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
	2012	2013	2014	2015	**2016**	**2016**
Net sales	¥328,005	¥349,839	¥381,182	¥426,238	**¥491,564**	**$4,362,478**
Construction	316,239	341,067	372,367	414,892	**477,164**	**4,234,684**
Development business	2,460	1,143	2,447	1,912	**4,803**	**42,622**
Other	9,306	7,629	6,368	9,434	**9,597**	**85,172**
Total assets	311,917	296,726	301,627	366,170	**378,766**	**3,361,433**
Net assets excluding non-controlling interests	62,382	65,080	67,339	77,033	**80,588**	**715,191**
Ordinary income	7,448	6,560	9,160	11,393	**19,409**	**172,245**
Profit before income taxes	6,308	5,018	8,740	10,176	**14,242**	**126,396**
Profit attributable to owners of parent	1,622	2,030	3,763	6,183	**7,806**	**69,274**
Cash dividends	572	572	572	1,144	**1,715**	**15,224**
Per share of common stock:	Yen					U.S. dollars
Net assets excluding non-controlling interests	¥218.19	¥227.63	¥235.53	¥269.44	**¥281.87**	**$2.50**
Profit attributable to owners of parent	5.67	7.10	13.16	21.63	**27.30**	**0.24**
Cash dividends	2.00	2.00	2.00	4.00	**6.00**	**0.05**
Number of employees	2,924	2,911	2,905	2,949	**3,025**	

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥112.68 per U.S.$1, prevailing on March 31, 2016.

Business Performance

The net sales for the Group amounted to ¥491,564 million (US$4,362.5 million), increased by ¥65,326 million (US$579.8 million) (15.3%) compared to the previous consolidated fiscal year. Operating profits totaled ¥20,618 million (US$183.0 million), increased by ¥8,324 million (US$73.9 million) (67.7%) compared to the previous consolidated fiscal year. Ordinary profits totaled ¥19,409 million (US$172.2 million), increased by ¥8,016 million (US$71.1 million) (70.4%) compared to the previous consolidated fiscal year. Current net income totaled ¥7,806 million (US$69.3 million), increased by ¥1,622 million (US$14.4 million) (26.2%) compared to the previous consolidated fiscal year.

Gross operating profits rose because sales grew through the steady progress of ongoing construction projects and the income and expenditure for construction work improved, although extraordinary losses, such as the impairment losses of the shipbuilding and industrial real estate business, were posted. All operating profits, ordinary profits, and current net profits achieved an increase.

Segment Information

The performance of our domestic Civil Engineering Business remains high, although the number of public works is declining. In these circumstances, sales amounted to ¥150,563 million (US$1,336.2 million), increased by ¥2,778 million (US$24.6 million) (1.9%) compared to the previous consolidated fiscal year. Segment profits totaled ¥9,256 million (US$82.1 million), decreased by ¥3,948 million (US$35.0 million) (-74.4%) compared to the previous consolidated fiscal year.

In our domestic Building Construction Business, private equipment investment is gently increasing due to the improvement of corporate earnings, etc., and housing investment is recovering. In that situation, sales amounted to ¥165,417 million (US$1,468.0 million), increased by ¥34,651 million (US$307.5 million) (26.5%) compared to the previous consolidated fiscal year. Segment profits totaled ¥10,543 million (US$93.6 million), increased by ¥8,507 million (US$75.5 million) (417.7%) compared to the previous consolidated fiscal year.

In our overseas Construction Business, sales amounted to ¥162,560 million (US$1,442.7 million), increased by ¥24,087 million (US$213.8 million) (17.4%) compared to the previous consolidated fiscal year. Segment profits totaled ¥1,686 million (US$15.0 million), decreased by ¥3,135 million (US$27.8 million) (-65.0%) compared to the previous consolidated fiscal year.

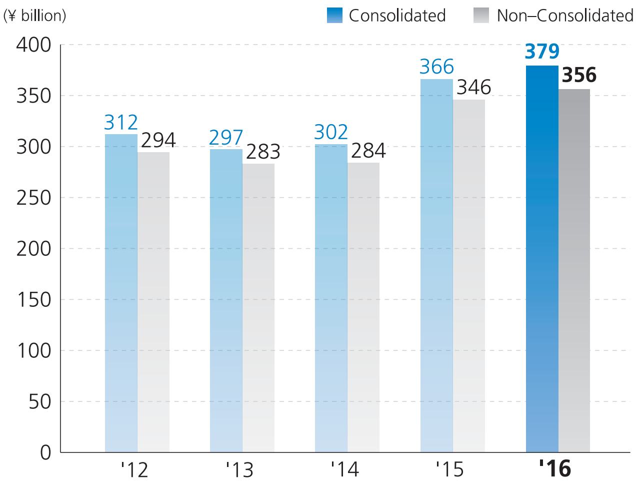
In our domestic Development Business, sales amounted to ¥4,962 million (US$44.0 million), increased by ¥2,892 million (US$25.7 million) (139.8%) compared to the previous consolidated fiscal year. Segment deficit amounted to ¥630 million (US$5.6 million) (deficit of ¥279 million (US$2.5 million) in the previous consolidated fiscal year).

In our Other Businesses, mainly including sales of construction materials, machine leasing, shipbuilding and environment business, sales amounted to ¥10,797 million (US$95.8 million), increased by ¥600 million (US$5.3 million) (5.9%) compared to the previous consolidated fiscal year. Segment deficit totaled ¥250 million (US$2.2 million) (profits of ¥398 million (US$3.5 million) in the previous consolidated fiscal year).

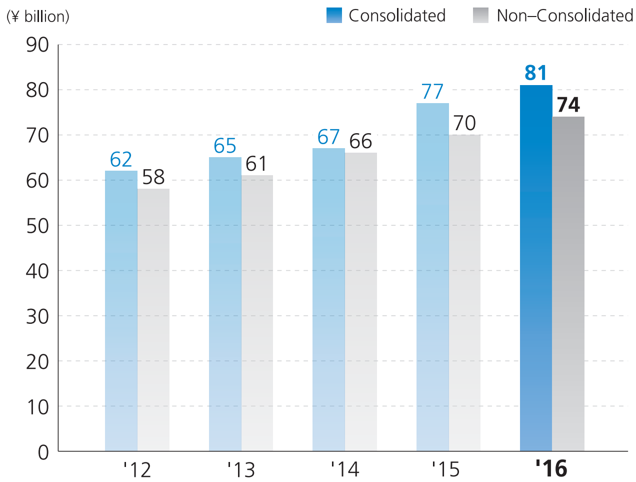
Orders received and contract backlog

In the domestic civil engineering business, our non–consolidated construction orders received decreased by 19.0% to ¥153,233 million (US$1,359.9 million) mainly due to a decrease in government related constructions because of the recoil after the undertaking of several large-scale land construction works in the previous fiscal year, etc. as well as a decrease in constructions from the private sector. In the domestic building construction business, sales decreased by 15.4% to ¥145,084 million (US$1,287.6 million) due to a decrease in government related constructions despite an increase in constructions from the private sector. In overseas building works, sales decreased by 60.2% to ¥141,754 million (US$1,258.0 million) mainly due to the recoil after the undertaking of large-scale construction works in the previous fiscal year. In total,

Total Assets



Total Net Assets



construction orders received decreased by 38.6% to ¥443,182 million (US$3,933.1 million).

