



# GOING FURTHER

その先の向こうへ



## Penta-Ocean Construction Annual Report 2015

Year Ended March 31, 2015



# GOING FURTHER

その先の向こうへ

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

## Corporate Policy



## Corporate Visions

### **"Creative" company for land and sea**

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

### **"Committed" company guaranteeing solid quality**

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

### **"Future-oriented" company creating rich environments for the future generations**

We establish quality and nurture rich environments throughout the course of our corporate activities and pass on our dreams, hopes and possibilities to the next generations.

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# Corporate History

In our aim to be a trusted and continually-developing company, Penta-Ocean Construction Co., Ltd. is serving customers, business partners, stockholders and communities since our founding in 1896 through civil engineering, building, and environmental construction mainly around coastal areas. We intend to continue making a further contribution in the future and work as a group towards the creation of sustainable value.

## 1896

Founded as Mizuno-gumi (former name of Penta-Ocean Construction) in Kure city, Hiroshima prefecture by Jinjiro Mizuno. Engaged in port and harbor engineering works, mainly at naval bases throughout Japan.



Iconic uniform of the former Mizuno-gumi

### Foundation period

1896



The dredger, "Kure Maru No. 2"

## From foundation to early Showa era

With involvement in many naval base works at places such as Kure, Yokosuka, and Sasebo, the Company gained a growing reputation as "Mizuno-gumi Marine Civil Engineers."

## 1957

Participated in investigatory work at India and the Port of Goa as its first step into the overseas market.

## 1961

Built a cutter suction dredger, the "SUEZ," and successfully won the international tender for the Suez Canal improvement work.



Extremely difficult Suez Canal repair work in progress

1961

### International expansion period

## 1965

Establishment of Singapore Office.

## 1967

Company name established as "Goyo Kensetsu Kabushiki-kaisha" in Japanese, and "Penta-Ocean Construction Co., Ltd." in English.



Our company logo representing the five oceans

1967

## 1970s

Won a succession of large-scale contracts in Egypt, Singapore, Iraq, and Qatar. Worked on 7 out of 13 sections of the first phase of the Suez Canal deepening and widening work between 1974 and 1980. This project made Penta-Ocean Construction known throughout the world.

## 1984

Won the Singapore, Tuaspring landfill works contract. As one of the world's largest reclamation projects, it was a key to us making great strides in Singapore.

## 1993

Completion of World Cargo Distribution Center in Tokyo.

## 1994

Completion of the Institute of Technology in Nasushiobara city, Tochigi prefecture.



Completed Institute of Technology

1994

### Growth period

## 1996

Celebrated 100th anniversary of the Company's founding.

## 1999

Commissioned the self-propelled trailing suction hopper dredger, the "ANDROMEDA V" (formerly named: Queen of Penta-Ocean) in Singapore.



ANDROMEDA V

1999

## 2004

Completion of the 166-meter, 43-story Urban View Grand Tower in Hiroshima.

## 2005

Won the contract to construct the Tokyo International Airport Runway D. Announced company slogan "Toward becoming the No.1 Contractor in Coastal and Waterfront Areas."



Major Japanese project-Tokyo International Airport Runway D

2005

## 2006

Won the contract to construct the ION Orchard and the Orchard Residences in Singapore.



Construction work at the ION Orchard and the Orchard Residences in Singapore

2006

## 2012

Completion of the self-propelled multipurpose working vessel, "CP-5001."



CP-5001

2012

### Progress period

## 2014

Completion of the self-propelled cutter suction dredger, "CASSIOPEIA V."



CASSIOPEIA V

2014

# Targeting Further Growth as the "No. 1 Contractor in Coastal and Waterfront Areas"

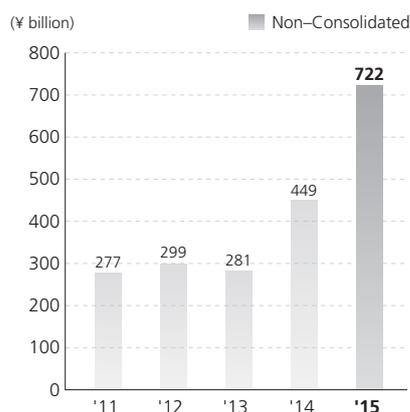
# Consolidated Financial Highlights

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

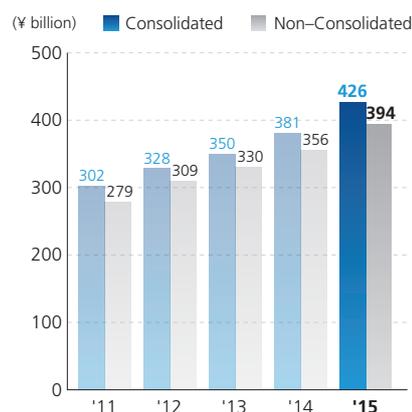
	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Net Sales	¥381,182	<b>¥426,238</b>	<b>\$3,546,956</b>
Total Assets	301,627	<b>366,170</b>	<b>3,047,099</b>
Net Assets Excluding Minority Interests	67,339	<b>77,033</b>	<b>641,034</b>
Ordinary Income	9,160	<b>11,393</b>	<b>94,808</b>
Income before Income Taxes and Minority Interests	8,740	<b>10,176</b>	<b>84,683</b>
Net Income	3,763	<b>6,183</b>	<b>51,456</b>
Cash Dividends	572	<b>1,144</b>	<b>9,517</b>
Per share of common stock:			
	Yen		U.S. dollars
Net Assets Excluding Minority Interests	¥235.53	<b>¥269.44</b>	<b>\$2.24</b>
Net Income	13.16	<b>21.63</b>	<b>0.18</b>
Cash Dividends	2.00	<b>4.00</b>	<b>0.03</b>

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥120.17 per U.S.\$1, prevailing on March 31, 2015.

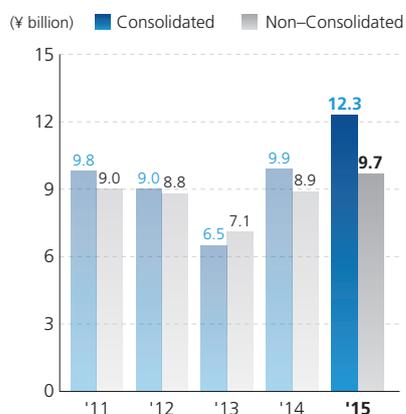
## Orders Received



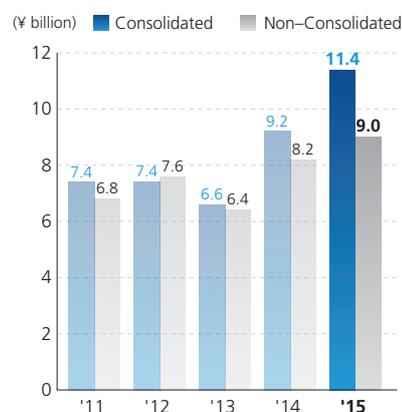
## Net Sales



## Operating Income



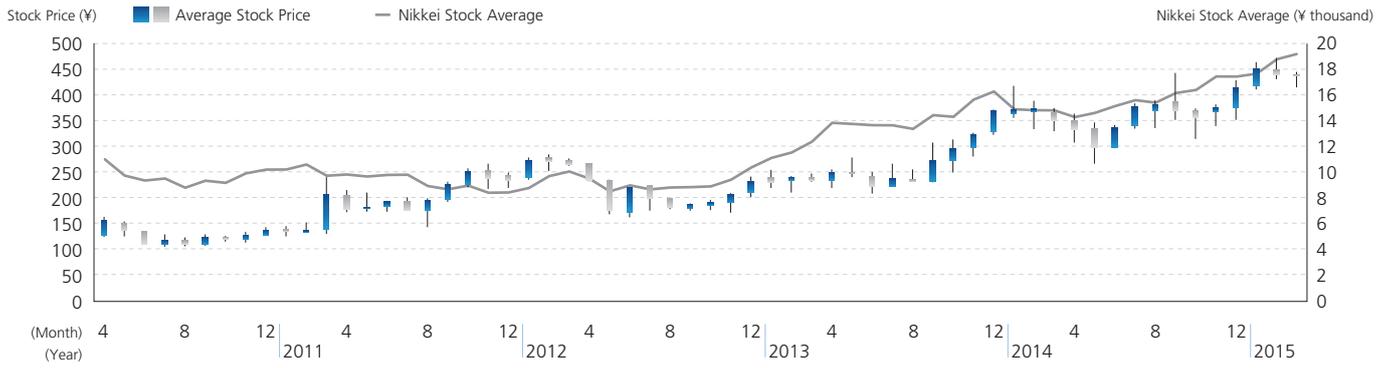
## Ordinary Income



## Disclaimer

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

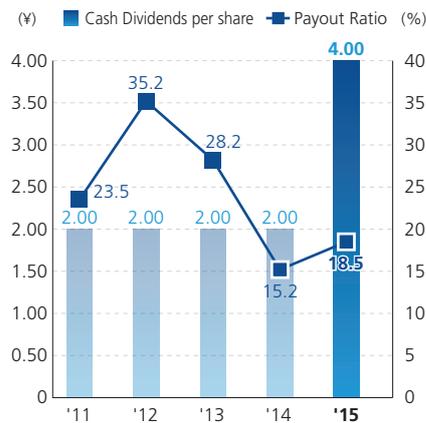
### Stock Price Range



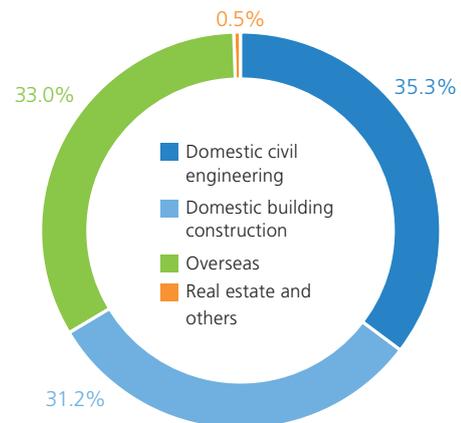
### Trading Volume



### Cash Dividends per Share and Payout Ratio



### Sales by Segments

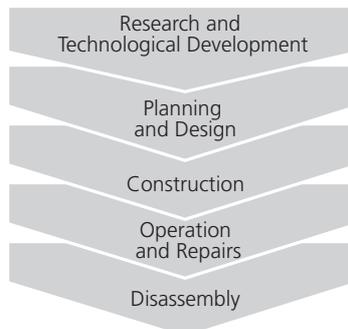


### Business Activities and Environmental Burden

#### INPUT

Power (kWh)*	12,185,000
Light oil (kl)	19,906,000
Heavy oil (kl)	19,987,000
Kerosene (kl)*	140
Concrete (t)	895,000
Asphalt concrete (t)	60,000
Rubble (m <sup>3</sup> )	920,000
Earth and sand (m <sup>3</sup> )	1,597,500

