of U.S. dollars

	Reportable segment				Total	Other (Note 1)	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					
Year ended March 31, 2017									
Net sales:									
Sales to third parties	\$1,380,606	\$1,335,835	\$1,636,154	\$35,216	\$4,387,811	\$71,911	\$4,459,722	\$ —	\$4,459,722
Intersegment sales and transfers	4,055	42	—	1,263	5,360	17,429	22,789	(22,789)	—
Total	1,384,661	1,335,877	1,636,154	36,479	4,393,171	89,340	4,482,511	(22,789)	4,459,722
Segment profit	86,424	99,746	19,337	4,714	210,221	6,093	216,314	57	216,371
Other item:									
Depreciation	17,809	5,349	22,586	504	46,248	3,847	50,095	(56)	50,039

Notes

(1) Division of "Other" includes shipbuilding, leasing business, insurance business and consulting business.

(2) The adjustment of segment profit (loss) is intersegment elimination.

(3) Segment profit is adjusted with operating income in the consolidated statement of income.

(Related information)

For the year ended March 31, 2016

1. Information of each products and service

Please refer to above.

2. Geographical information

(1) Net sales

Japan	Southeast Asia	Other	Total
¥328,887 million	¥161,924 million	¥753 million	¥491,564 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
¥ 52,816 million	¥ 17,588 million	¥22 million	¥70,426 million

3. Each main customer

Name of Customer	Net sales	Related segment
Government of Singapore	¥67,837 million	Overseas segment

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 U.S.\$2,823,569 thousand	¥177,405 million U.S.\$1,581,288 thousand	¥6,155 million U.S.\$54,866 thousand	¥500,336 million U.S.\$4,459,723 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
¥ 54,183 million U.S.\$ 482,954 thousand	¥17,680 million U.S.\$157,592 thousand	¥839 million U.S.\$7,479 thousand	¥72,702 million U.S.\$648,025 thousand

3. Each main customer

Name of Customer	Net sales	Related segment
Government of Singapore	¥99,629 million U.S.\$888,035 thousand	Overseas segment

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

For the year ended March 31, 2016

There is no impairment loss divided by reportable segment.

The amount and contents of impairment loss which is not divided by reportable segment is omitted to disclose to Note 12 Extraordinary losses.

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 is omitted to disclose to Note 12 Extraordinary losses.

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

For the year ended March 31, 2016

None

For the year ended March 31, 2017

None

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

For the year ended March 31, 2016

None

For the year ended March 31, 2017

None

23. Amounts per share

1. Per share information is summarized as follows:

	Yen		U.S. dollars
	2016	2017	2017
Net assets per share	¥281.17	¥337.10	\$3.00
Profit attributable to owners of parent per share	27.30	53.42	0.48

Basic profit attributable to owners of parent per share is calculated by the weighted average number of outstanding common stocks during the year.

2. For the years ended March 31, 2016 and 2017, diluted profit attributable to owners of parent per share is not disclosed, because the dilutive potential of shares of common stock is none.

24. Significant subsequent events

Dividends

For the year ended March 31, 2017

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, 2017, was approved at the general shareholders' meeting held on June 27, 2017 and became effective June 28, 2017:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Cash dividends (¥12 (u.s.\$0.11) per share)	¥3,431	\$30,581

Independent Auditor's Report



Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011, Japan

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

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, 2017, 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, 2017, 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 27, 2017
Tokyo, Japan

A member firm of Ernst & Young Global Limited



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
	2013	2014	2015	2016	2017	2017
Orders received	¥281,428	¥449,146	¥722,341	¥443,182	¥465,939	\$4,153,126
Civil engineering	131,883	274,182	405,004	195,832	241,165	2,149,612
Building construction	148,423	172,482	311,453	244,240	222,656	1,984,630
Development business and other	1,122	2,482	5,884	3,110	2,118	18,884
Net sales	329,510	355,927	393,711	457,862	471,459	4,202,325
Civil engineering	179,012	191,384	216,009	235,976	251,329	2,240,208
Building construction	149,210	162,101	175,633	216,925	216,037	1,925,639
Development business and other	1,288	2,442	2,069	4,961	4,093	36,478
Contract backlog	315,084	416,885	762,370	719,343	707,213	6,303,711
Civil engineering	163,471	251,106	452,830	391,952	378,001	3,369,297
Building construction	151,574	165,701	305,647	325,349	329,144	2,933,808
Development business and other	39	78	3,893	2,042	68	606
Total assets	282,616	283,701	345,576	356,335	355,313	3,167,067
Net assets	61,317	65,578	69,795	74,456	87,156	776,857
Ordinary income	6,385	8,152	9,044	17,807	21,117	188,221
Profit before income taxes	5,100	7,526	7,611	12,615	20,431	182,107
Profit	2,320	3,276	4,520	6,855	13,423	119,649
Cash dividends	572	572	1,144	1,715	3,431	30,581
Per share of common stock:						U.S. dollars
Net assets	¥214.46	¥229.37	¥244.12	¥260.43	¥304.84	\$2.72
Profit	8.12	11.46	15.81	23.98	46.95	0.42
Cash dividends	2.00	2.00	4.00	6.00	12.00	0.11
Number of employees	2,386	2,390	2,441	2,522	2,572	