Financial Position

Total assets of our group increased by ¥12,596 million (US$111.8 million) compared to the end of the previous consolidated fiscal year to ¥378,766 million (US$3,361.4 million) mainly due to the growth of cash and deposits through the collection of accounts receivable. Liabilities increased by ¥9,008 million (US$79.9 million) compared to the end of the previous consolidated fiscal year to ¥298,109 million (US$2,645.6 million) as electronically recorded debts and amounts received for uncompleted works augmented while the redemption of commercial paper, etc. decreased liabilities. Net assets increased by ¥3,588 million (US$31.8 million) compared to the end of the previous consolidated fiscal year to ¥80,657 million (US$715.8 million) mainly due to the growth of retained earnings through the posting of current net profit.

Cash flows

With regard to cash flow from operations, revenues increased by ¥59,840 million (US$531.1 million) due to the recording of income before income taxes of ¥14,242 million (US$126.4 million) and an increase in trade payable, and it resulted in an excess of ¥55,202 million (US$489.9 million) in income (an excess of ¥4,638 million (US$41.2 million) in expenditure in the previous consolidated fiscal year).

With regard to cash flow from investments, expenditures decreased by ¥4,358 million (US$38.7 million) compared to the previous consolidated fiscal year mainly due to a decrease in expenditures for the purchase of tangible fixed assets, and it resulted in an excess of ¥4,695 million (US$41.7 million) in expenditure (an excess of ¥9,053 million (US$80.3 million) in expenditure in the previous consolidated fiscal year).

Free cash flow from operations and investments resulted in an excess of ¥50,507 million (US$448.2 million) in income (an excess of ¥13,691 million (US$121.5 million) in expenditure in the previous consolidated fiscal year).

With regard to cash flow from financial activities, expenditures increased by ¥39,826 million (US$353.4 million) compared to the previous consolidated fiscal year mainly due to the redemption of commercial paper, and it resulted in an excess of ¥20,713 million (US$183.8 million) in expenditure (an excess of ¥19,113 million (US$169.6 million) in expenditure in the previous consolidated fiscal year).

From these results, cash and cash equivalents as of the end of this consolidated fiscal year increased by ¥27,568 million (US$244.7 million) (72.8%) compared to the end of the previous consolidated fiscal year to ¥65,434 million (US$580.7 million). The balance of interest-bearing debts at the end of this fiscal year resulted in ¥74,199 million (US$658.5 million) (¥72,474 million (US$643.2 million) on a non–consolidated basis).

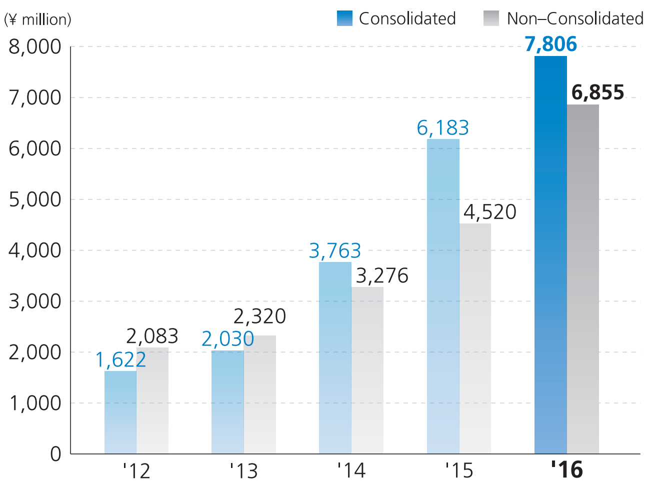
Dividends

Our basic policies are to increase earning power and enhance corporate value by forward–looking reinforcement of business infrastructure and implementation of technology development and capital investment, as well as to distribute stable dividends continuously to shareholders. Under these policies, we aim to achieve a dividend payout ratio of 20% to 25%. In addition, we plan to allocate internal reserves to the investment for technology, equipment, and improving our corporate value, etc. Upon considering the performance of the current fiscal year, progress in improving financial soundness, and business deployment in the future in an integrated manner, dividends of surplus for the current year were determined to be ¥6 per common share. The total amount of dividends was ¥1,715million (US$15.2 million).

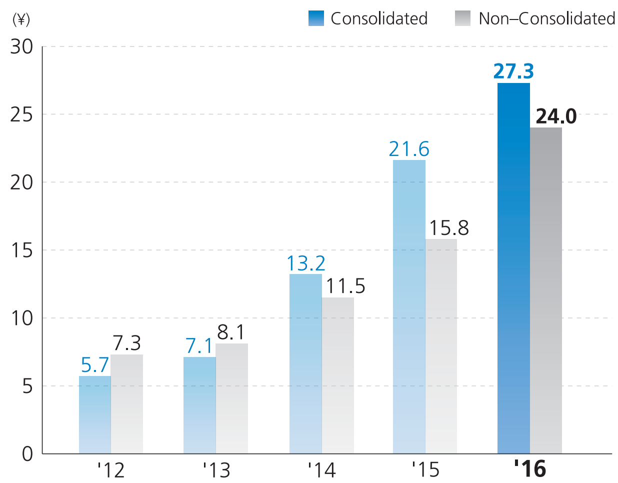
Our basic policy for dividends of surplus is a one–time payment annually at year–end and actual payment of dividends is determined by the shareholder's meeting.

*Exchange rate at the term end US$1＝¥112.68

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
	2015	2016	2016
Current assets:			
Cash and deposits (Note 20)	¥ 38,469	**¥ 66,398**	**$ 589,265**
Securities (Notes 3(3), 5, 6 and 20)	43	**32**	**281**
Trade receivables: (Note 20)			
Notes	13,088	**13,351**	**118,488**
Accounts	183,834	**180,368**	**1,600,713**
Inventories: (Note 3 (5))			
Costs on uncompleted construction contracts	9,898	**12,340**	**109,513**
Real estate for sale and development projects in progress	10,455	**6,307**	**55,976**
Other	2,571	**2,331**	**20,690**
Deferred tax assets (Note 17)	2,722	**2,708**	**24,033**
Other	6,457	**4,025**	**35,711**
Allowance for doubtful accounts (Note 3 (9))	(1,020)	**(903)**	**(8,014)**
Total current assets	266,517	**286,957**	**2,546,656**
Property, plant and equipment: (Notes 3 (6) and 3 (8))			
Land	37,326	**32,730**	**290,466**
Buildings and structures	35,310	**36,222**	**321,462**
Machinery, equipment and vehicles	17,156	**20,122**	**178,578**
Dredgers and vessels	68,744	**66,735**	**592,256**
Construction in progress	862	**531**	**4,708**
Total property, plant and equipment	159,398	**156,340**	**1,387,470**
Less: accumulated depreciation	(82,733)	**(85,914)**	**(762,465)**
Property, plant and equipment — net	76,665	**70,426**	**625,005**
Intangible assets (Note 3 (7))	1,143	**1,457**	**12,930**
Investments and other assets:			
Investment securities (Notes 3 (3), 5, 6 and 20)	16,662	**14,591**	**129,490**
Long–term loans receivables	1,050	**179**	**1,592**
Deferred tax assets (Note 17)	522	**1,401**	**12,430**
Net defined benefit asset (Note 19)	1,261	**1,092**	**9,686**
Other	3,505	**3,567**	**31,660**
Allowance for doubtful accounts (Note 3 (9))	(1,232)	**(962)**	**(8,535)**
Total investments and other assets	21,768	**19,868**	**176,323**
Deferred assets (Note 3 (19))	77	**58**	**519**
Total assets	¥366,170	**¥378,766**	**$3,361,433**

