
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
	2017	2018	2019	2020	2021	2021
Net sales	¥500,336	¥526,902	¥541,949	¥573,843	¥471,059	\$4,254,505
Construction	487,133	517,526	531,851	564,136	464,214	4,192,687
Other	13,204	9,376	10,098	9,707	6,845	61,818
Total assets	372,307	418,423	383,840	428,875	452,248	4,084,611
Net assets excluding non-controlling interests	96,377	111,971	126,517	141,175	158,287	1,429,620
Ordinary income	23,709	25,683	26,569	32,546	30,546	275,881
Income before income taxes	23,028	25,290	26,560	32,455	30,166	272,450
Net income attributable to owners of parent	15,272	17,826	18,899	23,353	20,994	189,612
Cash dividends	3,431	4,003	5,430	6,859	8,002	72,277
Per share of common stock:						
	Yen					U.S. dollars
Net assets excluding non-controlling interests	¥337.10	¥392.27	¥443.36	¥494.70	¥555.32	\$5.02
Net income attributable to owners of parent	53.42	62.41	66.22	81.83	73.62	0.66
Cash dividends	12.00	14.00	19.00	24.00	28.00	0.25
Number of employees	3,074	3,175	3,319	3,416	3,565	

Note: 1. Figures in U.S. dollars are converted for convenience only, at the rate of ¥ 110.72 per U.S.\$1, prevailing on March 31, 2021.

2. Cash dividends for shares held by BBT amounted to ¥ 21 million (\$194 thousand) are included in cash dividends above.

3. "Development business" presented as a item in net sales is included in "Other" in the year ended March 31, 2019 and thereafter, since its materiality has decreased. The above amounts in the previous years have been reclassified from "Development business" to "Other" in order to reflect the change in presentation.

Business Performance

The orders received for the group amounted to ¥529.1 billion (US\$4,778.6 million), up ¥70.6 billion (US\$637.8 million) (15.4%) compared to the previous consolidated fiscal year due to the receipt of orders for several large-scale construction projects in Singapore and Hong Kong.

The net sales for the group amounted to ¥471.1 billion (US\$4,254.5 million), down ¥102.8 billion (US\$928.3 million) (-17.9%) compared to the previous consolidated fiscal year, and operating profit totaled ¥30.5 billion (US\$275.1 million), down ¥2.7 billion (US\$24.4 million) (-8.1%) compared to the previous consolidated fiscal year. Ordinary income totaled ¥30.5 billion (US\$275.9 million), down ¥2.0 billion (US\$18.1 million) (-6.1%) compared to the previous consolidated fiscal year. And, net income totaled ¥21.0 billion (US\$189.6 million), down ¥2.4 billion (US\$21.3 million) (-10.1%) compared to the previous consolidated fiscal year.

Net sales declined, due to the suspension of works caused by COVID-19 in some overseas regions in addition to the decrease of domestic construction projects. The effect of COVID-19 on net sales was about ¥30 billion. Profit was ¥2.5 billion larger than the initial forecast announced in May 2020, although operating profit declined due to the drop-in sales and net income attributable to owners of parent, too, decreased.

Segment Information

(Domestic Civil Engineering Business)

In our Domestic Civil Engineering Business, orders amounted to ¥198.2 billion (US\$1,790.4 million), down ¥8.0 billion (US\$72.4 million) (-3.9%) compared to the previous consolidated fiscal year. And, Sales amounted to ¥199.0 billion (US\$1,797.4 million), down ¥11.7 billion (US\$106.0 million) (-5.6%) compared to the previous consolidated fiscal year, but segment profit totaled ¥22.9 billion (US\$206.4 million), up ¥2.2 billion

(US\$19.6 million) (10.5%) compared to the previous consolidated fiscal year thanks to the improvement in profit margin of works.

(Domestic Building Construction Business)

In our Domestic Building Construction Business, orders amounted to ¥179.9 billion (US\$1,624.9 million), up ¥12.2 billion (US\$109.8 million) (7.2%) compare to the previous consolidated fiscal year due to the receipt of orders for several public works and logistics works. Sales amounted to ¥144.4 billion (US\$1,304.4 million), down ¥52.6 billion (US\$475.0 million) (-26.7%) compared to the previous consolidated fiscal year due to the completion of several large-scale construction projects in the previous fiscal year, and segment profit totaled ¥4.0 billion (US\$36.6 million), down ¥2.3 billion (US\$20.5 million) (-35.9%) compared to the previous consolidated fiscal year.

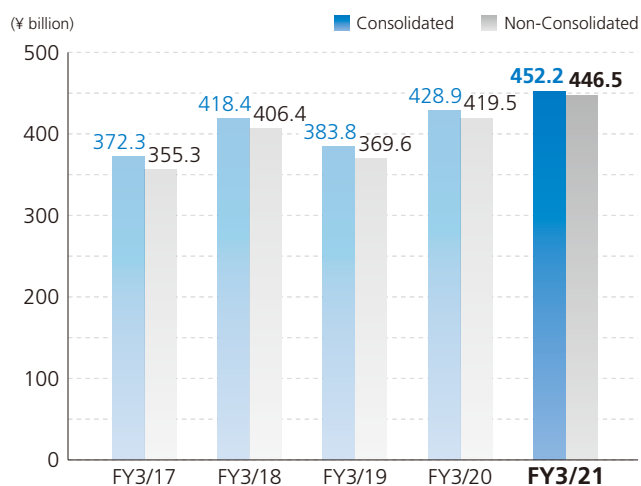
(Overseas Construction Business)

In our Overseas Construction Business, orders amounted to ¥151.0 billion (US\$1,363.4 million), up ¥66.5 billion (US\$600.5 million) (78.7%) compared with the previous term due to the receipt of orders for several large-scale construction projects in Singapore and Hong Kong. Sales amounted to ¥121.9 billion (US\$1,101.3 million), down ¥35.7 billion (US\$322.3 million) (-22.6%) compared to the previous consolidated fiscal year due to the suspension of works caused by COVID-19 in Singapore and Africa, and segment profit totaled ¥2.9 billion (US\$25.9 million), down ¥3.4 billion (US\$31.1 million) (-54.6%) compared to the previous consolidated fiscal year.

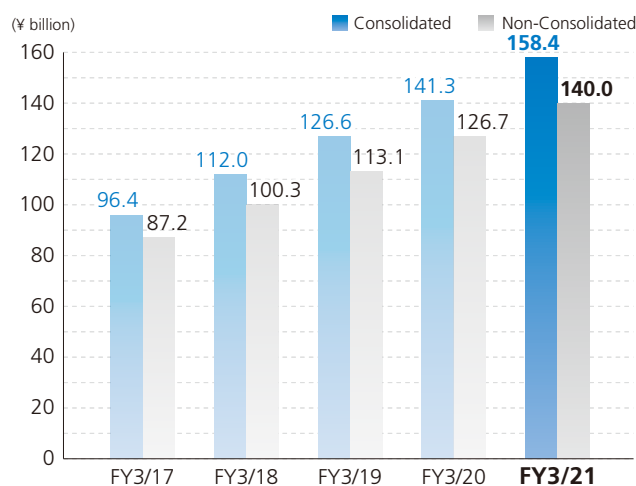
(Other)

In our Other Businesses, which mainly consists of the domestic real estate development, shipbuilding and environment business, sales amounted to ¥5.7 billion (US\$51.4 million), down ¥2.8 billion (US\$25.0 million) (-32.7%) compared to the previous

Total Assets



Total Net Assets



consolidated fiscal year and segment profit totaled ¥0.7 billion (US\$6.2 million) (segment loss totaled ¥0.2 billion (US\$1.4 million) in the previous consolidated fiscal year).

Financial Position

The total assets of our group increased by ¥23.4 billion (US\$211.1 million) to ¥452.2 billion (US\$4,084.6 million) from the end of the previous consolidated fiscal year mainly due to the increase in cash & deposits and construction in progress. Liabilities increased by ¥6.3 billion (US\$56.6 million) to ¥293.8 billion (US\$2,653.9 million) from the end of the previous consolidated fiscal year mainly due to the increase of corporate bonds and debts despite the redemption of commercial papers. Net assets increased by ¥17.1 billion (US\$154.5 million) to ¥158.4 billion (US\$1,430.7 million) from the end of the previous consolidated fiscal year mainly due to the increase of retained earnings through the posting of net income attributable to owners of parent.