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥112.19 per U.S.\$1, prevailing on March 31, 2017.

Non-Consolidated Balance Sheets

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Current assets:			
Cash and deposits	¥ 52,496	¥ 64,443	\$ 574,405
Trade receivables:			
Notes	12,635	7,857	70,032
Accounts	167,206	164,201	1,463,596
Subsidiaries and affiliates	9,545	5,126	45,687
Securities	32	—	—
Inventories:			
Costs on uncompleted construction contracts	11,824	10,022	89,333
Real estate for sale and development projects in progress	5,656	3,839	34,217
Raw materials and supplies	836	844	7,526
Deferred tax assets	2,569	2,484	22,143
Other	3,348	4,106	36,599
Allowance for doubtful accounts	(897)	(777)	(6,926)
Total current assets	265,250	262,145	2,336,612
Property, plant and equipment:			
Land	30,770	29,884	266,367
Buildings and structures	32,980	33,224	296,141
Machinery, equipment and vehicles	14,716	15,331	136,654
Dredgers and vessels	26,908	28,102	250,487
Construction in progress	440	4,223	37,640
Other	364	350	3,125
Total property, plant and equipment	106,178	111,114	990,414
Less: Accumulated depreciation	(55,602)	(57,755)	(514,805)
Property, plant and equipment — net	50,576	53,359	475,609
Intangible assets:	1,412	1,370	12,225
Investments and other assets:			
Stock of and long-term loans receivable from subsidiaries and affiliates	19,665	18,154	161,817
Investment securities	14,466	15,910	141,814
Long-term loans receivable	55	28	246
Deferred tax assets	719	253	2,253
Other	5,133	4,423	39,424
Allowance for doubtful accounts	(941)	(329)	(2,933)
Total investments and other assets	39,097	38,439	342,621
Total assets	¥356,335	¥355,313	\$3,167,067

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Current liabilities:			
Short-term loans payable			
Bank	¥ 22,009	¥14,578	\$129,941
Current portion of long-term loans payable and bonds payable	10,051	7,853	69,999
Trade payable:			
Notes	23,757	17,037	151,856
Accounts	93,466	85,353	760,787
Electronically recorded monetary payable	15,130	25,411	226,504
Subsidiaries and affiliates	7,347	6,765	60,300
Advance received on uncompleted construction contracts	25,634	28,617	255,080
Deposits received	24,373	28,968	258,204
Income taxes payable	5,788	5,273	46,996
Provision for loss on construction contracts	2,312	2,023	18,030
Provision for warranties for completed construction	1,450	1,552	13,831
Other provision	2,403	1,998	17,809
Other	2,875	2,359	21,032
Total current liabilities	236,595	227,787	2,030,369
Non-current liabilities:			
Bonds payable	20,000	20,000	178,269
Long-term loans payable	20,414	15,590	138,964
Provision for retirement benefits	601	787	7,019
Deferred tax liabilities for land revaluation	3,869	3,691	32,904
Other	400	302	2,685
Total non-current liabilities	45,284	40,370	359,841
Total liabilities	281,879	268,157	2,390,210
Net assets:			
Capital stock	30,450	30,450	271,414
Authorized — 599,135,000 shares			
Issued shares — 286,013,910 shares in 2016 and 2017			
Capital surplus			
Legal capital surplus	12,380	12,380	110,345
Other capital surplus	6,007	6,007	53,544
Total capital surplus	18,387	18,387	163,889
Retained earnings			
Retained earnings brought forward	19,022	31,113	277,330
Total retained earnings	19,022	31,113	277,330
Less: Treasury stock	(26)	(26)	(232)
Valuation difference on available-for-sale securities	2,299	3,242	28,893
Deferred gains or losses on hedges	21	69	617
Revaluation reserve for land	4,303	3,921	34,946
Total net assets	74,456	87,156	776,857
Total liabilities and net assets	¥356,335	¥355,313	\$3,167,067