\* Site + office combined number



#### OUTPUT

Amount of CO <sub>2</sub> emissions (t-CO <sub>2</sub> )	112,000
Amount of construction waste (t)	436,000
Final disposal rate (%)	3.2%
Recycling rate (%)	96.8%
Amount of soil generated from construction (m <sup>3</sup> )	694,000

Environmental conservation/  
restoration and communication

Creation of abundant environments

Handing over to the  
next generation

## Message from the President

*“As one of the world’s top players in coastal and waterfront engineering, we are now aiming to become a general contractor that possesses a spirit for progress and originality. Our mission is to affirmatively respond to the customers’ trust with reliable safety and product quality, thereby contributing to society through advanced technology.”*



*T. Shimizu*

**Takuzo Shimizu**  
President, Chief Executive Officer and Representative Director

This year, Penta–Ocean Construction Co., Ltd. is celebrating its 120th anniversary since its founding. We have historic involvement in numerous and notable major projects overseas, including the development and expansion of the Suez Canal, after our first overseas business venture in 1957 providing advisory service to the construction of the quay wall of the Goa Port in India. This year also commemorates the 51st anniversary of the establishment of our Singapore Branch Office. As one of the world’s top players in coastal and waterfront engineering, we are now aiming to become a general contractor that possesses a spirit for progress.

Fortunately, the business environment surrounding the construction industry looks favorable both in Japan and overseas. In addition to the effect of Abenomics financial policy and growth strategy, the 2020 Tokyo Olympic and Paralympic Games will be held mainly in coastal and waterfront areas, which is our area of expertise. We can therefore continue to expect steady construction investment in Japan. For the overseas market, we can also anticipate continued healthy investment infrastructures in Southeast Asia, especially in Singapore and Hong Kong.

Through our mid–term management plan (2015 to 2017),

we are striving towards operation expansion and reinforcement of the management foundation by taking advantage of the aforementioned favorable opportunity in addition to the good business turnover from the first fiscal year. As a result, we are expecting to reach a performance level that surpasses our initial goal. The structure of our International Business Unit, whose business has been expanding, was reorganized in April of this year and its headquarters were relocated to Singapore in order to comprehensively supervise and centrally coordinate all overseas civil engineering and building construction projects. We plan to promote further localization as well as globalization through the concerted efforts of overseas and Japanese staff members towards desirable results in each country.

Our mission is to affirmatively respond to the customers’ trust with reliable safety and product quality, thereby contributing to society through advanced technology. It is the combination of promoting innovative technology and highly–motivated people that will realize this mission. We, therefore, are not only developing the potential strength of individuals, but also integrating this collective strength in order to become a company that can demonstrate comprehensive power across organizational boundaries.



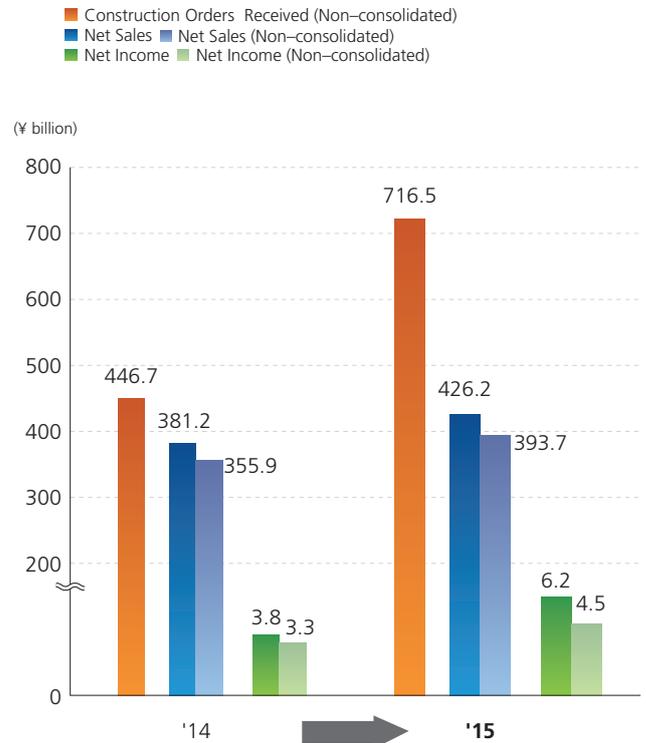
## Could you explain the consolidated results in 2015 and the order situation?



Our sales increased by 11.8% compared to the previous fiscal year to ¥426.2 billion. Gross operating profits increased because of favorable results in some of the overseas consolidated subsidiaries as well as from the increase in sales. Operating profit totaled ¥12.3 billion (an increase of 24.2% compared to the previous fiscal year); ordinary profit, ¥11.4 billion (an increase of 24.4%); and current net profits, ¥6.2 billion (an increase of 64.3%). Current net profits achieved a record in both consolidated and non-consolidated results.

Our non-consolidated construction orders received reached a record high of ¥716.5 billion, increased by 60.4% compared to the previous fiscal year (the previous record high was in 1996 with a record of ¥625.8 billion). Overseas orders received also reached a record high of ¥355.9 billion (an increase of 129.8%). It contributed greatly to the results due to several orders for large-scale works in Singapore and Hong Kong. For domestic orders received, civil engineering business increased to ¥189.1 billion (an increase of 28.9%) and building construction business to ¥171.4 billion (an increase of 18.2%), which also had a significant increase.

### Construction Orders Received/Net Sales/Net Income



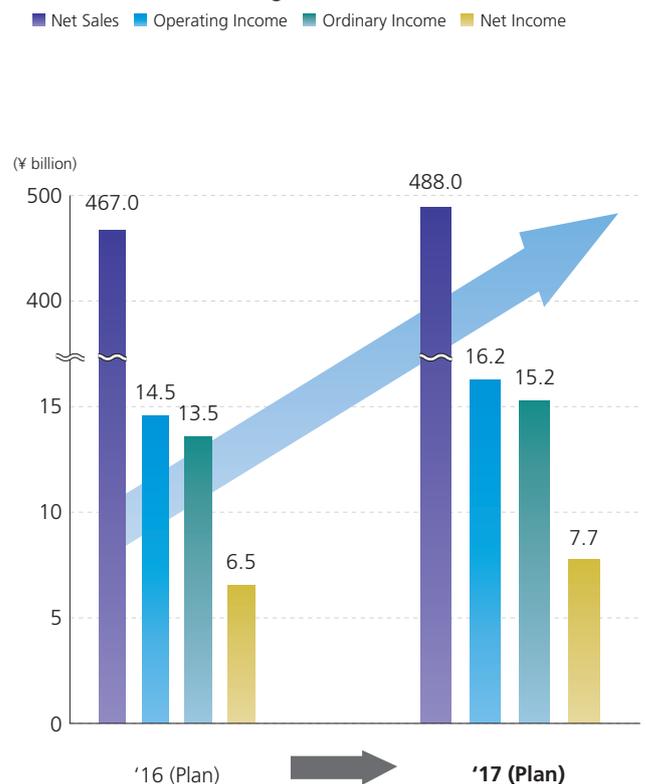
## Could you tell us about the reviews of the mid-term management plan and forecasts of the plan for this fiscal year?



While the previous fiscal year was the first year of the mid-term management plan (2015 to 2017), we upwardly revised our targets for this fiscal year and the final year because sales and current net profits have already exceeded the final year targets for both consolidated and non-consolidated and because construction works in hand have increased due to huge amounts of orders received. We also set new targets of 8% or higher in return on equity (ROE) and 20% to 25% in the dividend payout ratio to clear our intention towards shareholder value improvement.

Consolidated results of this fiscal year are expected to increase both in sales and profits due to increase in construction works in hand of domestic and overseas. Sales of ¥467.0 billion, operating profits of ¥14.5 billion, ordinary profits of ¥13.5 billion, and current net profits of ¥6.5 billion yen are expected. The business environment surrounding the construction industry is expected to grow favorably due to increasing infrastructure investments both in Japan and overseas. As such, we will strive for the recruitment and development of diverse human resources including new graduates, senior employees over 60, female and foreign employees; labor and power saving in sites; and improvement of productivity and safety by promoting industrialization, to meet increasing business demands.

### Medium-Term Management Plan (2015 – 2017)



# Medium-Term Management Plan (For the Fiscal Years Ending March 31, 2015–2017)

## Overview of the New Medium-Term Management Plan (2015–2017)

### Policy

Pursue customers' trust and contribution to society through high quality and safe operations.

- Strengthen on-site capabilities (technology, site operation, safety and total management)
- Develop our brand value
- Build strong management foundations

**No.1 contractor in coastal and waterfront areas**

Make our strong competitiveness and profitability in coastal and waterfront areas become our driving force to grow

### Strategy

1

#### Promote becoming a technology oriented company : Return to basics and improve on-site capabilities

- Comprehensively review and strengthen our on-site capabilities (technology, operation, safety and total management).
- Reinforce our advantages in the comprehensive valuation system and proposals (marketing, technology, operation and cost competitiveness).

2

#### Develop our brand value as the "No.1 contractor in coastal and waterfront areas"

- Aim to expand business to relevant areas with our advantages in coastal and waterfront areas.
- Develop and apply new technologies to strengthen our advantages.
- Start up new business e.g. recycling of construction generated soil, ground purification, improvement of sea area environments and offshore wind farms to prepare for the post-2020 market.