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Current liabilities:			
Short–term loans payable (Notes 7 and 20)	¥ 27,255	**¥ 23,709**	**$ 210,413**
Commercial papers (Notes 7 and 20)	19,996	**—**	**—**
Current portion of long–term loans payable and bonds payable (Notes 7 and 20)	11,031	**10,076**	**89,425**
Trade payable: (Note 20)			
Notes	26,906	**31,969**	**283,717**
Accounts	103,117	**102,176**	**906,782**
Electoronically recorded obligations–operating	9,808	**15,824**	**140,432**
Advance received on uncompleted construction contracts	21,524	**26,557**	**235,688**
Deposits received	15,473	**26,009**	**230,819**
Income taxes payable	2,533	**6,091**	**54,058**
Provision for loss on construction contracts (Note 3 (12))	3,021	**2,415**	**21,428**
Provision for warranties for completed construction (Note 3 (10))	705	**1,473**	**13,072**
Provision for bonuses (Note 3 (11))	1,542	**1,877**	**16,661**
Other	2,743	**3,315**	**29,413**
Total current liabilities	245,654	**251,491**	**2,231,908**
Non–current liabilities:			
Bonds payable (Notes 7 and 20)	20,000	**20,000**	**177,494**
Long–term loans payable (Notes 7 and 20)	16,615	**20,414**	**181,164**
Provision for directors' retirement benefits (Note 3 (13))	140	**174**	**1,547**
Net defined benefit liability (Notes 3 (14) and 19)	118	**1,085**	**9,626**
Deferred tax liabilities for land revaluation (Note 18 (2))	5,382	**3,869**	**34,337**
Other	1,193	**1,076**	**9,555**
Total non–current liabilities	43,448	**46,618**	**413,723**
Total liabilities	289,102	**298,109**	**2,645,631**
Commitments and contingent liabilities (Note 16)			
Net assets:			
Shareholders' equity:			
Capital stock	30,450	**30,450**	**270,234**
Authorized — 599,135,000 shares			
Issued shares — 286,013,910 shares 2015 and 2016			
Capital surplus (Note 18 (1))	18,387	**18,387**	**163,177**
Retained earnings (Note 18 (1))	16,646	**25,903**	**229,878**
Less: Treasury Shares	(25)	**(26)**	**(228)**
Total shareholders' equity	65,458	**74,714**	**663,061**
Accumulated other comprehensive income:			
Valuation difference on available–for–sale securities (Notes 3 (3) and 18 (3))	3,607	**2,300**	**20,409**
Deferred gains or losses on hedges	(17)	**21**	**184**
Revaluation reserve for land (Note 18 (2))	6,677	**4,303**	**38,191**
Foreign currency translation adjustment (Note 3 (2))	19	**(81)**	**(721)**
Remeasurements of defined benefit plans (Notes 3 (14) and 19)	1,289	**(669)**	**(5,933)**
Total accumulated other comprehensive income	11,575	**5,874**	**52,130**
Non-controlling interests	35	**69**	**611**
Total net assets	77,068	**80,657**	**715,802**
Total liabilities and net assets	¥366,170	**¥378,766**	**$3,361,433**

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
	2015	2016	2016
Construction business: (Note 3 (15))			
Net sales	¥414,892	¥477,164	$4,234,684
Cost of sales	388,148	441,859	3,921,366
Gross profit	26,744	35,305	313,318
Development business and other:			
Net sales	11,346	14,400	127,794
Cost of sales	10,617	13,694	121,533
Gross profit	729	706	6,261
Total:			
Total net sales	426,238	491,564	4,362,478
Total cost of sales	398,765	455,553	4,042,899
Total gross profit	27,473	36,011	319,579
Selling, general and administrative expenses	15,180	15,393	136,604
Operating income	12,293	20,618	182,975
Non–operating income:			
Interest and dividends income	309	329	2,916
Reversal of allowance for doubtful accounts	47	208	1,846
Other (Note 8)	561	503	4,469
	917	1,040	9,231
Non–operating expenses:			
Interest expenses	1,019	1,066	9,457
Foreign exchange losses	538	843	7,483
Other (Note 9)	260	340	3,021
	1,817	2,249	19,961
Ordinary income	11,393	19,409	172,245
Extraordinary income (Note 10)	550	267	2,370
Extraordinary losses (Note 11)	1,767	5,434	48,219
Profit before income taxes	10,176	14,242	126,396
Income taxes: (Notes 3(18) and 17)			
Current	2,924	7,018	62,278
Deferred	985	(581)	(5,149)
	3,909	6,437	57,129
Profit attributable to:	6,267	7,805	69,267
Non-controlling interests	84	(1)	(7)
Owners of parent	¥ 6,183	¥ 7,806	$ 69,274

	Yen		U.S. dollars
Profit attributable to owners of parent per share of common stock (Note 22)			
Basic	¥21.63	¥27.30	$0.24

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
	2015	**2016**	**2016**
Profit	¥ 6,267	**¥7,805**	**$69,267**
Valuation difference on available–for–sale securities	857	**(1,308)**	**(11,606)**
Deferred gains or losses on hedges	(8)	**38**	**340**
Revaluation reserve for land	550	**221**	**1,957**
Foreign currency translation adjustments	11	**(104)**	**(922)**
Remeasurements of defined benefit plans	3,797	**(1,958)**	**(17,376)**
Share of other comprehensive income of associates accounted for by the equity method	1	**—**	**—**
Total other comprehensive income (Note 13)	5,208	**(3,111)**	**(27,607)**
Comprehensive income	¥11,475	**¥4,694**	**$41,660**
(Breakdown)			
Comprehensive income attributable to owners of parent	¥11,595	**¥4,699**	**$41,700**
Comprehensive income attributable to non-controlling interests	(120)	**(5)**	**(40)**