Cash Flows

“Cash and cash equivalents” as of the end of this consolidated fiscal year increased by ¥16.2 billion (US\$146.0 million) (37.6%) compared to the end of the previous consolidated fiscal year to ¥59.2 billion (US\$534.7 million). The status of cash flows for the current consolidated fiscal year and their factors are as follows.

(Cash flow from operations)

With regard to cash flow from operations, it resulted in an excess of ¥30.7 billion (US\$277.2 million) in revenue because net income before income taxes was ¥30.2 billion (US\$272.5 million) and the cash received for uncompleted projects increased (an excess of ¥4.4 billion (US\$40.1 million) in revenue in the previous consolidated fiscal year).

(Cash flow from investments)

With regard to cash flow from investments, it resulted in an excess of ¥12.8 billion (US\$115.6 million) in expenditures mainly due to expenditure for acquisition of subsidiaries’ shares and construction of Offshore Installation Vessel equipped with a large crane (an excess of ¥9.1 billion (US\$82.0 million) in expenditures in the previous consolidated fiscal year).

(Cash flow from financial activities)

With regard to cash flow from financial activities, it resulted in an excess of ¥3.1 billion (US\$28.1 million) in expenditures mainly due to the expenditure for redeeming corporate bonds and commercial papers despite the revenue of issuance of corporate bonds (an excess of ¥13.5 billion (US\$121.9 million) in revenue in the previous consolidated fiscal year).

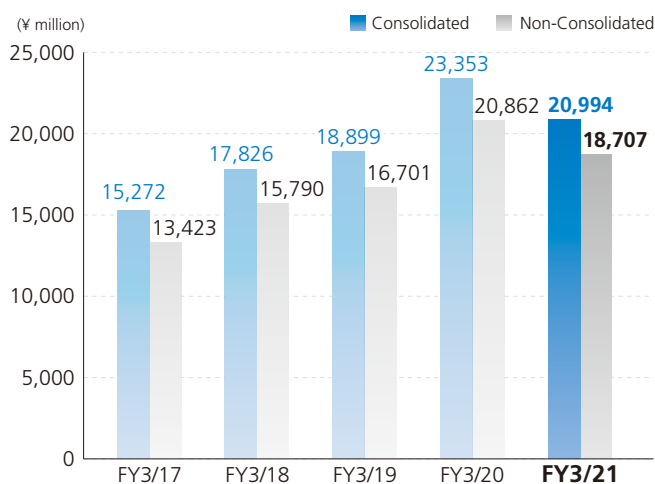
Dividends

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 30% or higher. In addition, we plan to make use of internal reserves to the investment for engineering development or equipment investment to improve our corporate value. Based on the policy mentioned above and performance of current fiscal year, dividends from surplus of the current fiscal year were determined at ¥28 per common share (ordinary dividends of ¥23 plus ¥5 for commemorating the 125th anniversary of establishment of our company). The total amount of dividends was ¥8.0 billion (US\$72.3 million).

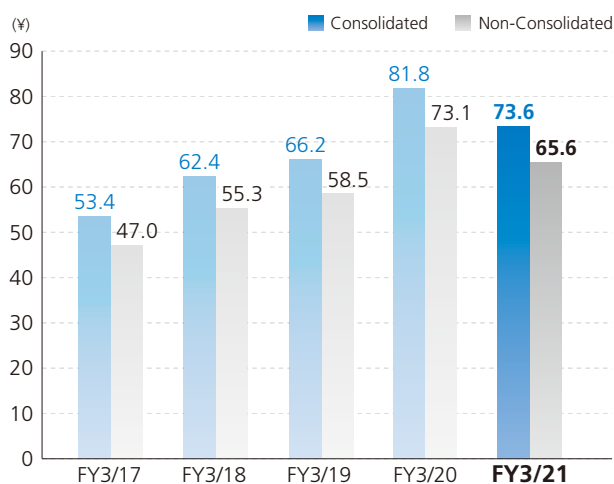
It is also our basic policy to pay a year-end dividend annually, determined by the general shareholders’ meetings.

* Exchange rate at the term end: US\$1 = ¥110.72

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
	2020	2021	2021
Current assets:			
Cash and deposits (Note 19)	¥ 43,621	¥ 59,782	\$ 539,935
Securities (Notes 3(3), 7, 8 and 19)	74	9	80
Trade receivables: (Note 19)			
Notes	2,780	7,231	65,311
Accounts	256,830	250,606	2,263,425
Inventories: (Note 3(5))			
Costs on uncompleted construction contracts	10,227	9,258	83,617
Real estate for sale and development projects in progress	1,903	1,898	17,144
Other	2,715	3,137	28,335
Other	2,816	3,525	31,830
Allowance for doubtful accounts (Note 3(9))	(702)	(358)	(3,235)
Total current assets	320,264	335,088	3,026,442
Non-current assets:			
Property, plant and equipment: (Notes 3(6) and 3(8))			
Land	33,581	33,492	302,492
Buildings and structures	37,288	38,121	344,304
Machinery, equipment and vehicles	21,112	20,855	188,355
Dredgers and vessels	83,920	84,960	767,345
Construction in progress	3,873	11,963	108,045
Total property, plant and equipment	179,774	189,391	1,710,541
Less: accumulated depreciation	(99,846)	(104,984)	(948,190)
Property, plant and equipment - net	79,928	84,407	762,351
Intangible assets (Notes 3(7) and 3(17))	1,455	3,932	35,512
Investments and other assets:			
Investment securities (Notes 3(3), 7, 8 and 19)	17,153	19,485	175,986
Deferred tax assets (Note 17)	6,159	3,110	28,088
Net defined benefit asset (Note 18)	1,260	3,190	28,814
Other (Note 8)	5,716	6,298	56,875
Allowance for doubtful accounts (Note 3(9))	(3,060)	(3,262)	(29,457)
Total investments and other assets	27,228	28,821	260,306
Total non-current assets	108,611	117,160	1,058,169
Total assets	¥428,875	¥452,248	\$4,084,611

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Current liabilities:			
Short-term loans payable (Notes 9 and 19)	¥ 18,924	¥ 20,919	\$ 188,938
Commercial papers (Notes 9 and 19)	17,999	—	—
Current portion of long-term loans payable and bonds payable (Note 9 and 19)	15,750	17,922	161,868
Trade payable: (Note 19)			
Accounts	126,180	124,867	1,127,776
Advance received on uncompleted construction contracts	20,932	24,586	222,056
Deposits received	40,063	42,150	380,691
Income taxes payable	7,357	4,806	43,408
Provision for loss on construction contracts (Note 3(12))	1,936	1,375	12,418
Provision for warranties for completed construction (Note 3(10))	2,022	993	8,967
Provision for bonuses (Note 3(11))	2,929	2,980	26,917
Other	2,911	4,241	38,304
Total current liabilities	257,003	244,839	2,211,343
Non-current liabilities:			
Bonds payable (Notes 9 and 19)	10,000	20,000	180,636
Long-term loans payable (Notes 9 and 19)	14,858	23,372	211,087
Provision for board benefit trust (Note 3(13))	215	299	2,705
Net defined benefit liability (Notes 3(14) and 18)	1,253	1,118	10,100
Deferred tax liabilities for land revaluation (Note 10(2))	3,680	3,680	33,233
Other	566	536	4,839
Total non-current liabilities	30,572	49,005	442,600
Total liabilities	287,575	293,844	2,653,943
Commitments and contingent liabilities (Note 16)			
Net assets:			
Shareholders' equity:			
Capital stock	30,450	30,450	275,018
Authorized - 599,135,000 shares			
Issued shares - 286,013,910 shares 2020 and 2021			
Capital surplus (Note 10(1))	18,387	18,387	166,065
Retained earnings (Note 10(1))	87,066	101,199	914,005
Less: Treasury shares (Note 6(1))	(374)	(591)	(5,331)
Total shareholders' equity	135,529	149,445	1,349,757
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Notes 3(3) and 10(3))	2,673	4,584	41,401
Deferred gains or losses on hedges (Note 3(16))	45	(175)	(1,581)
Revaluation reserve for land (Note 10(2))	3,910	3,913	35,338
Foreign currency translation adjustment (Note 3(2))	(167)	(15)	(137)
Remeasurements of defined benefit plans (Notes 3(14) and 18)	(815)	536	4,842
Total accumulated other comprehensive income	5,646	8,843	79,863
Non-controlling interests	125	116	1,048
Total net assets	141,300	158,404	1,430,668
Total liabilities and net assets	¥428,875	¥452,248	\$4,084,611