3

#### Strengthen management and organizational capabilities : Disseminate our management strategy

- Implement our thorough policy "focus on profitability" by preventing project deficits and problems in quality and safety.
- Integrate total resources for marketing and operation under cross-functional cooperation.

4

#### Build strong management foundations : Establish a foothold toward future growth

- Further strengthen our financial position: Carry out flexible fundraising in terms of enhancing our capital and panning business.
- Secure and develop excellent human resources: Make use of the potential of young employees at an early stage and utilize a variety of human resources e.g. seniors, mid-career employment and women.
- Reinforce total group competitiveness under mutual cooperation and synergy.

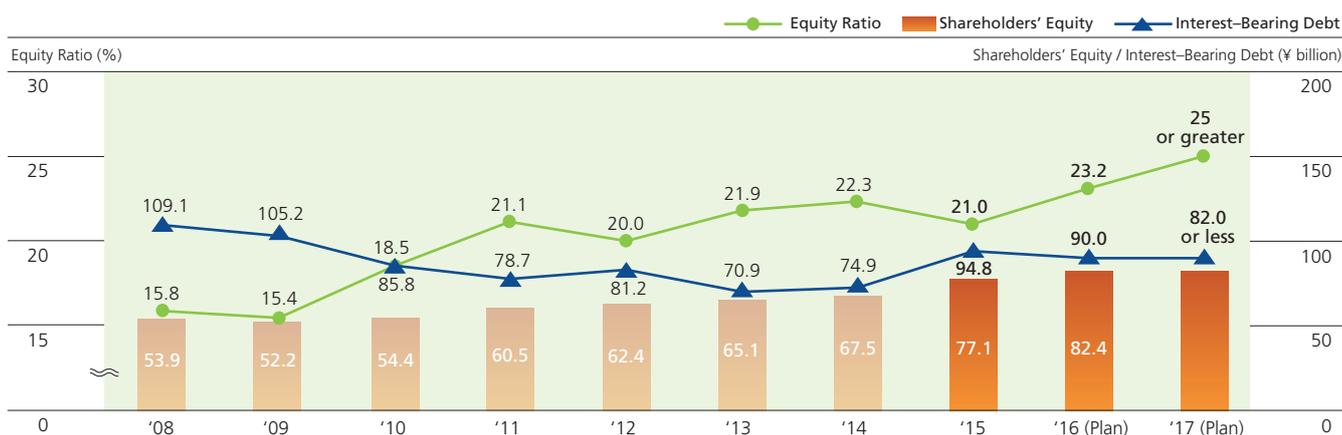
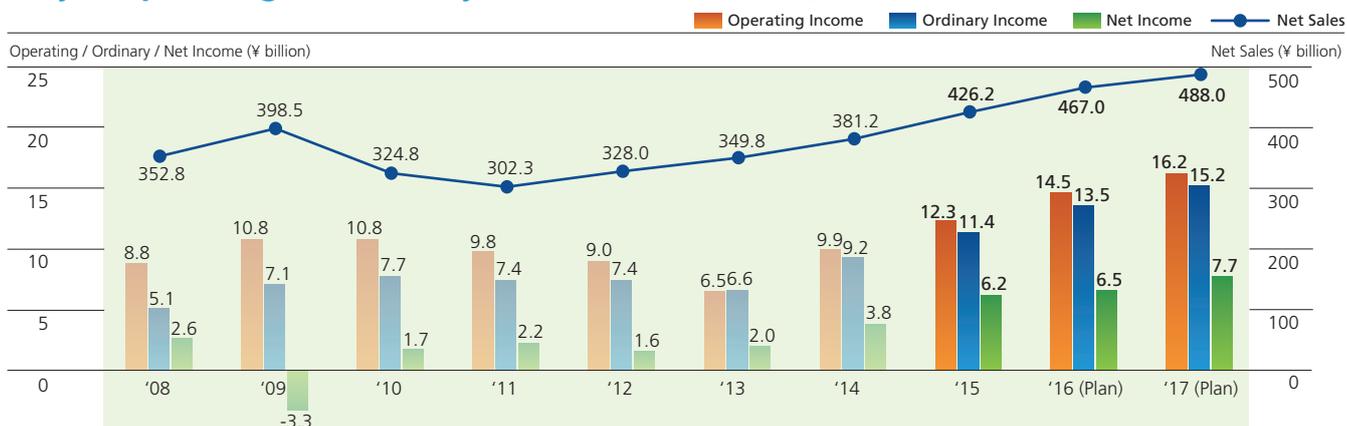
## Earnings Targets under Management Plan

	Medium-Term Management Plan (2015–2017) <span style="float: right;">(¥ billion)</span>			
	2015 Actual		2017 Plan	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
<b>Earnings Targets</b>				
Construction Orders Received	—	¥716.5	—	¥390.0
Net Sales	¥426.2	393.7	¥488.0	454.0
Gross Profit	27.5	23.5	32.7	30.0
Operating Income	12.3	9.7	16.2	15.0
Ordinary Income	11.4	9.0	15.2	14.0
Net Income	6.2	4.5	7.7	7.0
Earnings Per Share (¥)	21.6	15.8	26.9	24.5
<b>Consolidated Financial Targets</b>				
Equity Ratio (%)	21.0%		25.0% or greater	
Interest-Bearing Debt (¥ billion)	¥94.8		¥82.0 or less	
Net D/E Ratio (%)	0.7%		0.5% or less	

### Major Targets for 2017 (Consolidated)

- Net Sales : ¥488.0 billion
- Operating Income : ¥16.2 billion
- Ordinary Income : ¥15.2 billion
- Net Income : ¥7.7 billion
- Construction Orders Received : ¥716.5 billion (Non-consolidated)
- Equity Ratio : 25% or greater
- Net D/E Ratio : 0.5% or less
- ROE : 8% or greater
- Payout Ratio : 20~25%
- Interest-Bearing Debt : ¥82.0 billion or less

### Major Operating Trends/Projection (Consolidated)

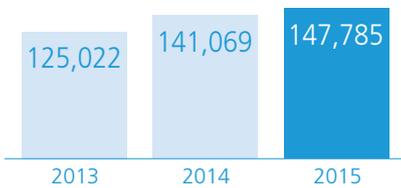


# Completed Projects for Regional Development

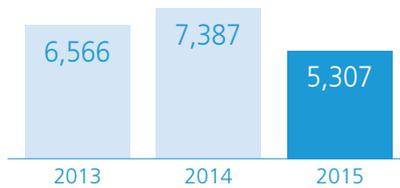
In this section, we showcase construction projects that have contributed to the social infrastructure and regional development.

## Domestic Civil Engineering

Net Sales (¥ million)



Operating Income (¥ million)



### Yokohama Port, Honmoku Area, Quay (-16 m) (Anti-seismic) (Improvement) Construction Work (Part 2)

Kanagawa Prefecture

At Honmoku Pier in the international trade port of Yokohama, a revitalization of facilities has been undertaken in order to meet growing demand for containerized cargo and the increasing size of container ships with the aim to become a transportation hub during massive disaster. We participated in many major constructions for this project, and were engaged in the superstructure maintenance of the -16m quay.



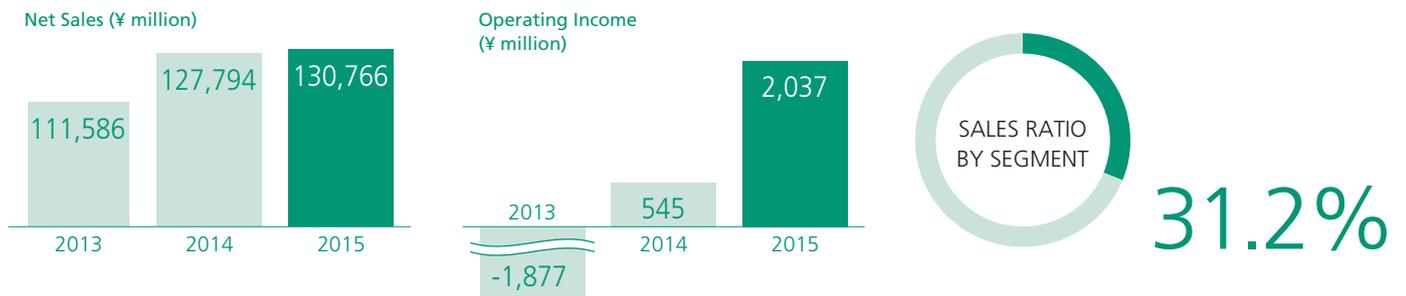
### Niigata Port (Nishikou Area) Main Body Construction of Water Routes, Anchorages, and Incidental Facilities

Niigata Prefecture

Niigata Port (Nishikou Area) located at the mouth of the Shinano river requires annual maintenance dredging of the port to maintain its functions. An incidental facility of the channel anchorage was built to dispose sediment flux from dredging. We built 20 caissons in the dry dock to be used for revetments of the incidental facility in only about six months during this construction.

These caissons will be towed by ships and set up in the future.

## Domestic Building Construction



### Shikoku Coca-Cola Bottling Stadium Marugame

Kagawa Prefecture

A new baseball stadium was built in Marugame city, Kagawa prefecture with the concept of "START for the MAJORS." It is a full-scale baseball stadium which meets the international standards. Unlike conventional baseball stadiums, it provides various facilities which generate "entertainment" and "excitement" including many kinds of spectator spaces for diversified viewing styles and multipurpose areas. It will contribute to local economy revitalization and sports promotion.