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, 2015

	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	¥11,729	¥(25)	¥60,541
Cumulative effects of changes in accounting policies			(1,130)		(1,130)
Restated balance	30,450	18,387	10,599	(25)	59,411
Changes of items during period					
Dividends of surplus			(572)		(572)
Profit attributable to owners of parent			6,183		6,183
Reversal of revaluation reserve for land			440		440
Purchase of treasury shares				(0)	(0)
Change in scope of equity method			(4)		(4)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	6,047	(0)	6,047
Balance at the end of current period	¥30,450	¥18,387	¥16,646	¥(25)	¥65,458

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available–for–sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥2,750	¥(11)	¥6,568	¥ (1)	¥(2,508)	¥ 6,798	¥155	¥67,494
Cumulative effects of changes in accounting policies								(1,130)
Restated balance	2,750	(11)	6,568	(1)	(2,508)	6,798	155	66,364
Changes of items during period								
Dividends of surplus								(572)
Profit attributable to owners of parent								6,183
Reversal of revaluation reserve for land								440
Purchase of treasury shares								(0)
Change in scope of equity method								(4)
Net changes of items other than shareholders' equity	857	(6)	109	20	3,797	4,777	(120)	4,657
Total changes of items during period	857	(6)	109	20	3,797	4,777	(120)	10,704
Balance at the end of current period	¥3,607	¥(17)	¥6,677	¥19	¥1,289	¥11,575	¥ 35	¥77,068

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
Cumulative effects of changes in accounting policies					—
Restated balance	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)
Change in scope of equity method					—
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							
	Valuation difference on available–for–sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥3,607	¥(17)	¥6,677	¥19	¥1,289	¥11,575	¥35	¥77,068
Cumulative effects of changes in accounting policies								—
Restated balance	3,607	(17)	6,677	19	1,289	11,575	35	77,068
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)
Change in scope of equity method								—
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, 2016

	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	$270,234	$163,177	$147,732	$(224)	$580,919
Cumulative effects of changes in accounting policies					—
Restated balance	270,234	163,177	147,732	(224)	580,919
Changes of items during period					
Dividends of surplus			(10,149)		(10,149)
Profit attributable to owners of parent			69,274		69,274
Reversal of revaluation reserve for land			23,021		23,021
Purchase of treasury shares				(4)	(4)
Change in scope of equity method					—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	82,146	(4)	82,142
Balance at the end of current period	$270,234	$163,177	$229,878	$(228)	$663,061

	Thousands of U.S. dollars							
	Accumulated other comprehensive income							
	Valuation difference on available–for–sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	$32,014	$(155)	$59,256	$168	$11,443	$102,726	$313	$683,958
Cumulative effects of changes in accounting policies								—
Restated balance	32,014	(155)	59,256	168	11,443	102,726	313	683,958
Changes of items during period								
Dividends of surplus								(10,149)
Profit attributable to owners of parent								69,274
Reversal of revaluation reserve for land								23,021
Purchase of treasury shares								(4)
Change in scope of equity method								—
Net changes of items other than shareholders' equity	(11,605)	339	(21,065)	(889)	(17,376)	(50,596)	298	(50,298)
Total changes of items during period	(11,605)	339	(21,065)	(889)	(17,376)	(50,596)	298	31,844
Balance at the end of current period	$20,409	$184	$38,191	$(721)	$ (5,933)	$ 52,130	$611	$715,802

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
	2015	2016	2016
Cash flows from operating activities:			
Profit before income taxes	¥10,176	**¥14,242**	**$126,396**
Adjustment to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	5,288	**5,550**	**49,250**
Impairment loss	1,440	**4,908**	**43,560**
Increase (Decrease) in allowance for doubtful accounts	(2,695)	**(387)**	**(3,435)**
Increase (Decrease) in net defined benefit liability	(3,294)	**31**	**274**
Decrease (Increase) in net defined benefit asset	983	**(1,875)**	**(16,641)**
Interest and dividends income	(309)	**(329)**	**(2,916)**
Interest expenses	1,019	**1,066**	**9,457**
Foreign exchange losses (gains)	(1,492)	**1,676**	**14,877**
Equity in (earnings) losses of affiliates	(6)	**(7)**	**(61)**
Loss (Gain) on sales of property, plant and equipment	96	**392**	**3,479**
Loss (Gain) on sales of investment securities	(52)	**(209)**	**(1,852)**
Loss on valuation of securities and investment securities	3	**2**	**14**
Change in assets and liabilities:			
Decrease (Increase) in notes and accounts receivable–trade	(38,430)	**(2,567)**	**(22,784)**
Decrease (Increase) in costs on uncompleted construction contracts	(582)	**(2,459)**	**(21,820)**
Decrease (Increase) in real estate for sale and development projects in progress and other inventories	576	**4,353**	**38,632**
Increase (Decrease) in notes and accounts payable–trade	28,967	**8,833**	**78,389**
Increase (Decrease) in advances received on uncompleted construction contracts	5,295	**5,057**	**44,883**
Increase (Decrease) in other provision	504	**(270)**	**(2,404)**
Other, net	(8,865)	**21,584**	**191,552**
Subtotal	(1,378)	**59,591**	**528,850**
Interest and dividends income received	290	**353**	**3,140**
Interest expenses paid	(1,096)	**(1,108)**	**(9,835)**
Income taxes paid	(2,454)	**(3,634)**	**(32,250)**
Net cash provided by operating activities	(4,638)	**55,202**	**489,905**
Cash flows from investing activities:			
Purchase of investment securities	(292)	**(349)**	**(3,095)**
Proceeds from sales and redemption of short-term and long-term investment securities	147	**624**	**5,539**
Purchase of property, plant and equipment	(9,461)	**(6,227)**	**(55,259)**
Proceeds from sales of property, plant and equipment	450	**1,253**	**11,123**
Payments of loans receivable	(18)	**—**	**—**
Collection of loans receivable	203	**925**	**8,205**
Other, net	(82)	**(921)**	**(8,180)**
Net cash used in investing activities	(9,053)	**(4,695)**	**(41,667)**

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash flows from financing activities:			
Net increase (decrease) in short–term loans payable	3,158	**(2,268)**	**(20,127)**
Net increase (decrease) in commercial papers	19,996	**(19,996)**	**(177,461)**
Proceeds from long–term loans payable	10,120	**14,050**	**124,689**
Repayment of long–term loans payable	(13,387)	**(11,211)**	**(99,493)**
Proceeds from issuance bonds payable	9,943	**—**	**—**
Redemption of bonds	(10,000)	**—**	**—**
Cash dividends paid	(570)	**(1,137)**	**(10,096)**
Other, net	(147)	**(151)**	**(1,336)**
Net cash provided by (used in) financing activities	19,113	**(20,713)**	**(183,824)**
Effect of exchange rate change on cash and cash equivalents	503	**(2,226)**	**(19,753)**
Net increase (decrease) in cash and cash equivalents	5,925	**27,568**	**244,661**
Cash and cash equivalents at the beginning of the period	31,941	**37,866**	**336,049**
Cash and cash equivalents at the end of the period	¥37,866	**¥65,434**	**$580,710**
(Note) (1) Cash and cash equivalents are comprised as follows:			
Cash and deposits	¥38,469	**¥66,398**	**$589,265**
Less–Time deposits with maturity over three months	(603)	**(964)**	**(8,555)**
Cash and cash equivalents (Note 3 (17))	¥37,866	**¥65,434**	**$580,710**

See accompanying Notes to Consolidated Financial Statements.