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Construction business: (Notes 3(15) and 4)			
Net sales	¥564,136	¥464,214	\$4,192,687
Cost of sales	513,945	416,484	3,761,596
Gross profit	50,191	47,730	431,091
Other:			
Net sales	9,707	6,845	61,818
Cost of sales	7,999	4,536	40,970
Gross profit	1,708	2,309	20,848
Total:			
Total net sales	573,843	471,059	4,254,505
Total cost of sales	521,944	421,020	3,802,566
Total gross profit	51,899	50,039	451,939
Selling, general and administrative expenses	18,738	19,578	176,823
Operating profit	33,161	30,461	275,116
Non-operating profit:			
Interest and dividends income	542	449	4,056
Reversal of allowance for doubtful accounts	252	400	3,611
Real estate rent	144	136	1,230
Other	217	206	1,857
	1,155	1,191	10,754
Non-operating expenses:			
Interest expenses	925	667	6,026
Provision of allowance for doubtful accounts	5	259	2,338
Foreign exchange losses	738	—	—
Other	102	180	1,625
	1,770	1,106	9,989
Ordinary income	32,546	30,546	275,881
Extraordinary income (Note 11)	284	139	1,251
Extraordinary losses (Note 12)	375	519	4,682
Income before income taxes	32,455	30,166	272,450
Income taxes : (Notes 3(19) and 17)			
Current	10,918	7,450	67,284
Deferred	(1,818)	1,735	15,666
	9,100	9,185	82,950
Net income attributable to:	23,355	20,981	189,500
Non-controlling interests	2	(13)	(112)
Owners of parent	¥ 23,353	¥ 20,994	\$ 189,612
	Yen		U.S. dollars
Net income attributable to owners of parent per share of common stock (Note 22)			
Basic	¥81.83	¥73.62	\$0.66

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements 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
	2020	2021	2021
Net income	¥23,355	¥20,981	\$189,500
Valuation difference on available-for-sale securities	(1,922)	1,911	17,256
Deferred gains or losses on hedges	62	(219)	(1,979)
Foreign currency translation adjustments	(44)	155	1,400
Remeasurements of defined benefit plans	(1,374)	1,351	12,205
Total other comprehensive income (Note 14)	(3,278)	3,198	28,882
Comprehensive income	¥20,077	¥24,179	\$218,382
(Breakdown)			
Comprehensive income attributable to owners of parent	¥20,078	¥24,188	\$218,464
Comprehensive income attributable to non-controlling interests	(1)	(9)	(82)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

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

For the year ended March 31, 2020

	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	¥69,143	¥(383)	¥117,597
Changes of items during period					
Dividends of surplus			(5,430)		(5,430)
Net income attributable to owners of parent			23,353		23,353
Reversal of revaluation reserve for land					—
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares				10	10
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	17,923	9	17,932
Balance at the end of current period	¥30,450	¥18,387	¥87,066	¥(374)	¥135,529

	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 adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	¥4,596	¥(18)	¥3,910	¥(127)	¥559	¥8,920	¥56	¥126,573
Changes of items during period								
Dividends of surplus								(5,430)
Net income attributable to owners of parent								23,353
Reversal of revaluation reserve for land								—
Purchase of treasury shares								(1)
Disposal of treasury shares								10
Net changes of items other than shareholders' equity	(1,923)	63	—	(40)	(1,374)	(3,274)	69	(3,205)
Total changes of items during period	(1,923)	63	—	(40)	(1,374)	(3,274)	69	14,727
Balance at the end of current period	¥2,673	¥45	¥3,910	¥(167)	¥(815)	¥5,646	¥125	¥141,300

For the year ended March 31, 2021

	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	¥87,066	¥(374)	¥135,529
Changes of items during period					
Dividends of surplus			(6,858)		(6,858)
Net income attributable to owners of parent			20,994		20,994
Reversal of revaluation reserve for land			(3)		(3)
Purchase of treasury shares				(229)	(229)
Disposal of treasury shares				12	12
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	14,133	(217)	13,916
Balance at the end of current period	¥30,450	¥18,387	¥101,199	¥(591)	¥149,445

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 adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	¥2,673	¥ 45	¥3,910	¥(167)	¥(815)	¥5,646	¥125	¥141,300
Changes of items during period								
Dividends of surplus								(6,858)
Net income attributable to owners of parent								20,994
Reversal of revaluation reserve for land								(3)
Purchase of treasury shares								(229)
Disposal of treasury shares								12
Net changes of items other than shareholders' equity	1,911	(220)	3	152	1,351	3,197	(9)	3,188
Total changes of items during period	1,911	(220)	3	152	1,351	3,197	(9)	17,104
Balance at the end of current period	¥4,584	¥(175)	¥3,913	¥ (15)	¥536	¥8,843	¥116	¥158,404

For the year ended March 31, 2021

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	\$275,018	\$166,065	\$786,365	\$(3,377)	\$1,224,071
Changes of items during period					
Dividends of surplus			(61,951)		(61,951)
Net income attributable to owners of parent			189,612		189,612
Reversal of revaluation reserve for land			(21)		(21)
Purchase of treasury shares				(2,068)	(2,068)
Disposal of treasury shares				114	114
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	127,640	(1,954)	125,686
Balance at the end of current period	\$275,018	\$166,065	\$914,005	\$(5,331)	\$1,349,757

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 adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	\$24,145	\$ 397	\$35,317	\$(1,507)	\$(7,363)	\$50,989	\$1,130	\$1,276,190
Changes of items during period								
Dividends of surplus								(61,951)
Net income attributable to owners of parent								189,612
Reversal of revaluation reserve for land								(21)
Purchase of treasury shares								(2,068)
Disposal of treasury shares								114
Net changes of items other than shareholders' equity	17,256	(1,978)	21	1,370	12,205	28,874	(82)	28,792
Total changes of items during period	17,256	(1,978)	21	1,370	12,205	28,874	(82)	154,478
Balance at the end of current period	\$41,401	\$(1,581)	\$35,338	\$ (137)	\$4,842	\$79,863	\$1,048	\$1,430,668

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements 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
	2020	2021	2021
Cash flows from operating activities:			
Income before income taxes	¥32,455	¥30,166	\$272,450
Adjustment to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	9,085	7,395	66,788
Amortization of goodwill	—	124	1,116
Increase (decrease) in allowance for doubtful accounts	(260)	(143)	(1,288)
Increase (decrease) in net defined benefit liability	(191)	40	364
Decrease (increase) in net defined benefit asset	(156)	(276)	(2,490)
Interest and dividends income	(542)	(449)	(4,056)
Interest expenses	925	667	6,026
Foreign exchange losses (gains)	1,368	(1,565)	(14,133)
Equity in (earnings) losses of affiliates	(2)	(11)	(96)
Loss (gain) on sales of property, plant and equipment	(199)	(46)	(419)
Loss (gain) on sales of investment securities	(1)	(43)	(392)
Loss on valuation of securities and investment securities	—	413	3,733
Change in assets and liabilities:			
Decrease (increase) in notes and accounts receivable-trade	(47,399)	380	3,433
Decrease (increase) in costs on uncompleted construction contracts	522	985	8,894
Decrease (increase) in real estate for sale and development projects in progress and other inventories	1,320	(305)	(2,754)
Increase (decrease) in notes and accounts payable-trade	3,831	(2,374)	(21,445)
Increase (decrease) in advances received on uncompleted construction contracts	(1,610)	3,121	28,185
Increase (decrease) in other provision	1,170	(1,660)	(14,990)
Other, net	13,120	4,294	38,782
Subtotal	13,436	40,713	367,708
Interest and dividends income received	553	445	4,021
Interest expenses paid	(911)	(651)	(5,876)
Income taxes paid	(8,634)	(9,817)	(88,666)
Net cash provided by operating activities	4,444	30,690	277,187
Cash flows from investing activities:			
Payments into time deposits	(41)	(33)	(301)
Proceeds from withdrawal of time deposits	40	43	390
Purchase of investment securities	(146)	(29)	(259)
Proceeds from sales and redemption of short-term and long-term investment securities	2	68	610
Purchase of property, plant and equipment	(9,737)	(11,041)	(99,720)
Proceeds from sales of property, plant and equipment	1,351	511	4,616
Collection of loans receivable	6	6	57
Acquisition of shares of subsidiaries resulting in change in scope of consolidation	—	(1,743)	(15,741)
Other, net	(557)	(582)	(5,262)
Net cash used in investing activities	¥(9,082)	¥(12,800)	\$(115,610)