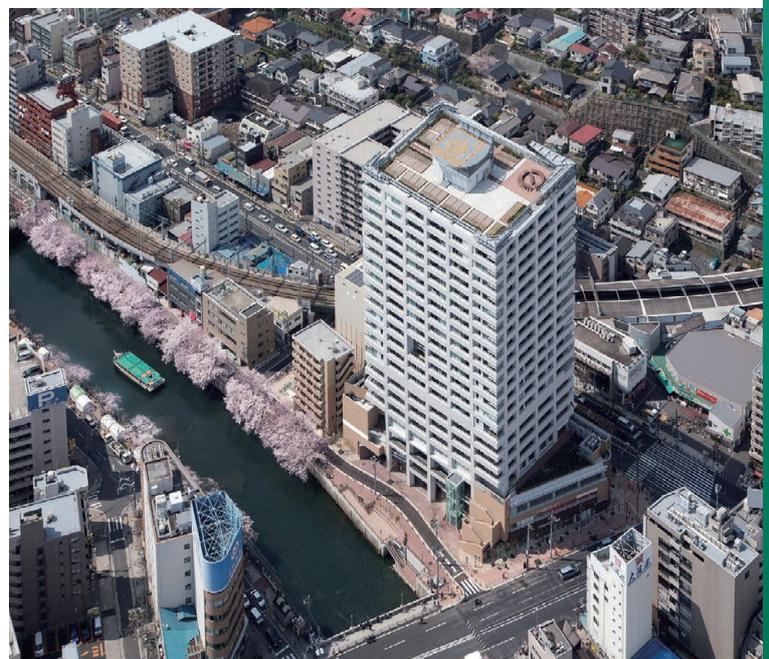


### Hinode Saquas

Kanagawa Prefecture

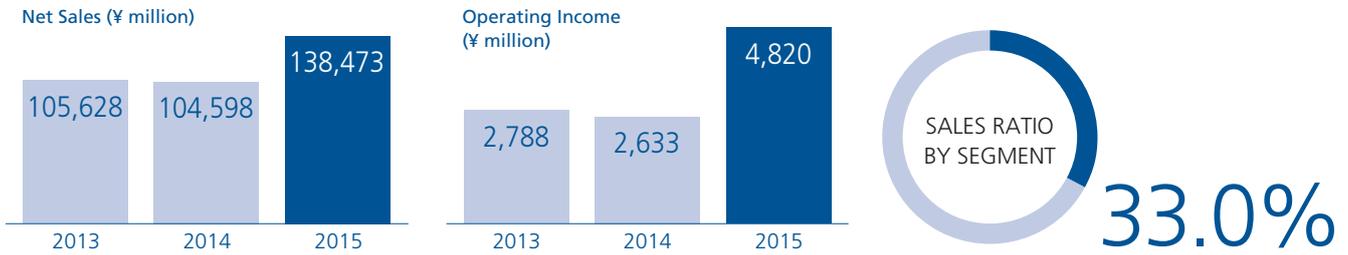
A building complex was built in front of Hinode station of the Keihin Express Main Line as a redevelopment project. Commercial shops and clinics are located on the first up to third floors, senior living facilities on the fourth up to seventh floors, and residential homes on the ninth up to the twenty-second floors.

Under agreement with the city office of Yokohama, this building is designated as a refuge facility for people who are unable to return to their homes in time of disaster. It is located along Ooka River, famous for rows of cherry blossom trees where there are landing piers for water access. It is expected to grow as a comfortable and convenient place to live for people of all ages.



# Completed Projects for Regional Development

## Overseas



### Changi General Hospital – The Integrated Building

Singapore

In the eastern part of Singapore, "Healthcare 2020" Master Plan placed "Changi General Hospital – IB" as a key hospital to improve healthcare services for Singaporeans.

To overcome the short construction period, we adopted Top-Down construction method.

By using Building Information Modeling (BIM) to carry out design coordination and produce shop drawings, abortive work was eliminated but high quality of works were maintained.

Additionally, we completed the project with full consideration of safety and environmental control as well as neighbors' concerns.



### Common Services Tunnel MC01

Singapore

This project construction is located in the corner of Marina Area, Singapore, aiming to become the number one financial district in Asia. Large-scale construction to create a common ditch that utilized underground spaces of the highway was ordered as part of the infrastructure development in the area. This facility functions as an eco-friendly "water-cooling building" and provides telecommunications and sanitary water supplies.

Our efforts with concern to safe workplace and healthy work environment were highly appreciated.

# Innovative Power of PENTA-OCEAN CONSTRUCTION



We focus on the enhancement of on-site and technical capabilities as important business policies. To meet increasing business demands, we address "automation", "streamlining", and "power

saving" while ensuring the safety and high-quality of our projects. The following details our approaches towards our improvement in productivity and innovation of our production system.

## Approach towards Automation

We proactively promote the automation of construction techniques aiming to enhance accuracy and power saving. We will address high-level streamlining to ensure construction safety.

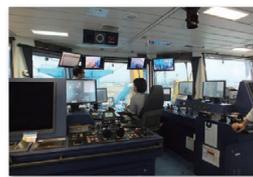
### Self-Propelled Cutter Suction Dredger with Auto Dredging Mode

Self-propelled cutter suction dredger, "CASSIOPEIA V", which was built in Singapore in 2014, features the auto dredging mode providing efficient dredging and superior operational accuracy. It has automated rotating cutter head operated by ladder and swing winches, as well as spud carriers.

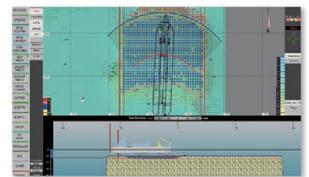
Cutter Suction Dredger—This is a type of working ship used for dredging or reclamation work. It is equipped with rotating cutter to the head of extendable ladder capable of cutting hard soil into fragments. The cut soils are then sucked up with seawater by dredging pump and discharge to designated location through pipeline.



CASSIOPEIA V



Dredging console



Dredging control system

### Efficient and Safe Caisson Unmanned Installation System

We use "Unmanned caisson installation system (UCIS)", a technology systemizing caisson installation work in the construction of breakwaters and revetments. Caisson is a large precast concrete block used for the construction of breakwaters and revetments.

Installations can be systemized, which had been previously done by operators working on the caisson. The system will enable all installations to be performed by auto control and remote operation. It can also facilitate efficiency with an automatic water supply control using artificial intelligence (AI), the dynamic monitoring of caisson, and the central administration of winch operation. In addition, it will improve safety by establishing an unmanned work system on the installed caisson or surrounding machinery.

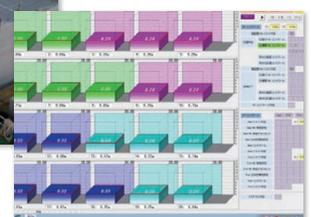


Image of the automatic water supply control by AI

# Approach towards Work Efficiency

We have developed Building Information Modeling (BIM) and Construction Information Modeling/Management (CIM) to promote operational efficiency.

## Productive Utilization of BIM Enhanced Construction Quality and Productivity

BIM provides consistent management to promote operational efficiency from the planning and design stage to the construction of buildings and structures. We proactively employed BIM on projects in Japan and overseas, aiming at improving construction quality and productivity. In the Changi General Hospital, opened in Singapore at the end of 2014, we utilized BIM for the fitting adjustment of buildings and facilities and so on, and received the BIM Gold Plus Award from the Building and Construction Authority (BCA).

In the Maebashi region joint government building, completed in May 2015, a BIM trial project sponsored by the Japan's Ministry of Land, Infrastructure, Transport and Tourism was utilized for the design, structure, equipment, construction, and so on. A construction BIM model was also developed which can be used for maintenance after construction.

We have also had other achievements with BIM in commercial facilities, office buildings, and so on. We therefore recommend our original BIM utilization to customers.

We will address further construction quality improvements and productivity with BIM as well as BIM expansion used mainly in our design and construction projects.



Changi General Hospital



Construction BIM model



Maebashi region joint government building



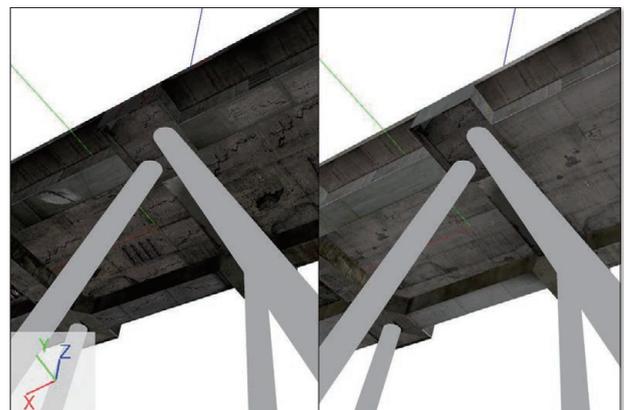
Construction BIM model

## Realistic Reconstruction of Deteriorating Conditions of a Pier with CIM

CIM is a concept originally advocated by the Ministry of Land, Infrastructure, Transport and Tourism of Japan as BIM for civil engineering which intends to rationalize the whole construction industry including maintenance. We developed a 3D maintenance system as a CIM approach. This system enables the visualization of the pier condition by registering photos and data of construction or maintenance in a 3D model of the pier. It allows users to see the pier's condition via their internet browser, even from a remote location, as if it were right in front of them.

This system can display photos and diagnostic data of degradation stereoscopically in a 3D model. It enables everyone to visually grasp degradative conditions in the whole structure which could previously only be seen by skilled operators.

The system allows customers and people in charge of inspections and repairs to share necessary information and make proper decisions more quickly.



Deteriorating condition (left) and normal condition (right)

# Approach towards Saving Construction Works

To meet increasing business demands, we are making various efforts towards the improvement of productivity, in addition to ensuring construction quality. This includes IT utilization in various conditions and the employment of streamlined construction methods, which aimed at saving construction works. We will strive for the continued improvement of work environments, leading to the enhancement of our innovative power.

## "Unique Hybrid S-Beam to RC-Column Structural Framing Method" for Saving Form and Reinforcement Works

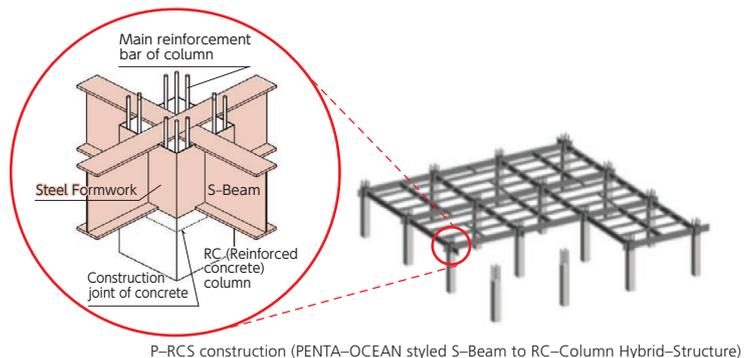
PENTA-OCEAN developed the hybrid S-Beam (steel beam) to RC (reinforced concrete) column structural framing, wherein different concrete strengths can be applied to individual parts. In addition, steel construction is light which can be used for large spans, such as for beams and reinforced concrete construction and also inexpensive and robust to use for columns. In addition, steel construction is light which can be used for large spans, such as for beams and reinforced concrete construction and also inexpensive and robust to use for columns.