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

1. Basis of preparation of consolidated financial statements

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

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

The figures in these financial statements are shown in U.S. dollars at the conversion rate of U.S.$1=112.68, the exchange rate prevailing on March 31, 2016. 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, 2016.

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

PT. Penta Ocean Construction was established and included in the scope of consolidation.

KD Shipping Incorporated was liquidated and excluded from the scope of consolidation.

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 12 overseas subsidiaries including Andromeda Five Pte, Ltd. is March 31. Closing date for other 5 overseas subsidiaries 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.

Penta-Ocean (Malaysia) Sdn. Bhd. and Angkutlaut Ltd. have changed their closing date from December 31 to March 31.

Therefore, the financial results of these two entities were consolidated covering the period from January 1, 2015 to March 31, 2016 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 and after April 1, 1998, 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 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 interest on bank 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 three 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 23.9 percent on taxable income, (b) enterprise tax of 5.9 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

(Change in Accounting Standard for Business Combinations, etc.)

The Company and its domestic consolidated subsidiaries adopted “Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21), “Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), “Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7), “Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2), “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10), and “Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4) effective from April 1, 2015. As a result, under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of profit (loss) attributable to owners of parent was amended, the reference to “minority interests” was changed to “non-controlling interests,” and accounting treatment for adjustments to provisional amounts during measurement period was also changed.

For the adoption of these accounting standards, the company and its domestic consolidated subsidiaries adopted the transitional provisions in item (4), paragraph 58-2 of the Accounting Standard for Business Combinations, item (4), paragraph 44-5 of the Accounting Standard for Consolidated Financial Statements, and item (4), paragraph 57-4 of the Accounting Standard for Business Divestitures effective from the April 1, 2015.

There is no effect on the consolidated profit and per share amounts for the fiscal year 2015.

5. Investment securities

(1) Held–to maturity debt securities

As of March 31, 2015	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	¥232	¥241	¥9
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥232	¥241	¥9
Securities whose fair value doesn't exceed their book value on consolidated B/S:			
National and local government bonds	¥ 35	¥ 34	¥(1)
Corporate bonds	10	10	—
Other	—	—	—
Subtotal	¥ 45	¥ 44	¥(1)
Total	¥277	¥285	¥8

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

	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	$2,109	$2,212	$103
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	$2,109	$2,212	$103
Securities whose fair value doesn't exceed their book value on consolidated B/S:			
National and local government bonds	$ —	$ —	$ —
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	$ —	$ —	$ —
Total	$2,109	$2,212	$103

(2) Other securities

As of March 31, 2015	Book value on consolidated B/S (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities whose book value on consolidated B/S exceeds their acquisition cost:			
Stock	¥13,079	¥7,770	¥5,309
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥13,079	¥7,770	¥5,309
Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:			
Stock	¥ 368	¥ 454	¥ (86)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	100	100	—
Other	—	—	—
Other	—	—	—
Subtotal	¥ 468	¥ 554	¥ (86)
Total	¥13,547	¥8,324	¥5,223

(Note) Since unlisted stocks (balance on consolidated balance sheet ¥2,772 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, 2016	Book value on consolidated B/S (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
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

	Book value on consolidated B/S (Thousands of U.S. dollars)	Acquisition cost (Thousands of U.S. dollars)	Difference (Thousands of U.S. dollars)
Securities whose book value on consolidated B/S exceeds their acquisition cost:			
Stock	$ 73,388	$41,631	$31,757
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	$ 73,388	$41,631	$31,757
Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:			
Stock	$ 28,512	$31,581	$ (3,069)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	$ 28,512	$31,581	$ (3,069)
Total	$101,900	$73,212	$28,688

(Note) Since unlisted stocks (balance on consolidated balance sheet ¥2,788 million (U.S.$24,743 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, 2015	Millions of yen		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	¥147	¥ 52	¥—
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	147	52	—
Other	—	—	—
Total	¥294	¥104	¥—

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	¥—

	Thousands of U.S. dollars		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	$4,569	$1,852	$—
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Total	$4,569	$1,852	$—

(4) Impairment of investment securities

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Other securities			
Stock	¥3	**¥2**	**$14**

6. Pledged assets

The following assets are pledged for fulfillment of construction contracts at March 31, 2015 and 2016.

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Securities	¥ 33	**¥ 32**	**$ 281**
Real estate for sale	644	**645**	**5,721**
Investment securities	304	**303**	**2,690**
Other (Investment and other assets)	5	**48**	**429**
Total	¥986	**¥1,028**	**$9,121**

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

Short–term and long–term loans, commercial papers and bonds payable as of March 31, 2015 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Short–term loans from banks and insurance companies (The weighted average interest rate is 0.60%.)	¥27,255	**¥23,709**	**$210,413**
Commercial papers	¥19,996	**—**	**—**
Long–term loans from banks and insurance companies due through 2021 (The weighted average interest rate is 1.01%.)	27,646	**30,490**	**270,590**
0.87% unsecured bonds payable due 2019	10,000	**10,000**	**88,747**
0.68% unsecured bonds payable due 2022	10,000	**10,000**	**88,747**
Less: current portion	(58,282)	**(33,785)**	**(299,838)**
Total	¥36,615	**¥40,414**	**$358,659**

The aggregate annual maturity of short–term and long–term loans, and bonds payable after March 31, 2016 is as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	**¥33,785**	**$299,838**
2018	**7,185**	**63,767**
2019	**16,204**	**143,807**
2020	**5,894**	**52,309**
2021 and thereafter	**11,131**	**98,776**
Total	**¥74,199**	**$658,497**

8. Non–operating income

The composition of Non–operating income–other for the fiscal years ended March 31, 2015 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Real estate rent	¥ 97	**¥144**	**$1,274**
Other	464	**359**	**3,195**
Total	¥561	**¥503**	**$4,469**

9. Non–operating expenses

The composition of Non–operating expenses–other for the fiscal years ended March 31, 2015 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Other	¥260	**¥340**	**$3,021**
Total	¥260	**¥340**	**$3,021**

10. Extraordinary income

The composition of Extraordinary income for the fiscal years ended March 31, 2015 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Gain on sales of non–current assets	¥ 82	**¥ 57**	**$ 509**
Gain on sales of investment securities	52	**209**	**1,852**
Gain on bargain purchase	200	**—**	**—**
Subsidy income	190	**—**	**—**
Other	26	**1**	**9**
Total	¥550	**¥267**	**$2,370**

Gain on bargain purchase is related to the additional acquisition of shares of the Company's consolidated subsidiary, Thai Penta–Ocean Co., Ltd.