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	¥ 118	¥ 1,433	\$ 12,943
Net increase (decrease) in commercial papers	17,999	(17,999)	(162,566)
Proceeds from long-term loans payable	9,646	16,436	148,442
Repayment of long-term loans payable	(8,842)	(5,750)	(51,933)
Proceeds from issuance of bonds payable	—	19,899	179,723
Redemption of bonds	—	(10,000)	(90,318)
Cash dividends paid	(5,422)	(6,850)	(61,865)
Other, net	2	(280)	(2,527)
Net cash provided by (used in) financing activities	13,501	(3,111)	(28,101)
Effect of exchange rate change on cash and cash equivalents	(1,445)	1,391	12,569
Net increase (decrease) in cash and cash equivalents	7,418	16,170	146,045
Cash and cash equivalents at the beginning of the period	35,610	43,028	388,615
Cash and cash equivalents at the end of the period	¥43,028	¥59,198	\$534,660
(Note) (1) Cash and cash equivalents are comprised as follows:			
Cash and deposits	¥43,621	¥59,782	\$539,935
Less-Time deposits with maturity over three months	(593)	(584)	(5,275)
Cash and cash equivalents (Note 3(18))	¥43,028	¥59,198	\$534,660
(2) Breakdown of assets and liabilities of new consolidated subsidiaries by acquisition of its shares Breakdown of assets and liabilities of new consolidated subsidiaries at the start of consolidation and reconciliation between the acquisition cost of shares and net payment for acquisition are as follows:			
Current assets		¥1,751	\$15,815
Non-current assets		44	400
Goodwill		2,432	21,962
Current liabilities		(1,595)	(14,402)
Non-current liabilities		(20)	(185)
Foreign currency translation adjustment		(3)	(30)
Acquisition cost of shares		2,609	23,560
Cash and cash equivalents		(866)	(7,819)
Payment for acquisition		¥ 1,743	\$ 15,741

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 (collectively, the "Group") 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=¥110.72, the exchange rate prevailing on March 31, 2021. 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 29 subsidiaries and 5 affiliated companies as at March 31, 2021.

UG M&E Pte. Ltd. has been included in the scope of consolidation due to the acquisition of all shares by the Group.

The Company consolidated 28 subsidiaries and applied the equity method to 1 affiliated company.

1 subsidiary has not been included in the scope of consolidation because it has a small impact on the consolidated financial statements.

1 unconsolidated subsidiary and 5 affiliated companies have not been included in the scope of equity method, because they have a small impact

on the consolidated financial statements and insignificant as a whole.

(2) Consolidated closing date

Consolidated closing date is March 31.

Closing date for the Company, 11 domestic subsidiaries and 15 overseas subsidiaries including Andromeda Five Pte. Ltd. is March 31. Closing date for 2 overseas subsidiaries are December 31. The Company compiled the consolidated financial statements using the financial statements of each company's closing date, and adjustments are made for any material difference incurred between their closing dates and the consolidated closing date.

3. Summary of significant accounting policies

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

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

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

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

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

(3) Securities and 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 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 Group 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 Group provide provision for future losses from construction contracts outstanding at the fiscal year end.

(13) Provision for board benefit trust

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

(14) Net defined benefit liability

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

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

Prior service costs are recognized as an expense when incurred.

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

Regarding lump-sum severance indemnity plan for some of the consolidated subsidiaries, the amount is calculated based on simplified method which assumes that the retirement benefit

obligation would be the amount to be paid to employees who voluntarily retired at the year-end.

(15) Recognition of sales and cost of sales

For the construction projects with condition that the outcome of the construction activity is deemed certain at the end of the year, the percentage-of-completion method (based on cost proportion method to estimate the progress of such construction project) has been applied.

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

(16) Hedge accounting

1) Hedge accounting method

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

2) Hedging instruments and hedged items

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

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

3) Hedging policy

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

4) Evaluation of the effectiveness of hedge accounting

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

(17) Amortization of goodwill

Goodwill is principally amortized using the straight-line method over a period benefited therefrom but not exceeding 20 years.

(18) 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.

(19) 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 23.2 percent on taxable income, (b) enterprise tax of 3.6 percent on taxable income after certain adjustments, (c) prefectural and municipal taxes averaging 10.4 percent of corporation tax, and (d) local corporation tax of 10.3 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.

(20) Deferred assets

Bond issuance cost is recognized as an expense when incurred.

(21) Accounting principles and procedures adopted when relevant accounting standards are not clear.

Accounting for construction contracts by joint ventures
Assets, liabilities, income and expenses generated in joint ventures are shown in the consolidated financial statements mainly according to the ratio of the Company's investment ratio.

(22) Consumption tax

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

(23) Adoption of consolidated taxation system

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

(24) Tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

Implementation Guidance on Tax Effect Accounting (Accounting Standards Board of Japan Guidance No. 28, issued February 16, 2018), was not yet effective for the company in terms of Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Accounting Standards Board of Japan PITF No.39, issued March 31, 2020).

(25) 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. Notes on accounting estimates

Recognition of major income and expense

Regarding recognition of net sales of completed construction contracts and cost of sales of completed construction contracts, the percentage-of-completion method for construction contracts of which the outcome of the construction activity is deemed certain at the end of the fiscal year, and applies the completed-contract method for other construction contracts.

Revenue for which the percentage-of-completion method is applied is measured by multiplying the total construction revenue by its progress towards completion of the construction. Total construction revenue is determined by adding the amounts agreed in contracts and estimated amounts substantially agreed with customers with whom contracts have not yet been entered into. Further, progress towards completion of constructions is determined based on the ratio of construction costs incurred for construction performed up to the end of the fiscal year compared to the estimated total construction costs.

Net sales of completed construction contracts of ¥ 440,321 million (U.S. \$ 3,976,885 thousand) has been recorded by using the percentage-of-completion method for the fiscal year ended March 31, 2021.

(1) Total construction revenue

Although construction contracts may potentially be modified due to new agreements with customers during construction, there are cases where the amounts of such modifications are not determined each time the modifications of construction contracts are made.

Accordingly, with regards to changes in consideration, if modifications to construction contracts that have not yet been entered into are to be included in total construction revenue, it is necessary to

reliably estimate the amount of consideration based on substantial agreements made among parties and the details of such agreements.

Determinations of whether agreements are substantial and estimates of amounts of consideration involve subjectivity since they are based on discussions with customers and thus involve uncertainty.

(2) Total construction costs

Considering that construction contracts are highly individual and carried out in accordance with fundamental specifications and work details instructed by customers, it is difficult to apply a uniform rule for making estimates of total construction costs. Accordingly, estimates of total construction costs involve certain assumptions and judgments that are based on specialized knowledge and experience in construction, and thus involve uncertainty.

Further, given that constructions are generally long-term in nature, there may be potential modifications in construction contracts, changes in weather and sea conditions and fluctuations in construction material prices and labor prices during construction, thus making timely and appropriate revisions of total construction costs complex.

Based on the above, the recording of net sales of completed construction contracts and cost of sales of completed construction contracts for which the percentage-of-completion method is based on various assumptions. If it becomes necessary to revise the estimates and the assumptions due to uncertain future fluctuations in economic conditions, etc., it may have a significant impact on the net sales of completed construction contracts and cost of sales of completed construction contracts, etc. in the consolidated financial statements for the next fiscal year.

5. Accounting standards issued but not yet effective

- "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan Statement No.29, issued March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan Guidance No.30, issued March 26, 2021)

1) Overview

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

1. Identify the contract(s) with a customer

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

2) Scheduled date of adoption

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

3) Impact of the adoption of implementation guidance

The effect of the adoption of this accounting standard and implementation guidance on the consolidated financial statements is immaterial.

- "Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan Statement No. 30, issued July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan Guidance No. 31, issued July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan Statement No. 9, issued July 4, 2019)
- "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan Statement No. 10, issued July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (Accounting Standards Board of Japan

Guidance No. 19, issued March 31, 2020)

1) Outline

"Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" have been developed and guidance for measurement of fair value and so forth is prescribed on them. They are adopted for fair values of below items.