This method employs a jointing system without shear reinforcements in which the beam-column joint is covered with steel plates. As form and reinforcement work can be simplified, this method provides an especially perfect solution for the construction of warehouses, which require work in elevated places. It ensures a more streamlined construction than those using traditional steel or reinforced concrete, and contributes to cost reduction. On the SBS Logicom Tokorozawa Center, which is currently under construction, columns are pre-cast for further labor efficiency, enabling streamline construction.

We propose labor efficient construction methods suitable for the characteristics of each site, including the industrialization of foundation skeletons and form work, to meet construction deadlines and maintain quality.



Completion Path of SBS Logicom Tokorozawa center, which is currently under construction

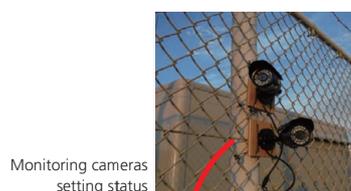


P-RCS construction (PENTA-OCEAN styled S-Beam to RC-Column Hybrid-Structure)

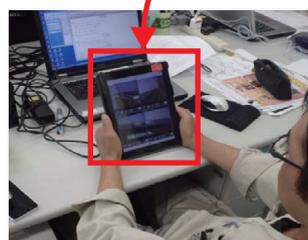
## Labor Efficiency of Construction Control Work Realized by Providing the IT Network between People and Sites

Instead of paper renderings or documents, we promote the use of tablets, including iPad, as tools for construction control. This provides compact storage and transport of a large volume of drawings and technical data. We report to field offices promptly to solve issues on site by sending photos and so on regarding construction difficulties, and record and organize photos of construction on the tablets to promote labor efficiency with regards to construction control work.

We also utilize IT tools for routine safety management, such as placing monitoring cameras on site so that people can always grasp the conditions on site, even from remote locations, using iPads.



Monitoring cameras setting status



Conditions displayed on the monitor (office)



Site inspection with a tablet (iPad)



Tablet screen (working drawing)

# The 20th Anniversary since the Relocation to Nasushiobara Technical Research Institute Generating Safety and Security

Our Technical Research Institute was relocated to Nasushiobara in Tochigi Prefecture in 1994. Since then, we have investigated and researched various challenges regarding civil engineering, building construction, and environmental construction work for over 20

years. Meanwhile, we have developed several technologies which expand our potential as a construction company. We will make further efforts toward the development of construction technologies for a safe and secured society.



**Tsunehiro Sekimoto**  
Director of Technical Research Institute

April of last year marked 20 years since our technical research institute relocated from Higashi-oi in Tokyo to Nasushiobara in Tochigi Prefecture in April 1994. For these 20 years, we have addressed research and development of both construction and engineering technologies to grasp social needs and respond to the expectations of customers. We have developed a wide range of technologies in areas including disaster prevention, environment and recycling, maintenance and updating, and construction. Of these technologies, 44

were employed in actual construction works. Thus, we provide two or more new technologies to actual construction sites every year. We greatly appreciate your continuous understanding, warm support, and cooperation for our research and development activities. While aiming to play a leading role among technology based companies, Technical Research Institute will continue to make active efforts toward the development of technology which can support our life and contribute to our society.

## Experiment Facility Introducing Advanced Technologies

Technical Research Institute consists of the research main building, hydraulic experiment building, multipurpose experiment building, and so on. Various research studies are conducted including wave

movement, ground deformation, structural earthquake resistance, and environmental conservation. The following are some examples.



### Underwater shaking table facility

This facility is available to investigate earthquake-induced damages to the infrastructures and architectural buildings by using experimental models in which various sensors are installed. These models are set on the shaking table provided on the center of the basin.

Completed in 1994, our facility contributed a lot to identify the causes of port and harbor structures damage which was occurred during Hyogo - ken Nanbu Earthquake 1995.



### Plane wave making water tank

This is a device that consists of a water tank with a length of 20 m, a width of 30 m, a height of 1.5, and 39 wave making plates. It produces waves in a water tank that has submarine topographic for observation of the

effects on marine geographical features of the ports, beaches, and other places with presence of waves.

## Researchers Who are Working Towards the Development of Next-Generation Technologies for Taking Measures Against Disasters or Environmental Conservation

### Protecting Infrastructures from earthquake (or earthquake disaster)

#### Using numerical analysis for research on leading-edge soil improvement methods



**Rasouli Rouzbeh**  
Researcher of Seismic & Structural Engineering Team

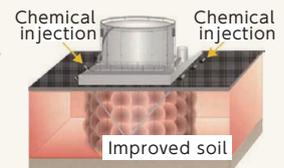
After graduation from Iranian University, I came to Japan as a post-graduate student to research geotechnical engineering.

By joining Penta-Ocean Institute of Technology, my research have been focused on "Permeation Grouting Method" which is an effective countermeasure against liquefaction, numerical analysis for seismic performance of port and harbor structures, and development of these technologies.

Similar to Japan, my hometown in Iran and the shores around the Caspian Sea are also located in earthquake-prone zone. We are going to make more efforts to develop our technologies to contribute in construction of earthquake resistance infrastructures and implementation of anti-liquefaction soil improvement technologies all over the world. Particularly, we address the cost reduction of port and harbor structures and increase of the quality of soil improvement works.

### Permeation Grouting Method (PGM)

This technology is one of the countermeasures against liquefaction with grouting permanent chemicals into soils.



Mechanism of Infiltration Solidification Processing Method

Using PGM, the liquefiable soils beneath the structures such as the gravity type quay walls and petroleum tanks could be improved without suspension of their operation. The PGM has been employed for anti-liquefaction soil improvement works at Tokyo International Airport etc.

## Tsunami protection

### High precision simulations and experiments will lead to solid measures against tsunami



**Takeshi Nishihata**  
Section Chief of Coast and Ocean Team

We study floods caused by tsunami and evacuation simulations with hydraulic model experiments and simulation technologies. We suggest comprehensive disaster prevention plans with both intangible and tangible aspects by predicting evacuation routes for people and cars, as well as designs of factual countermeasure works based on the results of hydraulic model experiments and infrastructure development.

Since the Great East Japan Earthquake, local governments and private companies are taking active initiatives for disaster prevention and reduction. To prevent the tsunami disaster, we would like to utilize study results for designs and construction works in order to contribute to the infrastructure development of a safe and secured society.

#### Hydraulic Model Experiments

Tsunami waves are made in an experimental water tank with scale model structures of buildings and pipe lines to measure the wave pressure of tsunami on buildings and high waves which overflows from the openings of pipe lines. These experimental results are effectively utilized for tsunami resistant structural designs and as measures against floods.



An example case of tsunami hydraulic model experiments (measurement of tsunami wave pressure on buildings)

## Environmental protection

### Contributing to a recycling-based society with recycled aggregate concrete



**Yuichi Takahashi**  
Section Chief of Structural Material Team

I am specialized in building materials and in charge of the development of "Recycled aggregate concrete". As natural aggregates, which are elements of concrete, are reducing, we started to develop recycled aggregate concrete from recycled material in 2004, aiming at its practical use. Currently, we have established quality control technologies which can ensure quality equivalent to that of normal concrete and have been practically applied to posts and underground structural skeletons.

I make sure to be present at all of the sites where our concrete is employed and visually evaluate its quality. We will address further cost reduction and expansion of applications to promote its diffusion.

#### Recycled Aggregate Concrete

Concrete made of processed and collected rubble from concrete structures (recycled aggregates) instead of natural aggregates. We received general certifications by the Minister of Land, Infrastructure and Transport and Tourism for posts and underground structural skeletons in several plants. We have established stricter quality control methods than ever before, and are working together with a ready-mixed concrete plant and a recycled aggregate plant on quality control. We are focused on developing modestly-priced recycled aggregates so that customers can proactively use them, and achieving a same or lower price level than that of normal concretes.



Recycled fine aggregates (left) and recycled coarse aggregates (right)

### Exploring biodiversity with a biotope created in the research institute



**Noriko Kikuhara**  
Planning Team Assistant Manager

We conduct investigations and studies with dragonflies about the relationship between a biotope created at Technical Research Institute in 2006 and the surrounding natural environment. Findings obtained from investigations and studies will be utilized for nature restoration associated with construction works and development planning.

I took maternity and childcare leave in 2012. Although there are few female employees in this research institute, I was able to combine working and raising my child.

I started to work on environmental education activities for local children last year in addition to my studies. I would like to contribute to local environmental conservation through these activities.

#### Biotope



Four-spotted skimmer

Cuckoo

Skunk cabbage

Flora and fauna living in the biotope in Technical Research Institute

A biotope in which various organisms live requires diverse environments such as forests, rice paddies, rivers, and marshes. As the biotope in Technical Research Institute provides a relay point for organisms living in a watery environment, biological information can be obtained.

# Corporate Governance/Compliance

## Corporate Governance

Penta–Ocean Construction Group has built a unique corporate governance system to ensure soundness, transparency and compliance in management, as well as for the perpetual growth and development of the Company.

Moreover, we are implementing "strengthening of audits and audit functions (e.g. audits by auditors, internal audits and accounting audits)" relating to corporate management as our most important measure in order to enhance this system.

### Corporate Governance Structure

#### 1 Management and Business Execution

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

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

important meetings in the Company (e.g. Executive Board Meetings) and have set up a system to thoroughly monitor the work performance of company directors. (The number of external directors and external auditors is current as of June 27, 2014.)

#### 2 Internal Control and Risk Management

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

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

## Compliance

The Group has established Compliance Committees in each company of the Group based on our "Basic Compliance Policy." The employees and executives of the entire Group are working in

order to allow to respect social norms / corporate ethics and to be able to act in good faith at all times.

### Basic Compliance Policy

All employees and executives of Penta–Ocean Construction Group not only comply with laws in business activities and respect social norms / ethics, but also act in good faith at all

times. In particular, when bidding for construction projects, we practice free competition by complying with the Antitrust Act and all other relevant laws and regulations.