11. Extraordinary losses

The composition of Extraordinary losses for the fiscal years ended March 31, 2015 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Loss on sales of non-current assets	¥ 177	¥ 449	$ 3,988
Loss on retirement of non-current assets	101	71	627
Impairment loss (*1)	1,440	4,908	43,560
Other	49	6	44
Total	¥1,767	¥5,434	$48,219

(*1) The Company recognized impairment loss for the following group of assets in the current fiscal years ended March 31, 2015 and 2016.

For the year ended March 31, 2015

Classification	Type of Assets	Location	Impairment loss
Leased assets	Land, Buildings	Hokkaido	¥49 million
Business assets	Land, Mining rights	Saga	¥1,391 million

In principle, the Company and its consolidated subsidiaries have classified the fixed assets by business control unit such as company, branch office, and business line, which controls its revenue and expenditure continuously.

Book values of above assets were written down to recoverable amounts due to following reasons. Management decision on disposal has been made and no alternative investment has been planned. The impairment loss (¥1,440 million) was accounted for as extraordinary losses.

The recoverable amounts were measured by net realizable amounts based on contract price or estimated sales price.

For the year ended March 31, 2016

Classification	Type of Assets	Location	Impairment loss
Business assets (site for plant, etc.)	Land	Hokkaido	¥686 million $6.086 thousand
Business assets (for shipbuilding business)	Land and buildings, etc.	Hiroshima	¥2,192 million $19.452 thousand
Business assets (for materials yard)	Land	Chiba	¥2,022 million $17,948 thousand
Idle assets	Land	Hokkaido	¥8 million $74 thousand

In principle, the Company and its consolidated subsidiaries have classified the fixed assets by business control unit such as company, branch office, and business line, which controls its revenue and expenditure continuously. 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, U.S.$43,486 thousand) 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 an idle asset and there is no plan to use it in the future. The impairment loss (¥8 million, U.S.$74 thousand) 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.

12. Research and development costs

Research and development costs charged to income are ¥1,633 million for the fiscal year 2015 and ¥1,730 million (U.S.$15,355 thousand) for the fiscal year 2016, respectively.

13. 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, 2015 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Valuation difference on available–for–sale securities			
Amount arising during the year	¥1,154	**¥(1,782)**	**$(15,815)**
Reclassification adjustment for gains and losses realized in net income	(52)	**(209)**	**(1,852)**
Amount before tax effect	1,102	**(1,991)**	**(17,667)**
Tax effect	(245)	**683**	**6,061**
Valuation difference on available–for–sale securities	857	**(1,308)**	**(11,606)**
Deferred gains or losses on hedges			
Amount arising during the year	(1,806)	**(99)**	**(875)**
Reclassification adjustment for gains and losses realized in net income	1,795	**155**	**1,374**
Amount before tax effect	(11)	**56**	**499**
Tax effect	3	**(18)**	**(159)**
Deferred gains or losses on hedges	(8)	**38**	**340**
Revaluation reserve for land			
Tax effect	550	**221**	**1,957**
Foreign currency translation adjustments			
Amount arising during the year	17	**(104)**	**(922)**
Reclassification adjustment for gains and losses realized in net income	(6)	**—**	**—**
Amount before tax effect	11	**(104)**	**(922)**
Tax effect	—	**—**	**—**
Foreign currency translation adjustments	11	**(104)**	**(922)**
Remeasurements of defined benefit plans			
Amount arising during the year	3,985	**(2,981)**	**(26,456)**
Reclassification adjustment for gains and losses realized in net income	1,817	**112**	**992**
Amount before tax effect	5,802	**(2,869)**	**(25,464)**
Tax effect	(2,005)	**911**	**(8,088)**
Remeasurements of defined benefit plans	3,797	**(1,958)**	**(17,376)**
Share of other comprehensive income of associates accounted for using equity method			
Amount arising during the year	1	**—**	**—**
Reclassification adjustment for gains and losses realized in net income	—	**—**	**—**
Share of other comprehensive income of associates accounted for using equity method	1	**—**	**—**
Total of other comprehensive income	¥5,208	**¥(3,111)**	**$(27,607)**

14. Summary of operating lease transactions

Future lease payments, about non–cancelable operating lease assets as of March 31, 2015 and 2016 are as follows:

<Borrower>

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Within one year	¥ 453	**¥453**	**$4,023**
Over one year	642	**189**	**1,676**
Total	¥1,095	**¥642**	**$5,699**

<Lender>

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Within one year	¥193	**¥—**	**$—**
Over one year	193	**—**	**—**
Total	¥386	**¥—**	**$—**

15. 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.

16. Commitments and contingent liabilities

As of March 31, 2016, the Company has liabilities for guarantee to bank loans made by customers amounting to ¥574 million (U.S.$5,093 thousand).

The Company also has the guarantee amounting to ¥987 million (U.S.$8,756 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.$354,988 thousand) for the purpose of flexible financing. Unused commitment line as of March 31, 2015 and 2016 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Commitment line			
Total of commitment line	¥32,621	**¥40,000**	**$354,988**
Use of commitment	¥ 9,374	**¥ 4,000**	**$ 35,499**
Total of unused commitment line	¥23,247	**¥36,000**	**$319,489**

The amount of total of commitment line in 2015 includes foreign currency commitment line of 30,000 thousand Singapore dollar (¥2,621 million) and the amount of use of commitment in 2015 includes 10,000 thousand Singapore dollar (¥874 million) related to the commitment line in Singapore dollar.

17. 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
	2015	**2016**	**2016**
Deferred tax assets			
Net operating loss carried forward	¥ 255	**¥ 243**	**$ 2,159**
Employees' retirement benefits trust	2,073	**1,946**	**17,269**
Net defined benefit liability	45	**341**	**3,027**
Impairment loss	854	**963**	**8,546**
Loss on valuation of real estate for sale	1,793	**1,717**	**15,235**
Provision for loss on construction contracts	992	**747**	**6,627**
Allowance for doubtful accounts	757	**612**	**5,433**
Provision for bonuses	512	**582**	**5,166**
Other	1,101	**1,753**	**15,558**
Total: deferred tax assets	8,382	**8,904**	**79,020**
Less: valuation allowance	(2,995)	**(3,275)**	**(29,060)**
Deferred tax assets	¥5,387	**¥5,629**	**$49,960**
Deferred tax liabilities			
Prepaid pension cost	¥ (388)	**¥ (332)**	**$ (2,949)**
Valuation difference on available–for–sale securities	(1,616)	**(933)**	**(8,279)**
Unrealized intercompany profit	—	**(105)**	**(933)**
Other	(139)	**(150)**	**(1,336)**
Total: deferred tax liabilities	(2,143)	**(1,520)**	**(13,497)**
Net: deferred tax assets	¥3,244	**¥4,109**	**$36,463**

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:

	2015	**2016**
The statutory effective tax rate	35.64%	**33.06%**
(Adjustments)		
Permanent differences (expense)	8.80	**4.09**
Permanent differences (income)	(1.31)	**(2.38)**
Per capita levy on inhabitant tax	1.06	**1.42**
Consolidated adjustments	0.70	**2.21**
Increase (Decrease) in valuation allowance	(1.33)	**2.07**
Foreign corporation tax	(3.50)	**6.19**
Downward adjustment of deferred tax assets at the year end due to the change in corporate tax rates	4.65	**1.57**
Effect from the application of consolidated taxation system	(2.74)	**(0.69)**
Other	(3.56)	**(2.34)**
Actual burden tax rates after the application of tax effect accounting	38.41%	**45.20%**

3. Change in effective statutory tax rate

In accordance with the promulgation on March 29, 2016, of the "Act on Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act on Partial Revision of the Local Tax Act, etc." (Act No. 13 of 2016), the effective statutory tax rate of 32.34% utilized previously for the computation of deferred tax assets and deferred tax liabilities for the fiscal year ended March 31, 2015 (applied only to temporary differences expected to be recovered or settled on or after April 1, 2016) has been revised to 30.86% for temporary differences expected to be recovered or settled during the period from April 1, 2016 to March 31, 2018, and to 30.62% for temporary differences expected to be recovered or settled from April 1, 2018.

As a result, net deferred tax assets (after offsetting deferred tax liabilities, excluding for those for land revaluation) decreased by ¥187 million (U.S.$1,663 thousand), deferred tax liabilities for land revaluation decreased by ¥221 million (U.S.$1,957 thousand), income taxes-deferred increased by ¥224 million (U.S.$1,987 thousand), revaluation reserve for land increased by ¥221 million (U.S.$1,957 thousand), valuation difference on available-for-sale securities increased by ¥52 million (U.S.$465 thousand), and remeasurements of defined benefit plans decreased by ¥17 million (U.S.$147 thousand) as of and for the fiscal year ended March 31, 2016.

18. 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
	2015	**2016**	**2016**
The difference between the appraisal value of land at the end of the current fiscal year and the book value	¥11,705	**¥7,824**	**$69,433**

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 availabe–for–sale securities

Valuation difference on availabe–for–sale securities is based on the difference between fair market value and book value at March 31. This amounted to ¥2,300 million (U.S.$20,409 thousand) gain as of March 31, 2016.

19. Retirement benefits

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

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

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

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

(1) The changes in the retirement benefit obligation during the years ended March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Retirement benefit obligation at the beginning of year	¥24,834	**¥25,696**	**$228,045**
Cumulative effect of change in accounting principle	1,755	**—**	**—**
Restated balance at the beginning of the year	26,589	**25,696**	**228,045**
Service cost	1,132	**1,133**	**10,052**
Interest cost	210	**152**	**1,348**
Actuarial gain and loss	(494)	**1,442**	**12,793**
Retirement benefits paid	(1,760)	**(1,744)**	**(15,469)**
Prior service cost	19	**—**	**—**
Retirement benefit obligation at the end of year	¥25,696	**¥26,679**	**$236,769**

(2) The changes in the plan assets during the years ended March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Plan assets at the beginning of year	¥21,438	**¥26,840**	**$238,195**
Expected return on plan assets	371	**430**	**3,809**
Actuarial gain	3,491	**(1,540)**	**(13,663)**
Contributions by the Company	2,995	**2,370**	**21,036**
Retirement benefits paid	(1,455)	**(1,414)**	**(12,548)**
Plan assets at the end of year	¥26,840	**¥26,686**	**$236,829**

(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, 2015 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Funded retirement benefit obligation	¥25,311	**¥26,241**	**$232,878**
Plan assets at fair value	(26,840)	**(26,686)**	**(236,829)**
	¥ (1,529)	**¥ (445)**	**$ (3,951)**
Unfunded retirement benefit obligation	386	**438**	**3,891**
Net liability for retirement benefits in the balance sheet	¥ (1,143)	**¥(7)**	**$ (60)**
Net defined benefit liability	¥ 118	**¥ 1,085**	**$ 9,626**
Net defined benefit asset	(1,261)	**(1,092)**	**(9,686)**
Net liability for retirement benefits in the balance sheet	¥ (1,143)	**¥ (7)**	**$ (60)**

(4) The components of retirement benefit expense for the years ended March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Service cost	¥1,132	**¥1,133**	**$10,052**
Interest cost	210	**152**	**1,348**
Expected return on plan assets	(372)	**(430)**	**(3,809)**
Amortization of actuarial gain and loss	515	**112**	**991**
Amortization of prior service cost	19	**—**	**—**
Amortization of net retirement benefit obligation at transition	1,302	**—**	**—**
Retirement benefit expense	¥2,806	**¥ 967**	**$ 8,582**

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, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Actuarial gain and loss	¥4,500	**¥(2,870)**	**$(25,465)**
Net retirement benefit obligation at transition	1,302	**—**	**—**
Total	¥5,802	**¥(2,870)**	**$(25,465)**

(6) The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Unrecognized actuarial gain and loss	¥(1,906)	**¥964**	**$8,552**
Total	¥(1,906)	**¥964**	**$8,552**

(7) The fair value of plan assets, major category, as a percentage of total plan assets as of March 31, 2015 and 2016 are as follows:

	2015	**2016**
Bonds	36%	**39%**
Stocks	50	**44**
General accounts	5	**6**
Cash and deposits	0	**2**
Others	9	**9**
Total	100%	**100%**

Note: Total plan assets include retirement benefit trusts of 13% and 10% that are set up for a corporate pension plan as of March 31, 2015 and 2016, 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:

	2015	**2016**
Discount rates	0.8%	**0.0%**
Expected rates of long–term return on plan assets	1.2-2.0%	**0.9-2.0%**
Expected rates of increase in salary	3.1-5.0%	**3.2-5.0%**

20. Financial instruments

(1) Policy for financial instruments

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

Regarding credit risk to customers related to notes receivable, accounts receivable from completed construction contracts and other the Company and its consolidated subsidiaries' bylaw has been applied to reduce the risk. Additionally notes receivable, accounts receivable from completed construction contracts and other in foreign currencies are exposed to foreign currency risk, and the Company enters into forward exchange contracts 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, 2015 are as follows:

	Millions of yen		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	¥ 38,469	¥ 38,469	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	170,229	170,228	(1)
(3) Securities and investment securities	13,825	13,833	8
(4) Accounts receivable — other	26,693	26,693	—
Total Assets	¥249,216	¥249,223	¥ 7
Liabilities			
(1) Notes payable, accounts payable for construction contracts and other	¥127,083	¥127,083	¥ —
(2) Electronically recorded obligations–operating	9,808	9,808	—
(3) Short–term loans payable	27,255	27,255	—
(4) Commercial papers	19,996	19,996	—
(5) Bonds payable	20,000	20,176	176
(6) Long–term loans payable (*1)	27,646	28,058	412
Total Liabilities	¥231,788	¥232,376	¥588
Derivative transaction (*2)	¥ (26)	¥ (26)	¥ —

(*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) Securities and investment securities
The fair value of stocks and bonds present the market values. The fair value of investment trust is based on the standard price released to public.