Non-Consolidated Statement of Income

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Construction business:			
Net sales	¥452,901	¥467,366	\$4,165,847
Cost of sales	420,331	431,149	3,843,026
Gross profit	32,570	36,217	322,821
Development business and other:			
Net sales	4,961	4,093	36,478
Cost of sales	5,406	3,403	30,328
Gross profit(loss)	(445)	690	6,150
Total:			
Total net sales	457,862	471,459	4,202,325
Total cost of sales	425,737	434,552	3,873,354
Total gross profit	32,125	36,907	328,971
Selling, general and administrative expenses	14,006	15,251	135,939
Operating income	18,119	21,656	193,032
Non-operating income:			
Interest and dividends income	293	606	5,400
Interest and dividends income from subsidiaries and affiliates	1,232	277	2,471
Other	469	381	3,396
	1,994	1,264	11,267
Non-operating expenses:			
Interest expenses	1,101	799	7,119
Foreign exchange losses	892	850	7,574
Other	313	154	1,385
	2,306	1,803	16,078
Ordinary income	17,807	21,117	188,221
Extraordinary income	264	103	921
Extraordinary losses	5,456	789	7,035
Profit before income taxes	12,615	20,431	182,107
Income taxes:			
Current	6,254	7,066	62,984
Deferred	(494)	(58)	(526)
Total income taxes	5,760	7,008	62,458
Profit	¥ 6,855	¥13,423	\$119,649
Profit per share of common stock			
	Yen		U.S. dollars
Basic	¥23.98	¥46.95	\$0.42

Company Data

Company Outline

(As of March 31, 2017)

Company Name	Penta-Ocean Construction Co., Ltd.
Founded	April 1896
Established	April 1950
Head Office	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.\$271.4 million)
Employees	2,572 (3,074 consolidated)
Website	http://www.penta-ocean.co.jp

Members of the Board and Audit & Supervisory Board Members

(As of June 27, 2017)

President, Chief Executive Officer and Representative Director
Takuzo Shimizu

Executive Vice President, Representative Director
Kunihiko Sasaki Kazuya Ueda

Members of the Board

Akihiko Togo Yuji Nakamitsu Tetsushi Noguchi
Michio Inatomi Hiroshi Watanabe Yasuhiro Kawashima*
Hidenori Takahashi* Naoki Furuya*