### Compliance Promotion Efforts

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

#### 1 Sharing Policy and Planning Training Across the Group

At the beginning of each fiscal year, we formulate a Risk Response Policy and Annual Training Plan in each department of Penta–Ocean Construction Head Office, each branch office and each company in the Group.

Furthermore, we are striving to share an awareness of compliance in the entire Group by keeping close contact through holding Affiliate Compliance Committee Secretary General Meetings every year and sharing information on disputes in each company of the Group and on the establishment / abolition of company rules.

#### 2 Efforts to Ensure Appropriate Bidding

We have stated that it will "not carry out, force others or overlook" illegal acts or acts that may lead to suspicious activities and has proclaimed our "Bid–rigging Eradication Declaration and Compliance Declaration" as an expression of our determination both inside and outside the Company in order to ensure that violations of laws, starting with the Antitrust Act, never occur.

Moreover, in order to reliably execute the content of these, we are carrying out efforts to teach all our employees and executives the appropriate knowledge relating public works projects bidding and conducting appropriate audits on bidding procedures by the CSR Committee in each branch office.

# Occupational Safety and Health

## Occupational Safety and Health

### Health & Safety, Quality and Environmental Policy

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

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

### Health & Safety Activities Guidelines

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

### Ongoing Health & Safety Management Efforts

The Company acquired COHSMS\* certification at an early stage compared to the rest of the construction industry and is implementing ongoing health & safety management efforts through the Penta–Ocean Construction Occupational Health & Safety Management System (PENTA–COHSMS).

Moreover, we have also placed emphasis on the tradition of safe technology for employees and implementing health & safety management education based on an organized educational plan. Furthermore, we are continually striving to prevent and reduce worker and public accidents by making efforts to horizontally disseminate prevention measures for re–occurrence of past accidents and by carrying out risk assessments with our partner companies.

\*COHSMS: Construction Occupational Health and Safety Management System

#### Safety Themes

Achieve zero serious / fatal accidents and reduce worker / public accidents

#### Safety Slogan

"Let's strictly enforce and check the basic rules" toward safety first!

#### Health Theme

Achieve zero occupational diseases and reduce personal illnesses

#### Health Slogan

"Let's strengthen health management activities in the workplace" toward maintaining and promoting health!

#### Key Efforts

Reduce the specific accidents of "fall / crash accidents" and "heavy equipment / crane accidents"

### Examples of Accident Prevention Activities

#### 1 Efforts to Prevent Fall Accidents

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

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

#### 2 Efforts to Prevent Crane Accidents

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

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

#### 3 Enhancing On–site Communication

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

#### Patrols

- Implementation of patrols by the President
- Implementation of health & safety patrols through the Central Health & Safety Environment Committee
- Implementation of health & safety patrols for key support sites
- Implementation of Labor Safety Association joint patrols

#### Education

- Implementation of health & safety education with layered training
- Implementation of (re–)education for General Health & Safety Supervisors
- Implementation of education for Foremen and Health & Safety Supervisors
- Implementation of manager seminars

# CSR Activities

## CSR Activities

### CSR Policy

Penta–Ocean Construction Group views that its greatest contribution to society is the construction of superior infrastructure. We aim to be a respectable and highly attractive group of companies not only to our shareholders, customers, business partners and employees, but

also to local communities by providing high, quality workmanship backed by advanced technologies developed with high regard for safety and ecological considerations.

Dignified Business Conduct

Coexistence with the Environment and Nature

Human Propriety

Information Transparency

### CSR Activities in 2014

#### Social Contributions by Providing Construction Services for Superior Social Infrastructure

From the viewpoint of "the greatest contribution to society is the construction of superior infrastructure," we have proactively addressed technological development and capital investment as a group of companies committed to solid manufacturing in FY 2014. In addition, we have received many awards for high quality construction under construction management.

We will continue to contribute to superior social capital improvements considering social contexts.



Award for continual registration of the Environmental Management System



Self-propelled cutter suction dredger, CASSIOPEIA V was built



"Miki Biotech Co., Ltd." → a subsidiary company built a composting plant and began operating

#### Human Rights, Industrial Safety and Health, and Environment

Our basic policy is to respect the human rights of not only our employees, but all stakeholders.

We conduct various educational and training programs, as well as the introduction and review of systems to create a working environment where safety is the highest priority. This motivates our employees and

those engaged in our group companies, and enables them to fully demonstrate their abilities.

We also uphold eco–friendly construction promoting environmentally–conscious manufacturing as a high priority.



Award of the comfortable workplace special award for "Kashima Port Rehabilitation Project" by the Japan Federation of Construction Contractors



A crisis–management workshop titled "Precaution against collateral damage by acts of terrorism against Japanese" was held for employees who are working overseas or planning to travel overseas on business



Holding the "Human Rights Awareness Top Management workshop"

#### Communications with Stakeholders

We are promoting social contribution activities focusing on communication and dialogue with stakeholders, including cooperative participation in local events, volunteer activities,

observation–tours of sites and the technical research center. Through these activities, we aim to be a well trusted group of companies invoking the continuous support of our stakeholders.



Tree–planting event on a landfill in the port of Tokyo



Welcoming students at sites in Japan and Asia



Holding an Investors and Analysts Tour



Family day for site visit

# 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
	2011	2012	2013	2014	2015	2015
Net sales	¥302,256	¥328,005	¥349,839	¥381,182	<b>¥426,238</b>	<b>\$3,546,956</b>
Construction	289,661	316,239	341,067	372,367	<b>414,892</b>	<b>3,452,545</b>
Development business	1,553	2,460	1,143	2,447	<b>1,912</b>	<b>15,912</b>
Other	11,042	9,306	7,629	6,368	<b>9,434</b>	<b>78,499</b>
Total assets	286,225	311,917	296,726	301,627	<b>366,170</b>	<b>3,047,099</b>
Net assets excluding minority interests	60,454	62,382	65,080	67,339	<b>77,033</b>	<b>641,034</b>
Ordinary income	7,431	7,448	6,560	9,160	<b>11,393</b>	<b>94,808</b>
Income before income taxes and minority interests	5,516	6,308	5,018	8,740	<b>10,176</b>	<b>84,683</b>
Net income	2,163	1,622	2,030	3,763	<b>6,183</b>	<b>51,456</b>
Cash dividends	572	572	572	572	<b>1,144</b>	<b>9,517</b>
Per share of common stock:	Yen					U.S. dollars
Net assets excluding minority interests	¥211.44	¥218.19	¥227.63	¥235.53	<b>¥269.44</b>	<b>\$2.24</b>
Net income	8.50	5.67	7.10	13.16	<b>21.63</b>	<b>0.18</b>
Cash dividends	2.00	2.00	2.00	2.00	<b>4.00</b>	<b>0.03</b>
Number of employees	2,954	2,924	2,911	2,905	<b>2,949</b>	

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥120.17 per U.S.\$1, prevailing on March 31, 2015.

## Business Performance

The net sales for the Group amounted to ¥426,238 million (US\$3,547.0 million), increased by ¥45,056 million (US\$374.9 million) (11.8%) compared to the previous consolidated fiscal year. Operating profits totaled ¥12,293 million (US\$102.3 million), increased by ¥2,397 million (US\$19.9 million) (24.2%) compared to the previous consolidated fiscal year. Ordinary profits totaled ¥11,393 million (US\$94.8 million), increased by ¥2,233 million (US\$18.6 million) (24.4%) compared to the previous consolidated fiscal year. Current net profits totaled ¥6,183 million (US\$51.5 million), increased by ¥2,420 million (US\$20.1 million) (64.3%) compared to the previous consolidated fiscal year. Gross operating profits rose because of the favorable results in some of the overseas consolidated subsidiaries in addition to the increase in sales. All operating profits, ordinary profits, and current net profits achieved an increase.

## Segment Information

In Our domestic Civil Engineering Business, public investment has been growing steadily due to the implementation of budgets for reconstruction from the Great East Japan Earthquake and supplementary budgets associated with the government's economic policy. In these circumstances, sales amounted to ¥147,785 million (US\$1,229.8 million), increased by ¥6,716 million (US\$55.9 million) (4.8%) compared to the previous consolidated fiscal year. Segment profits totaled ¥5,307 million (US\$44.2 million), decreased by ¥2,080 million (US\$17.3 million) (-28.2%) compared to the previous consolidated fiscal year.

Our domestic Building Construction Business, private capital investment remains stable mainly due to the improvement of corporate earnings. In that situation, sales amounted to ¥130,766 million (US\$1,088.2 million), increased by ¥2,972 million (US\$24.7 million) (2.3%) compared to the previous consolidated fiscal year. Segment profits totaled ¥2,037 million (US\$16.9 million), increased by ¥1,492 million (US\$12.4 million) (273.5%) compared

to the previous consolidated fiscal year.

Our overseas Construction Business has been growing steadily, mainly in social infrastructure in our major markets, Southeast Asia including Singapore and Hong Kong. Under the situation, sales amounted to ¥138,473 million (US\$1,152.3 million), increased by ¥33,875 million (US\$281.9 million) (32.4%) compared to the previous consolidated fiscal year. Segment profits totaled ¥4,820 million (US\$40.1 million), increased by ¥2,187 million (US\$18.2 million) (83.1%) compared to the previous consolidated fiscal year.

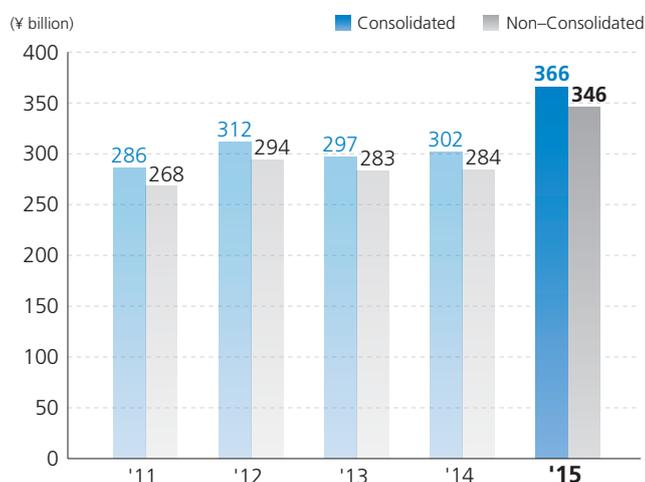
In Our domestic Development Business, sales amounted to ¥2,069 million (US\$17.2 million), decreased by ¥538 million (US\$4.5 million) (-20.6%) compared to the previous consolidated fiscal year. Segment deficit amounted to ¥279 million (US\$2.3 million) (deficit of ¥988 million (US\$8.2 million) in the previous consolidated fiscal year).