Liabilities

(1) Notes payable, accounts payable for construction contracts and other, (2) Electronically recorded obligations-operating, (3) Short-term loans payable, (4) Commercial papers
Since these items are settled within short term, the fair values are nearly equivalent to book values, therefore the current book value is used.
(5) Bonds payable, (6) 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 ¥2,880 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."

(Note 3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2015

	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	¥ 38,428	¥ —	¥ —	¥—
Notes receivable, accounts receivable from completed construction contracts and other	166,757	3,472	—	—
Securities and investment securities				
Held–to–maturity bonds				
National and local government bonds	33	87	147	—
Corporate bonds	10	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	100	—
Other	—	—	—	—
Accounts receivable – other	26,693	—	—	—
Total	¥231,921	¥3,559	¥247	¥—

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 (*1)	30,490	30,630	140
Total Liabilities	¥219,585	¥220,015	¥430
Derivative transaction (*2)	¥ (35)	¥ (35)	¥ —

	Thousands of U.S. dollars		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	$ 589,265	$ 589,265	$ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	1,530,081	1,530,081	—
(3) Securities and investment securities	104,009	104,112	103
(4) Accounts receivable – other	189,120	189,120	—
Total Assets	$2,412,475	$2,412,578	$ 103
Liabilities			
(1) Notes payable, accounts payable for construction contracts and other	$1,149,827	$1,149,827	$ —
(2) Electronically recorded obligations – operating	140,432	140,432	—
(3) Short–term loans payable	210,413	210,413	—
(4) Bonds payable	177,494	180,067	2,573
(5) Long–term loans payable (*1)	270,590	271,832	1,242
Total Liabilities	$1,948,756	$1,952,571	$3,815
Derivative transaction (*2)	$ (310)	$ (310)	$ —

(*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) 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
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 ¥2,903 million (U.S.$25,763 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) Securities and investment securities."

(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	¥—

	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	$ 588,842	$ —	$ —	$—
Notes receivable, accounts receivable from completed construction contracts and other	1,459,465	70,616	—	—
Securities and investment securities				
Held–to–maturity bonds				
National and local government bonds	281	1,130	698	—
Corporate bonds	—	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	—	—
Other	—	—	—	—
Accounts receivable – other	189,120	—	—	—
Total	$2,237,708	$71,746	$698	$—

(Note 4) The redemption schedule for short-term and long-term loans, and bonds payable is disclosed in Note 7.

21. Segment information

(Segment information)

1. General information about reportable segments

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

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

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

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

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

Year ended March 31, 2015	Reportable segment					Other (Note 1)	Total	Ajustments (Note 2)	Recorded amount on consolidated statement of income (Note 3)
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Domestic real estate development segment	Total				
Net sales:									
Sales to third parties	¥147,147	¥130,763	¥138,473	¥1,895	¥418,278	¥7,960	¥426,238	¥ —	¥426,238
Intersegment sales and transfers	638	3	—	174	815	2,237	3,052	(3,052)	—
Total	147,785	130,766	138,473	2,069	419,093	10,197	429,290	(3,052)	426,238
Segment profit (loss)	5,307	2,037	4,820	(279)	11,885	398	12,283	10	12,293
Other item:									
Depreciation	1,666	411	2,624	58	4,759	542	5,301	(13)	5,288

Millions of yen

Year ended March 31, 2016	Reportable segment					Other (Note 1)	Total	Ajustments (Note 2)	Recorded amount on consolidated statement of income (Note 3)
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Domestic real estate development segment	Total				
Net sales:									
Sales to third parties	¥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

Thousands of U.S. dollars

Year ended March 31, 2016	Reportable segment					Other (Note 1)	Total	Ajustments (Note 2)	Recorded amount on consolidated statement of income (Note 3)
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Domestic real estate development segment	Total				
Net sales:									
Sales to third parties	$1,333,346	$1,467,988	$1,442,673	$42,460	$4,286,467	$76,011	$4,362,478	$ —	$4,362,478
Intersegment sales and transfers	2,852	36	—	1,573	4,461	19,808	24,296	(24,269)	—
Total	1,336,198	1,468,024	1,442,673	44,033	4,290,928	95,819	4,386,747	(24,269)	4,362,478
Segment profit (loss)	82,144	93,570	14,960	(5,596)	185,078	(2,218)	182,860	115	182,975
Other item:									
Depreciation	17,190	3,936	22,845	498	44,469	4,861	49,330	(80)	49,250

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, 2015
1. Information of each products and service
Please refer to Note 21 Segment information.

2. Geographical information
(1) Net sales

Japan	Southeast Asia	Other	Total
¥287,599 million	¥136,912 million	¥1,727 million	¥426,238 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
¥56,363 million	¥20,300 million	¥2 million	¥76,665 million

3. Each main customer

Name of Customer	Net sales	Related segment
Ministry of Land, Infrastructure, Transport and Tourism	¥44,335 million	Domestic civil engineering segment and Domestic building construction segment

For the year ended March 31, 2016
1. Information of each products and service
Please refer to Note 21 Segment information.

2. Geographical information
(1) Net sales

Japan	Southeast Asia	Other	Total
¥328,887 million U.S.$2,918,773 thousand	¥161,924 million U.S.$1,437,022 thousand	¥753 million U.S.$6,683 thousand	¥491,564 million U.S.$4,362,478 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
¥52,816 million U.S.$468,723 thousand	¥17,588 million U.S.$156,084 thousand	¥22 million U.S.$198 thousand	¥70,426 million U.S.$625,005 thousand

3. Each main customer

Name of Customer	Net sales	Related segment
Government of Singapore	¥67,837 million U.S.$602,033 thousand	Overseas segment

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

For the year ended March 31, 2015

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, 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.

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

For the year ended March 31, 2015

This information is omitted, due to insignificant amount.

For the year ended March 31, 2016

None

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

For the year ended March 31, 2015

This information is omitted, due to insignificant amount.

For the year ended March 31, 2016

None

22. Amounts per share

1. Per share information is summarized as follows:

	Yen		U.S. dollars
	2015	**2016**	**2016**
Net assets per share	¥269.44	**¥281.87**	**$2.50**
Profit attributable to owners of parent per share	21.63	**27.30**	**0.24**

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, 2015 and 2016, diluted profit attributable to owners of parent per share is not disclosed, because the dilutive potential of shares of common stock is none.

23. Significant subsequent events

Dividends

For the year ended March 31, 2016

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, 2016, was approved at the general shareholders' meeting held on June 24, 2016 and became effective June 27, 2016:

	Millions of yen	Thousands of U.S. dollars
	2016	**2016**
Cash dividends (¥6 (u.s.$0.05) per share)	**¥1,715**	**$15,224**

Independent Auditor's Report

EY
Building a better working world

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of PENTA-OCEAN CONSTRUCTION CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, 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, 2016, 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 24, 2016
Tokyo, Japan