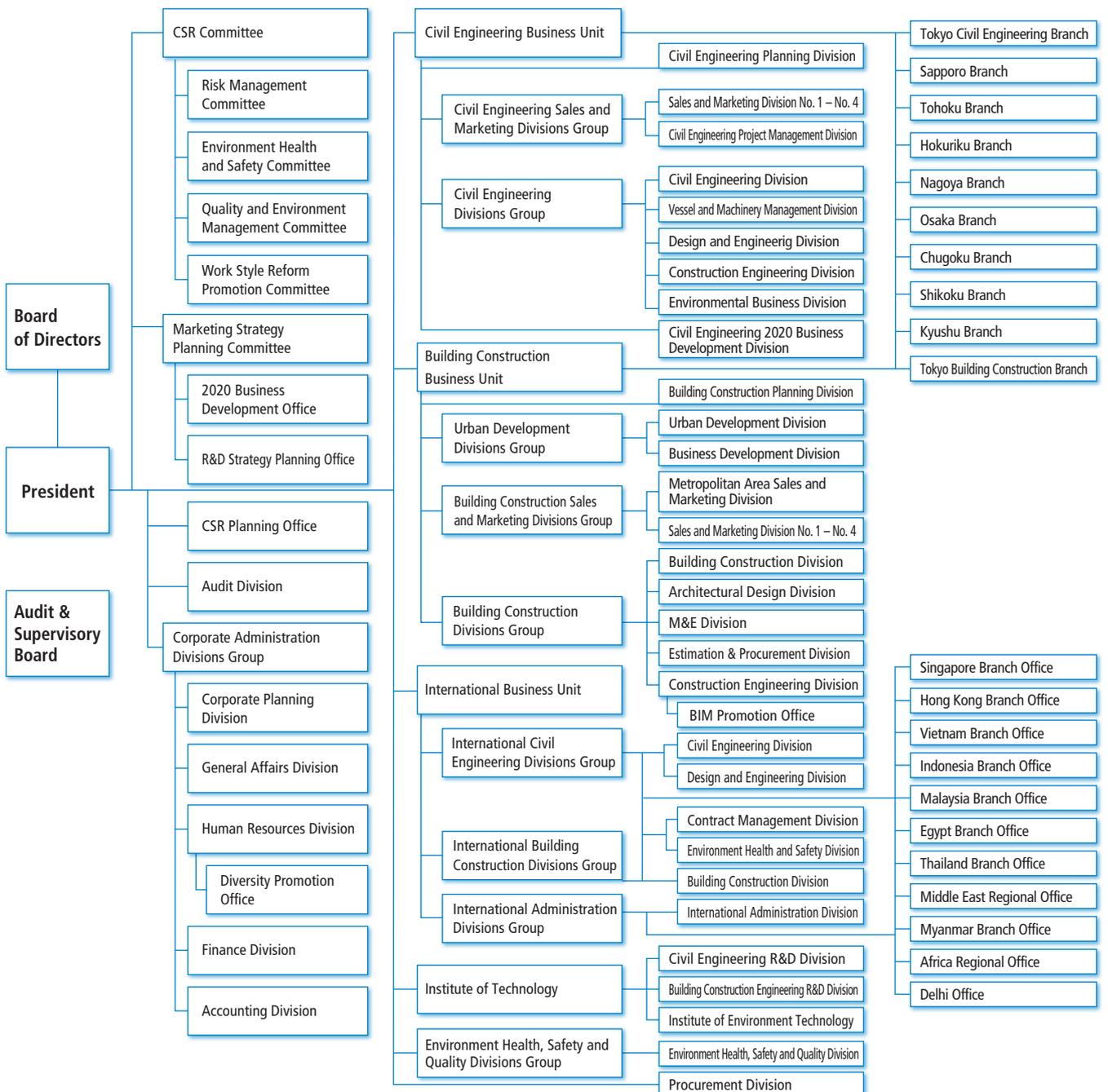
Audit & Supervisory Board Members

Takeshi Miyazono Hironaga Fukuda* Yoshiaki Ohashi*
Tatsuya Toyoshima*

* Indicates external members.

Organization Chart

(As of April 1, 2017)



Penta-Ocean Construction Network

(As of July 31, 2017)



1 Head Office

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

2 Singapore Branch Office

1 Kim Seng Promenade, #11-03, Great World City, East Tower, 237994 Singapore
Tel: 65-6338-8966 Fax: 65-6337-0987

3 Hong Kong Branch Office

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

4 Vietnam Branch Office

4th Floor, 18 Tran Hung Dao Street, Hanoi, Vietnam
Tel: 84-24-3824-1360 Fax: 84-24-3824-1444

5 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

6 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

7 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

8 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

9 Middle East Regional Office

Office No.15424, Jafza LOB 15. P.O. Box 118791, Dubai, U.A.E.
Tel: 971-4-880-8824 Fax: 971-4-880-8834

10 Myanmar Branch Office

Room 202, La Pyayt Wun Plaza, No.37 Alanpya Pagoda Road, Dagon Township, Yangon 11191 Myanmar
Tel: 95-1-370839 Fax: 95-1-370839

11 Africa Regional Office

Av. Julius Nyerere, no. 140, 5 Ander, Maputo, Mozambique
Tel: 258-84-866-6114 Fax: 258-21-483144

12 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

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
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Non–Equity Affiliates

Miyajima Aqua Partners Co., Ltd.	Hiroshima, Japan
Matsuyama Environment Technology Co., Ltd.	Ehime, Japan

Investor Information

(As of March 31, 2017)

Fiscal Year	April 1 – March 31
Common Stock	Authorized: 599,135,000 Issued: 285,903,296 (excluding 110,614 shares of treasury stock)
Stock Listing	First Section of the Tokyo and Nagoya Stock Exchanges
Shareholders	39,241
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 Service Bank, Ltd. (Trust Account)	32,783	11.5
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,969	4.5
Mizuho Bank, Ltd.	7,059	2.5
Meiji Yasuda Life Insurance Co.	6,656	2.3
JUNIPER	5,318	1.9
Japan Trustee Services Bank, Ltd. (Trust Account)	4,568	1.6
NOMURA BANK (LUXEMBOURG) S.A. S/A NOMURA MULTI CURRENCY JAPAN STOCK LEADERS FUND	4,480	1.6
Sompo Japan Nipponkoa Insurance Inc.	4,280	1.5
Citibank, N.A., Tokyo Branch	4,162	1.5
Tokio Marine & Nichido Fire Insurance Co., Ltd.	3,934	1.4



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