In our Other Businesses, mainly including sales of construction materials, machine leasing, shipbuilding and environment business, sales amounted to ¥10,197 million (US\$84.8 million), increased by ¥3,138 million (US\$26.1 million) (44.4%) compared to the previous consolidated fiscal year. Segment profits totaled ¥398 million (US\$3.3 million), increased by ¥93 million (US\$0.8 million) (30.4%) compared to the previous consolidated fiscal year.

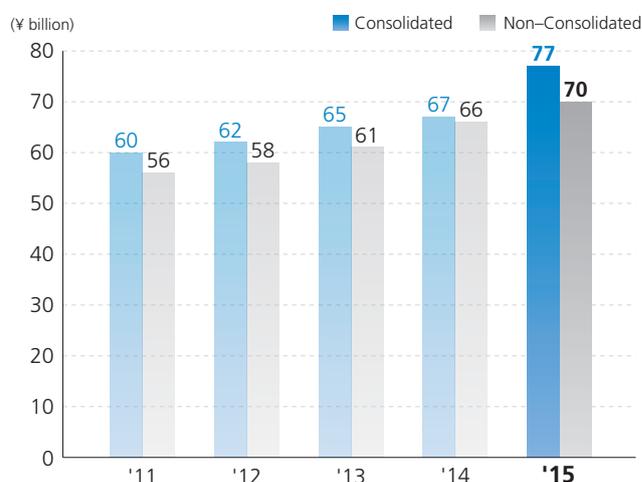
## Orders Received and Contract Backlog

In the domestic civil engineering business, our non-consolidated construction orders received increased by 28.9% to ¥189,122 million (US\$1,573.8 million) mainly due to an increase in government related constructions because of orders received for large-scale land works as well as an increase in constructions from the private sector. In the domestic building construction business, sales increased by 18.2% to ¥171,439 million (US\$1,426.6 million) due to an increase in government related constructions despite a decrease in constructions from the private sector. In overseas building works, sales increased by 129.8% to ¥355,896 million (US\$2,961.6 million) mainly due to several orders received for

### Total Assets



### Total Net Assets



large-scale works in Singapore and Hong Kong. In total, construction orders received increased by 60.4% to ¥722,340 million (US\$6,011.0 million).

### Financial Position

Total assets of our group increased by ¥64,543 million (US\$537.1 million) compared to the previous consolidated fiscal year to ¥366,170 million (US\$3,047.1 million) due to the increase of bills receivable, accounts receivable for completed project and other accounts receivable. Liabilities increased by ¥54,969 million (US\$457.4 million) compared to the previous consolidated fiscal year to ¥289,102 million (US\$2,405.8 million) due to the increase of bills payable, accounts payable for completed projects as well as the increase in interest-bearing debt. Net assets increased by ¥9,574 million (US\$79.7 million) compared to the previous consolidated fiscal year to ¥77,068 million (US\$641.3 million) mainly due to an increase in current net profits and the accumulated amount related to retirement benefits adjustment.

### Cash Flows

With regard to cash flow from operations, although expenditures decreased by ¥9,625 million (US\$80.1 million) compared to the previous consolidated fiscal year due to the recording of income before income taxes of ¥10,176 million (US\$84.7 million), it resulted in an excess of ¥4,638 million (US\$38.6 million) in expenditures (an excess of ¥14,263 million (US\$118.7 million) in the previous consolidated fiscal year) mainly due to an increase in accounts receivable.

With regard to cash flow from investments, expenditures increased by ¥1,743 million (US\$14.5 million) compared to the previous consolidated fiscal year mainly due to expenditures for the purchase of tangible fixed assets, and it resulted in an excess of ¥9,053 million (US\$75.3 million) in expenditures (an excess of ¥7,310 million (US\$60.8 million) in the previous consolidated fiscal year).

Free cash flow from operations and investments resulted in an excess of ¥13,691 million (US\$113.9 million) in expenditures (an excess of ¥21,573 million (US\$179.5 million) in the previous consolidated fiscal year).

Cash flow from financial activities resulted in an excess of ¥19,113 million (US\$159.0 million) in revenues, increased by ¥15,948 million (US\$132.7 million) in revenues compared to the previous consolidated fiscal year mainly due to the issuance of commercial papers (¥3,165 million (US\$26.3 million) in the previous consolidated fiscal year).

From these results, cash and cash equivalents as of the end of this consolidated fiscal year increased by ¥5,925 million (US\$49.3 million) (18.5%) compared to the previous consolidated fiscal year to ¥37,866 million (US\$315.1 million). The balance of interest-bearing debts at the end of this fiscal year resulted in ¥94,896 million (US\$789.7 million) (¥92,913 million (US\$773.2 million) on a non-consolidated basis).

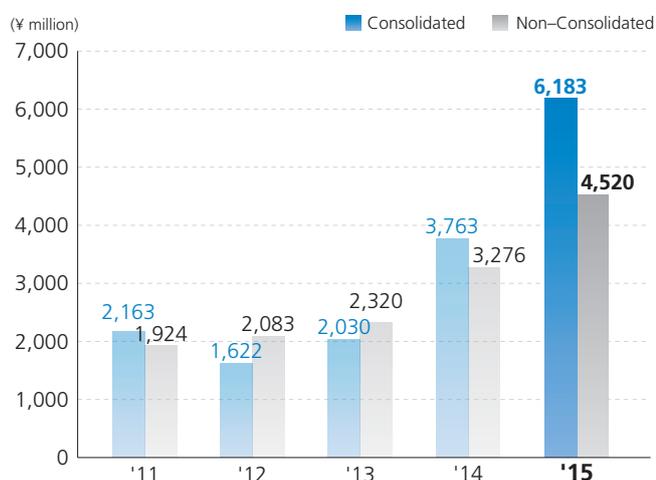
### Dividends

Our basic policies are to increase earning power and enhance corporate value by forward-looking reinforcement of business infrastructure and implementation of technology development and capital investment, as well as to distribute stable dividends continuously to shareholders. Under these policies, we aim to achieve a dividend payout ratio of 20% to 25%. Upon considering the performance of the current fiscal year, progress in improving financial soundness, and business deployment in the future in an integrated manner, dividends of surplus for the current year were determined to be ¥4 per common share. The total amount of dividends was ¥1,144 million (US\$9.5 million).

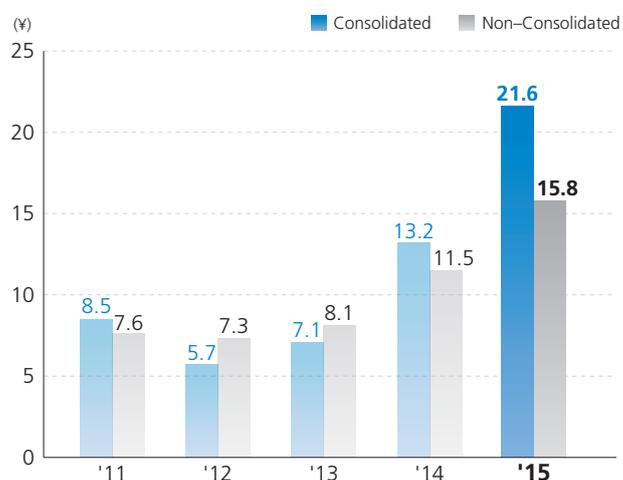
Our basic policy for dividends of surplus is a one-time payment annually at year-end and actual payment of dividends is determined by the shareholder's meeting.

\*Exchange rate at the term end US\$1=¥120.17

Net Income



Net Income per Share



# Consolidated Balance Sheet

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Current assets:</b>			
Cash and deposits (Note 20)	¥ 32,602	¥ 38,469	\$ 320,125
Securities (Notes 3(3), 5, 6 and 20)	—	43	356
Trade receivables: (Note 20)			
Notes	4,811	13,088	108,913
Accounts	138,306	183,834	1,529,781
Inventories: (Note 3 (5))			
Costs on uncompleted construction contracts	9,264	9,898	82,363
Real estate for sale and development projects in progress	8,389	10,455	87,002
Other	2,098	2,571	21,395
Deferred tax assets (Note 17)	3,162	2,722	22,655
Other	4,639	6,457	53,732
Allowance for doubtful accounts (Note 3 (9))	(783)	(1,020)	(8,487)
<b>Total current assets</b>	<b>202,488</b>	<b>266,517</b>	<b>2,217,835</b>
<b>Property, plant and equipment: (Notes 3 (6) and 3 (8))</b>			
Land	41,902	37,326	310,614
Buildings and structures	33,665	35,310	293,831
Machinery, equipment and vehicles	14,892	17,156	142,764
Dredgers and vessels	55,878	68,744	572,053
Construction in progress	10,630	862	7,176
<b>Total property, plant and equipment</b>	<b>156,967</b>	<b>159,398</b>	<b>1,326,438</b>
Less: accumulated depreciation	(80,974)	(82,733)	(688,463)
<b>Property, plant and equipment – net</b>	<b>75,993</b>	<b>76,665</b>	<b>637,975</b>
<b>Intangible assets (Note 3 (7))</b>	<b>1,090</b>	<b>1,143</b>	<b>9,511</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 3 (3), 5, 6 and 20)	15,403	16,662	138,654
Long–term loans receivables	1,137	1,050	8,728
Deferred tax assets (Note 17)	2,958	522	4,348
Net defined benefit asset (Note 19)	—	1,261	10,497
Other	6,664	3,505	29,162
Allowance for doubtful accounts (Note 3 (9))	(4,164)	(1,232)	(10,251)
<b>Total investments and other assets</b>	<b>21,998</b>	<b>21,768</b>	<b>181,138</b>
<b>Deferred assets (Note 3 (21))</b>	<b>58</b>	<b>77</b>	<b>640</b>
<b>Total assets</b>	<b>¥301,627</b>	<b>¥366,170</b>	<b>\$3,047,099</b>