- Financial instruments on "Accounting Standard for Financial Instruments"
 - Inventories held for trading purposes on "Accounting Standard for Measurement of Inventories"
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been also revised and disclosure requirements for details of fair value of financial instrument according to the levels.

2) Scheduled date of adoption

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

3) Impact of adopting the accounting standard and implementation guidance

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

6. Additional information

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

(1) Transaction summary

The Company has introduced the Board Benefit Trust (the "BBT"), a performance-linked stock compensation plan for its directors and executive officers (the "Directors") since the fiscal year 2017. The BBT plan clarifies how the company's performance and its stock value influence the Directors' compensation, which enables the Directors to share not only the benefits of the stock price rise, but also the risks of the stock price decline with its shareholders. Thereby, the BBT plan leads the Directors to aim for more contributions to the improvement of the Company's performance and corporate value over the medium to long-term period.

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

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

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

The Company's outstanding shares of the Trust are included in the treasury shares of the net assets based on the book value of the Trust (excluding ancillary expenses). The book values of the treasury shares were ¥ 283 million and ¥ 499 million (U.S. \$ 4,505 thousand) and the numbers of the stocks were 430,500 shares and 767,000

shares as of March 31, 2020 and 2021, respectively.

(Application of "Accounting principles and procedures adopted when relevant accounting standards are not clear")

With the fact that "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (Accounting Standards Board of Japan Guidance No. 24, issued March 31, 2020) can be applied from the consolidated financial statements for the end of the fiscal year ending after the publication, the Group applied from the current fiscal year. It discloses "Accounting principles and procedures adopted when relevant accounting standards are not clear".

(Accounting estimates relative to COVID-19)

Due to the re-spread of COVID-19, the economy is expected to remain uncertain in the future.

The Group has progressed without being interrupted in Japan, and although there was a temporary suspension in Singapore and Africa, all constructions is currently in operations.

It is difficult to predict an impact of COVID-19 as there is no consensus about spread of COVID-19 in the future and a time when it ends. The Group makes accounting estimates for constructions to which the per-centage-of completion method is applied and others in consideration that stable business continuity will be possible by measures against infectious such as avoidance of the three Cs, and by productivity improvement using ICT.

Impacts to economic activities due to spread of COVID-19 are uncertain, so it is possible that it affects to some extent our financial position and operating results if the above assumption changes.

7. Securities and investment securities

(1) Held-to-maturity debt securities

As of March 31, 2020	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	¥154	¥156	¥ 2
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥154	¥156	¥ 2
Securities whose fair value doesn't exceed their book value on consolidated B/S:			
National and local government bonds	¥ —	¥ —	¥—
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥ —	¥ —	¥—
Total	¥154	¥156	¥ 2

As of March 31, 2021	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	¥80	¥81	¥ 1
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥80	¥81	¥ 1
Securities whose fair value doesn't exceed their book value on consolidated B/S:			
National and local government bonds	¥—	¥—	¥—
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥—	¥—	¥—
Total	¥80	¥81	¥ 1

	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	\$726	\$735	\$ 9
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	\$726	\$735	\$ 9
Securities whose fair value doesn't exceed their book value on consolidated B/S:			
National and local government bonds	\$ —	\$ —	\$—
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	\$ —	\$ —	\$—
Total	\$726	\$735	\$ 9

(2) Other securities

As of March 31, 2020	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	¥ 11,687	¥ 7,008	¥4,679
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥ 11,687	¥ 7,008	¥4,679
Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:			
Stock	¥ 1,946	¥ 2,851	¥ (905)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥ 1,946	¥ 2,851	¥ (905)
Total	¥ 13,633	¥ 9,859	¥3,774

(Notes) Since unlisted stocks (balance on consolidated balance sheet ¥2,819 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, 2021	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	¥15,797	¥9,279	¥6,518
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥15,797	¥9,279	¥6,518
Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:			
Stock	¥ 370	¥ 375	¥ (5)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥ 370	¥ 375	¥ (5)
Total	¥16,167	¥9,654	¥6,513

Notes to the Consolidated Financial Statements

	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	\$142,676	\$83,809	\$58,867
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	\$142,676	\$83,809	\$58,867
Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:			
Stock	\$ 3,339	\$ 3,383	\$ (44)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	\$ 3,339	\$ 3,383	\$ (44)
Total	\$146,015	\$87,192	\$58,823

(Notes) Since unlisted stocks (balance on consolidated balance sheet ¥2,616 million (U.S. \$ 23,629 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, 2020	Millions of yen		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	¥2	¥1	¥—
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Total	¥2	¥1	¥—

As of March 31, 2021	Millions of yen		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	¥67	¥44	¥(0)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Total	¥67	¥44	¥(0)

	Thousands of U.S. dollars		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	\$607	\$402	¥(4)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Total	\$607	\$402	¥(4)

(4) Impairment of investment securities

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Other securities			
Stock	¥—	¥413	\$3,733

8. Pledged Assets

The following assets are pledged for guarantee against defect in house constructions and other at March 31, 2020 and 2021.

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Deposit	¥ —	¥177	\$1,603
Securities	74	9	80
Investment securities	212	241	2,177
Other (Investment and other assets)	223	301	2,719
Total	¥509	¥728	\$6,579

9. Short-term and long-term loans, commercial papers and bonds payable

Short-term and long-term loans, commercial papers and bonds payable as of March 31, 2020 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Short-term loans from banks and insurance companies (The weighted average interest rate is 0.63%.)	¥18,924	¥20,919	\$188,938
Commercial papers	17,999	—	—
Long-term loans from banks and insurance companies due through 2025 (The weighted average interest rate is 0.54%.)	20,608	31,294	282,637
0.14% unsecured bonds payable due 2020	10,000	—	—
0.68% unsecured bonds payable due 2021	10,000	10,000	90,318
0.15% unsecured bonds payable due 2023	—	10,000	90,318
0.25% unsecured bonds payable due 2025 (Green bonds)	—	10,000	90,318
Total	¥77,531	¥82,213	\$742,529

The aggregate annual maturity of short-term and long-term loans and bonds payable after March 31, 2021 is as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2022	¥38,841	\$350,806
2023	7,596	68,605
2024	17,290	156,162
2025	5,467	49,373
2026 and after	13,019	117,583
Total	¥82,213	\$742,529

10. 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
	2020	2021	2021
The difference between the appraisal value of land at the end of the current fiscal year and the book value	¥6,177	¥5,360	\$48,409

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

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

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

This amounted to ¥ 4,584 million (U.S. \$ 41,401 thousand) gain as of March 31, 2021.

11. Extraordinary income

The composition of Extraordinary income for the fiscal years ended March 31, 2020 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Gain on sales of non-current assets	¥279	¥ 92	\$ 832
Gain on sales of investment securities	1	44	400
Other	4	3	19
Total	¥284	¥139	\$1,251

12. Extraordinary losses

The composition of Extraordinary losses for the fiscal years ended March 31, 2020 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Loss on sales of non-current assets	¥ 80	¥ 46	\$ 413
Loss on retirement of non-current assets	249	45	405
Loss on valuation of investment securities	—	413	3,733
Provision of allowance for doubtful accounts	0	2	16
Loss on contribution of securities to retirement benefit trust	46	—	—
Other	—	13	115
Total	¥375	¥519	\$4,682

13. Research and development costs

Research and development costs charged to income are ¥ 2,435 million for the fiscal year 2020 and ¥ 2,348 million (U.S. \$ 21,207 thousand) for the fiscal year 2021, respectively.

14. 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, 2020 and 2021:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Valuation difference on available-for-sale securities			
Amount arising during the year	¥(2,813)	¥2,560	\$23,124
Reclassification adjustment for gains and losses realized in net income	45	179	1,616
Amount before tax effect	(2,768)	2,739	24,740
Tax effect	846	(828)	(7,484)
Valuation difference on available-for-sale securities	(1,922)	1,911	17,256
Deferred gains or losses on hedges			
Amount arising during the year	684	(3,103)	(28,023)
Reclassification adjustment for gains and losses realized in net income	(594)	2,676	24,168
Acquisition cost adjustment of assets	—	111	1,003
Amount before tax effect	90	(316)	(2,852)
Tax effect	(28)	97	873
Deferred gains or losses on hedges	62	(219)	(1,979)
Foreign currency translation adjustments			
Amount arising during the year	(44)	155	1,400
Reclassification adjustment for gains and losses realized in net income	—	—	—
Amount before tax effect	(44)	155	1,400
Tax effect	—	—	—
Foreign currency translation adjustments	(44)	155	1,400
Remeasurements of defined benefit plans			
Amount arising during the year	(1,848)	1,830	16,525
Reclassification adjustment for gains and losses realized in net income	(132)	118	1,066
Amount before tax effect	(1,980)	1,948	17,591
Tax effect	606	(597)	(5,386)
Remeasurements of defined benefit plans	(1,374)	1,351	12,205
Total of other comprehensive income	¥(3,278)	¥3,198	\$28,882

15. Derivative financial transactions

(1) Matters concerning derivative financial transactions

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

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

(2) Matters concerning fair value

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

16. Commitments and contingent liabilities

As of March 31, 2021, the Company has liabilities for guarantee to bank loans made by customers amounting to ¥ 29 million (U.S. \$ 264 thousand). The Company also has the guarantee amounting to ¥ 188 million (U.S. \$ 1,694 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

The Company has agreements on commitment line with 8 banks totaling ¥20,000 million (U.S. \$ 180,636 thousand) for the purpose of flexible financing. Unused commitment line as of March 31, 2020 and 2021 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Commitment line			
Total of commitment line	¥20,000	¥20,000	\$180,636
Use of commitment	—	—	—
Total of unused commitment line	¥20,000	¥20,000	\$180,636

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
	2020	2021	2021
Deferred tax assets			
Employees' retirement benefits trust	¥ 2,060	¥ 2,101	\$ 18,975
Allowance for doubtful accounts	1,165	1,114	10,063
Provision for bonuses	901	917	8,280
Impairment loss	870	861	7,774
Loss on valuation of real estate for sale	1,775	440	3,975
Net defined benefit liability	393	353	3,188
Provision for loss on construction contracts	593	344	3,103
Net operating loss carryforwards	261	274	2,471
Other	1,896	1,645	14,866
Total: deferred tax assets	9,914	8,049	72,695
Less: valuation allowance	(1,995)	(1,790)	(16,166)
Deferred tax assets	¥ 7,919	¥ 6,259	\$ 56,529
Deferred tax liabilities			
Valuation difference on available-for-sale securities	¥(1,100)	¥(1,929)	\$(17,422)
Prepaid pension cost	(386)	(977)	(8,823)
Unrealized intercompany income	(105)	(105)	(950)
Other	(169)	(138)	(1,246)
Total: deferred tax liabilities	(1,760)	(3,149)	(28,441)
Net: deferred tax assets	¥ 6,159	¥ 3,110	\$ 28,088

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:

	2020	2021
The statutory effective tax rate	30.62%	—%
(Adjustments)		
Permanent differences (expense)	1.37	—
Permanent differences (income)	(0.10)	—
Per capita levy on inhabitant tax	0.56	—
Consolidated adjustments	(0.00)	—
Increase (Decrease) in valuation allowance	(3.12)	—
Other	(1.30)	—
Actual burden tax rate after the application of tax effect accounting	28.04%	—%

For the year ended March 31, 2021, a reconciliation is omitted because the difference between the statutory effective tax rate and actual burden tax rates after tax effect accounting is less than 5%.

18. Retirement benefits

The Group 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, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Retirement benefit obligation at the beginning of year	¥26,308	¥25,619	\$231,388
Service cost	1,395	1,418	12,807
Interest cost	—	25	225
Actuarial gain and loss	(280)	88	799
Retirement benefits paid	(1,804)	(1,559)	(14,084)
Retirement benefit obligation at the end of year	¥25,619	¥25,591	\$231,135

(2) The changes in the plan assets during the years ended March 31, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Plan assets at the beginning of year	¥27,681	¥25,626	\$231,452
Expected return on plan assets	474	450	4,066
Actuarial gain	(2,128)	1,918	17,325
Contributions by the Company	848	861	7,775
Contribution of securities to retirement benefit trust	134	—	—
Retirement benefits paid	(1,383)	(1,192)	(10,768)
Plan assets at the end of year	¥25,626	¥27,663	\$249,850

(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, 2020 and 2021 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Funded retirement benefit obligation	¥25,042	¥24,953	\$225,370
Plan assets at fair value	(25,626)	(27,663)	(249,850)
	¥ (584)	¥ (2,710)	\$ (24,480)
Unfunded retirement benefit obligation	577	638	5,766
Net liability for retirement benefits in the balance sheet	¥ (7)	¥ (2,072)	\$ (18,714)
Net defined benefit liability	¥ 1,253	¥ 1,118	\$ 10,100
Net defined benefit asset	(1,260)	(3,190)	(28,814)
Net liability for retirement benefits in the balance sheet	¥ (7)	¥ (2,072)	\$ (18,714)

(4) The components of retirement benefit expense for the years ended March 31, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Service cost	¥1,395	¥1,418	\$12,807
Interest cost	—	25	224
Expected return on plan assets	(474)	(450)	(4,066)
Amortization of actuarial gain and loss	(132)	118	1,066
Retirement benefit expense	¥ 789	¥1,111	\$10,031

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, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Actuarial gain and loss	¥(1,980)	¥1,948	\$17,591
Total	¥(1,980)	¥1,948	\$17,591

(6) The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unrecognized actuarial gain and loss	¥1,175	¥(773)	\$(6,979)
Total	¥1,175	¥(773)	\$(6,979)

(7) The fair value of plan assets, major category, as a percentage of total plan assets as of March 31, 2020 and 2021 are as follows:

	2020	2021
Bonds		
Stocks	45%	43%
General accounts	44	45
Cash and deposits	5	5
Others	3	2
Total	3	5
	100%	100%

Note: Total plan assets include retirement benefit trusts of 11% and 11% that are set up for a corporate pension plan as of March 31, 2020 and 2021, 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:

	2020	2021
Discount rates	0.1%	0.2%
Expected rates of long-term return on plan assets	1.2 - 2.0%	1.3 - 2.0%
Expected rates of increase in salary	3.3 - 4.8%	3.3 - 4.8%

19. Financial instruments

(1) Policy for financial instruments

The Group has limited the instruments of fund investment to short term deposits etc., and relied on bonds payable and bank loans, etc., for fund procurement.

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

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 mainly 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, 2020 are as follows

	Millions of yen		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	¥ 43,621	¥ 43,621	¥—
(2) Notes receivable, accounts receivable from completed construction contracts and other	239,344	239,344	—
(3) Securities and investment securities	13,787	13,789	2
(4) Accounts receivable-other	20,266	20,266	—
Total Assets	¥317,018	¥317,020	¥ 2
Liabilities			
(1) Accounts payable for construction contracts and other	¥118,817	¥118,817	¥—
(2) Short-term loans payable	18,924	18,924	—
(3) Commercial papers	17,999	17,999	—
(4) Bonds payable ^{(*)1}	20,000	20,075	75
(5) Long-term loans payable ^{(*)2}	20,608	20,629	21
Total Liabilities	¥196,348	¥196,444	¥96
Derivative transaction ^{(*)3}	¥ 63	¥ 63	¥—

(*)1 Bonds payable includes the current portion of bonds payable.

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

(*)3 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 and (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) Accounts payable for construction contracts and other,

(2) Short-term loans payable and

(3) 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.

(4) Bonds payable and

(5) Long-term loans payable

The fair values 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 are subject to a special treatment of interest rate swap and are 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 ¥ 3,440 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, 2020

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits				
Deposits	¥ 43,596	¥ —	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts and other	226,598	12,746	—	—
Securities and investment securities				
Held-to-maturity bonds				
National and local government bonds	74	80	—	—
Corporate bonds	—	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	—	—
Other	—	—	—	—
Accounts receivable-other	20,266	—	—	—
Total	¥290,534	¥12,826	¥—	¥—

(Note 4) The redemption schedule for short-term and long-term loans, and bonds payable is disclosed in Note 9.

Book value on consolidated balance sheet, fair value and the difference as of March 31, 2021 are as follows:

	Millions of yen		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	¥ 59,782	¥ 59,782	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	239,949	239,949	—
(3) Securities and investment securities	16,247	16,248	1
(4) Accounts receivable-other	17,889	17,889	—
Total Assets	¥333,867	¥333,868	¥ 1
Liabilities			
(1) Accounts payable for construction contracts and other	¥117,483	¥117,483	¥ —
(2) Short-term loans payable	20,919	20,919	—
(3) Bonds payable ^{(*)1}	30,000	30,044	44
(4) Long-term loans payable ^{(*)2}	31,294	31,292	(2)
Total Liabilities	¥199,696	¥199,738	¥ 42
Derivative transaction ^{(*)3}	¥ (252)	¥ (252)	¥ —

	Thousands of U.S. dollars		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	\$ 539,935	\$ 539,935	\$ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	2,167,170	2,167,170	—
(3) Securities and investment securities	146,741	146,750	9
(4) Accounts receivable-other	161,566	161,566	—
Total Assets	\$3,015,412	\$3,015,421	\$ 9
Liabilities			
(1) Accounts payable for construction contracts and other	\$1,061,081	\$1,061,081	\$ —
(2) Short-term loans payable	188,938	188,938	—
(3) Bonds payable ^{(*)1}	270,954	271,351	397
(4) Long-term loans payable ^{(*)2}	282,637	282,619	(18)
Total Liabilities	\$1,803,610	\$1,803,989	\$379
Derivative transaction ^{(*)3}	\$ (2,280)	\$ (2,280)	\$ —

(*)1 Bonds payable includes the current portion of bonds payable.

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

(*)3 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 and (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) Accounts payable for construction contracts and other and (2) 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.

(3) Bonds payable and

(4) Long-term loans payable

The fair values 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 are mainly subject to a special treatment of interest rate swap and are 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 ¥ 3,247 million (U.S. \$ 29,324 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".

Notes to the Consolidated Financial Statements

(Note 3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2021

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits				
Deposits	¥ 59,739	¥ —	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts and other	204,974	34,975	—	—
Securities and investment securities				
Held-to-maturity bonds				
National and local government bonds	9	72	—	—
Corporate bonds	—	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	—	—
Other	—	—	—	—
Accounts receivable-other	17,889	—	—	—
Total	¥282,611	¥35,047	¥—	¥—

	Thousands of U.S. dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits				
Deposits	\$ 539,555	\$ —	\$—	\$—
Notes receivable, accounts receivable from completed construction contracts and other	1,851,283	315,887	—	—
Securities and investment securities				
Held-to-maturity bonds				
National and local government bonds	80	646	—	—
Corporate bonds	—	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	—	—
Other	—	—	—	—
Accounts receivable-other	161,566	—	—	—
Total	\$2,552,484	\$316,533	\$—	\$—

(Note 4) The redemption schedule for short-term and long-term loans, and bonds payable is disclosed in Note 9.

20. Business combination

Business combination through acquisition

(1) Overview

- Name of acquiree and business description

Company name:

UG M&E Pte. Ltd.

Business description:

Mechanical and Electrical engineering (M&E engineering) construction

- Reason for business combination

UG M&E Pte. Ltd., founded in 1966, is the leading M&E engineering contractor with the highest graded qualification for M&E engineering in Singapore. UG M&E has a track record of large-scale M&E engineering works for Singapore's landmark projects and its experienced management team and excellent technological capabilities have earned a high praise and trust in Singapore.

We are convinced that the Company and UG M&E Pte. Ltd. will exert the synergistic effects for both companies, through utilizing each other's strengths and collaborating in all aspects of sales, technologies, human resources, etc.

- Date of business combination
 - June 1, 2020 (date of acquisition of shares)
 - June 30, 2020 (date of estimated completion of acquisition)
- Legal form of business combination
 - Acquisition of shares
- Company name after business combination
 - No change
- Percentage of voting rights acquired
 - 100%
- Main basis for determining the acquirer
 - The Company acquired shares with cash consideration

(2) Period of operating results of the acquiree included in the consolidated financial statements

From July 1, 2020 to December 31, 2020

(3) Acquisition cost and breakdown

	Millions of yen	Thousands of U.S. dollars
Cash payment for acquisition	¥2,609	\$23,560
Acquisition cost	¥2,609	\$23,560

(4) Major acquisition-related costs and nature

	Millions of yen	Thousands of U.S. dollars
Advisory fees and charges	¥122	\$1,105

(5) Amount, reason, amortization method and amortization period of acquired goodwill

	Millions of yen	Thousands of U.S. dollars
Amount of goodwill	¥2,432	\$21,962

- Reason for goodwill
 - The acquisition cost exceeded the net assets of the acquiree as of the date of business combination
- Amortization method
 - Straight-line amortization over 10 years

(6) Major assets acquired and liabilities assumed on the date of business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,751	\$15,815
Non-current assets	44	400
Total assets	¥1,795	\$16,215
Current liabilities	¥1,595	\$14,402
Non-current liabilities	20	185
Total liabilities	¥1,615	\$14,587

(7) Approximate amounts and calculation method of impact on the consolidated statement of income for the current fiscal year, assuming that the business combination was completed at the beginning of the current fiscal year

- They are omitted since approximate amounts of the impact are immaterial.

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 3 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

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

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

Intersegment sales and transfers are based on prevailing market price.

The Company do not allocate assets to business segments.

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

	Millions of yen							Recorded amount on consolidated statement of income (Note 3)
	Reportable segment				Other (Note1)	Total	Adjustments (Note 2)	
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Total				
Year ended March 31, 2020								
Net sales:								
Sales to third parties	¥210,740	¥197,014	¥157,624	¥565,378	¥8,465	¥573,843	¥ —	¥ 573,843
Intersegment sales and transfers	250	1	—	251	2,176	2,427	(2,427)	—
Total	210,990	197,015	157,624	565,629	10,641	576,270	(2,427)	573,843
Segment profit	20,682	6,321	6,312	33,315	(157)	33,158	3	33,161
Other item:								
Depreciation	3,757	583	4,305	8,645	443	9,088	(3)	9,085

	Millions of yen							Recorded amount on consolidated statement of income (Note 3)
	Reportable segment				Other (Note1)	Total	Adjustments (Note 2)	
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Total				
Year ended March 31, 2021								
Net sales:								
Sales to third parties	¥199,005	¥144,423	¥121,935	¥465,363	¥5,696	¥471,059	¥ —	¥ 471,059
Intersegment sales and transfers	176	32	—	208	2,380	2,588	(2,588)	—
Total	199,181	144,455	121,935	465,571	8,076	473,647	(2,588)	471,059
Segment profit	22,856	4,050	2,865	29,771	688	30,459	2	30,461
Other item:								
Depreciation	3,470	520	2,977	6,967	430	7,397	(2)	7,395

	Thousands of U.S. dollars							Recorded amount on consolidated statement of income (Note 3)
	Reportable segment				Other (Note1)	Total	Adjustments (Note 2)	
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Total				
Year ended March 31, 2021								
Net sales:								
Sales to third parties	\$1,797,373	\$1,304,396	\$1,101,288	\$4,203,057	\$51,448	\$4,254,505	\$ —	\$4,254,505
Intersegment sales and transfers	1,587	289	—	1,876	21,492	23,368	(23,368)	—
Total	1,798,960	1,304,685	1,101,288	4,204,933	72,940	4,277,873	(23,368)	4,254,505
Segment profit	206,429	36,576	25,880	268,885	6,210	275,095	21	275,116
Other item:								
Depreciation	31,342	4,695	26,891	62,928	3,880	66,808	(20)	66,788

Notes

(1) Division of "Other" includes domestic real estate development, shipbuilding, leasing business, insurance business and environment business.

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

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

(Related information)

For the year ended March 31, 2020

1. Information of each products and service

Please refer to above.

2. Geographical information

(1) Net sales

Japan	Southeast Asia	Other	Total
¥416,218 million	¥101,762 million	¥55,862 million	¥573,843 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
¥63,739 million	¥14,131 million	¥2,058 million	¥79,928 million

3. Each main customer

Name of Customer	Net sales	Related segment
Ministry of Land, Infrastructure, Transport and Tourism	¥76,791 million	Domestic civil engineering segment Domestic building construction segment

For the year ended March 31, 2021

1. Information of each products and service

Please refer to above.

2. Geographical information

(1) Net sales

Japan	Southeast Asia	Other	Total
¥349,124 million \$3,153,217 thousand	¥79,401 million \$717,131 thousand	¥42,534 million \$384,158 thousand	¥471,059 million \$4,254,505 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
¥70,259 million \$634,561 thousand	¥12,597 million \$113,770 thousand	¥1,552 million \$14,020 thousand	¥84,407 million \$762,351 thousand

3. Each main customer

Name of Customer	Net sales	Related segment
Ministry of Land, Infrastructure, Transport and Tourism	¥58,328 million \$526,803 thousand	Domestic civil engineering segment Domestic building construction segment

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

For the year ended March 31, 2020

None

For the year ended March 31, 2021

None

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

For the year ended March 31, 2020

None

For the year ended March 31, 2021

	Millions of yen						
	Reportable segment				Other	Adjustments	Total
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Total			
Amortization	¥—	¥—	¥ 124	¥ 124	¥—	¥—	¥ 124
Balance at the end of current period	—	—	2,374	2,374	—	—	2,374

	Thousands of U.S. dollars						
	Reportable segment				Other	Adjustments	Total
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Total			
Amortization	\$—	\$—	\$ 1,116	\$ 1,116	\$—	\$—	\$ 1,116
Balance at the end of current period	—	—	21,445	21,445	—	—	21,445

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

For the year ended March 31, 2020

None

For the year ended March 31, 2021

None

22. Amounts per share

1. Per share information is summarized as follows:

	Yen		U.S. dollars
	2020	2021	2021
Net assets excluding non-controlling interests per share	¥494.70	¥555.32	\$5.02
Net income attributable to owners of parent per share	81.83	73.62	0.66

Basic net income attributable to owners of parent per share is calculated by the weighted average number of outstanding common stocks during the year. Incidentally, shares held by BBT are included in treasury shares to be deducted from the average number of shares during of the year in calculating it. The average number of treasury shares issued and outstanding at March 31, 2020 and 2021 were 645 thousand and 846 thousand, including 435 thousand and 636 thousand of shares and held by BBT, respectively.

2. For the year ended March 31, 2020 and 2021, diluted net income 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, 2021

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, 2021, was approved at the annual general shareholders' meeting held on June 25, 2021 and became effective June 28, 2021:

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Cash dividends (¥ 28 (U.S. \$ 0.25) per share)	¥8,002	\$72,277

Dividends for shares held by BBT amounted to ¥ 21 million (U.S. \$194 thousand) are included in dividends in accordance with the resolution at the annual general shareholders' meeting on June 25, 2021.

Commemorative dividends of ¥ 5 for the 125th anniversary of the foundation of the Company are included in dividends per share of ¥ 28 for the fiscal year ended March 2021.



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Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of PENTA-OCEAN CONSTRUCTION CO., LTD. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.



Application of the percentage-of-completion method in the construction business	
Description of Key Audit Matter	Auditor's Response
<p>PENTA-OCEAN CONSTRUCTION CO., LTD. (the "Company") and its consolidated subsidiaries (the Company and its consolidated subsidiaries together referred to as "the Group") primarily engage in domestic civil engineering, domestic building construction and overseas construction, and enter into long-term contracts with customers to cater to the specifications of customers over certain periods of time.</p> <p>As described in "(15) Recognition of sales and cost of sales" under Note 3 "Summary of significant accounting policies" to the consolidated financial statements, the Group applies the percentage-of-completion method (based on the cost proportion method to estimate the progress of construction) for construction contracts of which the outcome of the construction activity is deemed certain at the end of the fiscal year, and applies the completed-contract method for other construction contracts. The Company's net sales of completed construction contracts using the percentage-of-completion method aggregates to 423,004 million yen, covering 89.8% of total net sales of 471,059 million yen, for the fiscal year ended March 31, 2021.</p> <p>Revenue for which the percentage-of-completion method is applied is measured by multiplying the total construction revenue by its progress towards completion of the construction. Total construction revenue is determined by adding the amounts agreed in contracts and estimated amounts substantially agreed with customers with whom contracts have not yet been entered into. Further, progress towards completion of constructions is determined based on the ratio of construction costs incurred for construction performed up to the end of the fiscal year compared to the estimated total construction costs.</p>	<p>We mainly performed the following audit procedures to evaluate the adequacy of estimates of total construction revenue and total construction costs used in applying the percentage-of-completion method by the Company.</p> <p>(1) Evaluation of internal control We evaluated the design and operating effectiveness of the following internal controls relating to estimates of total construction revenue and total construction costs.</p> <p>① Total construction revenue The process in which documents indicating the amounts of consideration based on substantial agreements made between parties and details of such agreements, which form the basis of estimates of the amounts for which contracts have not yet been entered into, are prepared by persons in charge of the construction work who have specialized knowledge and are approved by authorized persons who are responsible for the reliability of the profit and loss management of the construction work.</p> <p>② Total construction costs</p> <ul style="list-style-type: none"> • The process in which operating budgets, which form the basis of estimates of the total construction costs, are prepared by persons in charge of the construction work who have specialized knowledge and are approved by authorized persons who are responsible for the reliability of the profit and loss management of the construction work. • The process for verifying that each element of the total construction costs is calculated by accumulating in detail objective prices, such as standard unit prices approved internally and quotations obtained from external sources. • The process for estimating the total construction costs timely and appropriately in accordance with the status of construction

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① Total construction revenue

Although construction contracts may potentially be modified due to new agreements with customers during construction, there are cases where the amounts of such modifications are not determined each time the modifications of construction contracts are made. Accordingly, with regards to changes in consideration, if modifications to construction contracts that have not yet been entered into are to be included in total construction revenue, it is necessary to reliably estimate the amount of consideration based on substantial agreements made among parties and the details of such agreements.

Determinations of whether agreements are substantial and estimates of amounts of consideration involve subjectivity since they are based on discussions with customers and thus involve uncertainty.

② Total construction costs

Considering that construction contracts are highly individual and carried out in accordance with fundamental specifications and work details instructed by customers, it is difficult to apply a uniform rule for making estimates of total construction costs. Accordingly, estimates of total construction costs involve certain assumptions and judgments that are based on specialized knowledge and experience in construction, and thus involve uncertainty.

Further, given that constructions are generally long-term in nature, there may be potential modifications in construction contracts, changes in weather and sea conditions and fluctuations in construction material prices and labor prices during construction, thus making timely and appropriate revisions of total construction costs complex.

Based on the above, we have determined the estimation of total construction revenue and

work, the amount of construction costs actually incurred versus the budget, and changes in specifications instructed by customers.

- The process in which the profit or loss for each construction contract is reported at the closing date by persons in charge of the construction work and is approved by authorized persons who are responsible for the reliability of the profit and loss management of the construction work.

(2) Evaluation of the adequacy of estimates

We identified those construction contracts that involve a relatively high degree of uncertainty over the estimates of the total construction revenue and total construction costs, in light of factors such as the scale of construction, profit and loss on construction, and status of construction work, and performed the following audit procedures.

① Total construction revenue

- For estimates of amounts for which contracts have not yet been entered into, we inspected documents such as work order from customers, order to commence work in advance, minutes of negotiations with customers, and quotations, and evaluated the status of agreements with customers and amount of consideration thereof.

- We evaluated the process for estimating the total construction revenue by comparing prior estimates of amounts for which contracts have not yet been entered into with the subsequent status of the contracts or re-estimated amounts.

② Total construction costs

- We inspected the most recent operating budget prepared in a timely manner that serve as the basis for the estimate of the total construction costs, and examined whether the estimated costs are consistent with the content of the construction contracts, calculated by accumulating the construction costs by category of work, and whether unusual amounts of adjustment items are not included



<p>total construction costs to be a key audit matter due to its particular significance for the fiscal year ended March 31, 2021.</p>	<p>in the operating budget.</p> <ul style="list-style-type: none"> • We compared the prior estimate of the total construction costs with the estimate at the closing date, and for the changes in costs above a certain threshold, we examined whether the details of such changes are consistent with the current status of construction work by making inquiries, and collating the work schedules and quotations from subcontractors. • We made inquiries regarding the progress of the construction, the existence of events resulting in changes to the total construction costs, and the determination of whether revisions to the total construction costs are necessary, and examined the reasonableness of the responses in light of the work schedules and the construction costs incurred. • We evaluated the process for estimating the total construction costs by comparing prior estimate of total construction costs with the subsequent outcome of total construction costs or re-estimated amounts.
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Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan


Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 25, 2021

向井 誠 

Makoto Mukai
Designated Engagement Partner
Certified Public Accountant

澤部 直彦 

Naohiko Sawabe
Designated Engagement Partner
Certified Public Accountant