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Current liabilities:</b>			
Short-term loans payable (Notes 7 and 20)	¥ 24,060	¥ 27,255	\$ 226,802
Commercial papers (Notes 7 and 20)	—	19,996	166,400
Current portion of long-term loans payable and bonds payable (Notes 7 and 20)	23,357	11,031	91,798
Trade payable: (Note 20)			
Notes	28,134	26,906	223,897
Accounts	78,596	103,117	858,097
Electronically recorded obligations—operating	5,772	9,808	81,615
Advance received on uncompleted construction contracts	16,229	21,524	179,114
Deposits received	10,227	15,473	128,756
Income taxes payable	2,072	2,533	21,080
Provision for loss on construction contracts (Note 3 (12))	2,707	3,021	25,141
Provision for warranties for completed construction (Note 3 (10))	877	705	5,870
Provision for bonuses (Note 3 (11))	1,353	1,542	12,828
Other	2,612	2,743	22,820
<b>Total current liabilities</b>	<b>195,996</b>	<b>245,654</b>	<b>2,044,218</b>
<b>Non-current liabilities:</b>			
Bonds payable (Notes 7 and 20)	10,000	20,000	166,431
Long-term loans payable (Notes 7 and 20)	17,521	16,615	138,258
Provision for directors' retirement benefits (Note 3 (13))	114	140	1,162
Net defined benefit liability (Notes 3 (14) and 19)	3,396	118	980
Deferred tax liabilities for land revaluation (Note 18 (2))	6,187	5,382	44,790
Other	919	1,193	9,933
<b>Total non-current liabilities</b>	<b>38,137</b>	<b>43,448</b>	<b>361,554</b>
<b>Total liabilities</b>	<b>234,133</b>	<b>289,102</b>	<b>2,405,772</b>
<b>Commitments and contingent liabilities (Note 16)</b>			
<b>Net assets:</b>			
Shareholders' equity:			
Capital stock	30,450	30,450	253,391
Authorized—599,135,000 shares			
Issued shares—286,013,910 shares 2014 and 2015			
Capital surplus (Note 18 (1))	18,387	18,387	153,006
Retained earnings (Note 18 (1))	11,729	16,646	138,524
Less: Treasury Shares	(25)	(25)	(210)
<b>Total shareholders' equity</b>	<b>60,541</b>	<b>65,458</b>	<b>544,711</b>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Notes 3 (3) and 18 (3))	2,750	3,607	30,018
Deferred losses on hedges	(11)	(17)	(146)
Revaluation reserve for land (Note 18 (2))	6,568	6,677	55,563
Foreign currency translation adjustments (Note 3 (2))	(1)	19	158
Remeasurements of defined benefit plans (Notes 3 (14) and 19)	(2,508)	1,289	10,730
<b>Total accumulated other comprehensive income</b>	<b>6,798</b>	<b>11,575</b>	<b>96,323</b>
Minority interests	155	35	293
<b>Total net assets</b>	<b>67,494</b>	<b>77,068</b>	<b>641,327</b>
<b>Total liabilities and net assets</b>	<b>¥301,627</b>	<b>¥366,170</b>	<b>\$3,047,099</b>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Income

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Construction business: (Note 3 (15))</b>			
Net sales	¥372,367	¥414,892	\$3,452,545
Cost of sales	347,514	388,148	3,229,994
Gross profit	24,853	26,744	222,551
<b>Development business and other:</b>			
Net sales	8,815	11,346	94,411
Cost of sales	9,003	10,617	88,342
Gross profit (loss)	(188)	729	6,069
<b>Total:</b>			
Total net sales	381,182	426,238	3,546,956
Total cost of sales	356,517	398,765	3,318,336
<b>Total gross profit</b>	24,665	27,473	228,620
<b>Selling, general and administrative expenses</b>	14,769	15,180	126,320
<b>Operating income</b>	9,896	12,293	102,300
<b>Non–operating income:</b>			
Interest and dividends income	292	309	2,567
Reversal of allowance for doubtful accounts	248	47	392
Other (Note 8)	376	561	4,671
	916	917	7,630
<b>Non–operating expenses:</b>			
Interest expenses	1,173	1,019	8,481
Foreign exchange losses	157	538	4,476
Other (Note 9)	322	260	2,165
	1,652	1,817	15,122
<b>Ordinary income</b>	9,160	11,393	94,808
<b>Extraordinary income (Note 10)</b>	370	550	4,579
<b>Extraordinary losses (Note 11)</b>	790	1,767	14,704
<b>Income before income taxes and minority interests</b>	8,740	10,176	84,683
<b>Income taxes: (Notes 3(20) and 17)</b>			
Current	2,338	2,924	24,332
Deferred	2,519	985	8,199
	4,857	3,909	32,531
<b>Income before minority interests</b>	3,883	6,267	52,152
<b>Minority interests in income</b>	120	84	696
<b>Net income</b>	¥ 3,763	¥ 6,183	\$ 51,456
		Yen	U.S. dollars
<b>Net income per share of common stock (Notes 3(19) and 22)</b>			
Basic	¥13.16	¥21.63	\$0.18

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Income before minority interests</b>	¥3,883	¥ 6,267	\$52,152
Valuation difference on available–for–sale securities	1,567	857	7,136
Deferred losses on hedges	(9)	(8)	(66)
Revaluation reserve for land	—	550	4,570
Foreign currency translation adjustments	21	11	90
Remeasurements of defined benefit plans	—	3,797	31,599
Share of other comprehensive income of associates accounted for by the equity method	1	1	9
<b>Total other comprehensive income (Note 13)</b>	1,580	5,208	43,338
<b>Comprehensive income</b>	¥5,463	¥11,475	\$95,490
<b>(Breakdown)</b>			
Comprehensive income attributable to shareholders	¥5,339	¥11,595	\$96,485
Comprehensive income (losses) attributable to minority interests	124	(120)	(995)

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Changes in Net Assets

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

For the year ended March 31, 2014

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
<b>Balance at the beginning of current period</b>	¥30,450	¥18,387	¥ 8,635	¥(24)	¥57,448
Changes of items during period					
Dividends of surplus			(572)		(572)
Net income	—		3,763		3,763
Reversal of revaluation reserve for land			(97)		(97)
Purchase of treasury shares				(1)	(1)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	3,094	(1)	3,093
<b>Balance at the end of current period</b>	¥30,450	¥18,387	¥11,729	¥(25)	¥60,541

	Millions of yen							
	Accumulated other comprehensive income						Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
<b>Balance at the beginning of current period</b>	¥1,182	¥ (2)	¥6,471	¥(19)	¥ —	¥7,632	¥ 30	¥65,110
Changes of items during period								
Dividends of surplus								(572)
Net income								3,763
Reversal of revaluation reserve for land								(97)
Purchase of treasury shares								(1)
Net changes of items other than shareholders' equity	1,568	(9)	97	18	(2,508)	(834)	125	(709)
Total changes of items during period	1,568	(9)	97	18	(2,508)	(834)	125	2,384
<b>Balance at the end of current period</b>	¥2,750	¥(11)	¥6,568	¥ (1)	¥(2,508)	¥6,798	¥155	¥67,494

For the year ended March 31, 2015

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
<b>Balance at the beginning of current period</b>	¥30,450	¥18,387	¥11,729	¥(25)	¥60,541
Cumulative effects of changes in accounting policies			(1,130)		(1,130)
Restated balance	30,450	¥18,387	10,599	(25)	59,411
Changes of items during period					
Dividends of surplus			(572)		(572)
Net income	—		6,183		6,183
Reversal of revaluation reserve for land			440		440
Purchase of treasury shares				(0)	(0)
Change in scope of equity method			(4)		(4)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	6,047	(0)	6,047
<b>Balance at the end of current period</b>	¥30,450	¥18,387	¥16,646	¥(25)	¥65,458

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

For the year ended March 31, 2015

Thousands of U.S. dollars					
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
<b>Balance at the beginning of current period</b>	\$253,391	\$153,006	\$ 97,602	\$(207)	\$503,792
Cumulative effects of changes in accounting policies			(9,403)		(9,403)
Restated balance	253,391	153,006	88,199	(207)	494,389
Changes of items during period					
Dividends of surplus			(4,758)		(4,758)
Net income			51,456		51,456
Reversal of revaluation reserve for land			3,663		3,663
Purchase of treasury shares				(3)	(3)
Change in scope of equity method			(36)		(36)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	50,325	(3)	50,322
<b>Balance at the end of current period</b>	\$253,391	\$153,006	\$138,524	\$(210)	\$544,711

Thousands of U.S. dollars								
	Accumulated other comprehensive income						Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
<b>Balance at the beginning of current period</b>	\$22,882	\$( 88)	\$54,656	\$(11)	\$(20,869)	\$56,570	\$1,288	\$561,650
Cumulative effects of changes in accounting policies								(9,403)
Restated balance	22,882	(88)	54,656	(11)	(20,869)	56,570	1,288	552,247
Changes of items during period								
Dividends of surplus								(4,758)
Net income								51,456
Reversal of revaluation reserve for land								3,663
Purchase of treasury shares								(3)
Change in scope of equity method								(36)
Net changes of items other than shareholders' equity	7,136	(58)	907	169	31,599	39,753	(995)	38,758
Total changes of items during period	7,136	(58)	907	169	31,599	39,753	(995)	89,080
<b>Balance at the end of current period</b>	\$30,018	\$(146)	\$55,563	\$158	\$ 10,730	\$96,323	\$ 293	\$641,327

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 8,740	¥10,176	\$ 84,683
Adjustment to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	4,663	5,288	44,008
Impairment loss	201	1,440	11,980
Increase (Decrease) in allowance for doubtful accounts	(2,267)	(2,695)	(22,430)
Increase (Decrease) in provision for retirement benefits	(352)	—	—
Increase (Decrease) in net defined benefit liability	3,396	(3,294)	(27,414)
Decrease (Increase) in net defined benefit asset	—	983	8,184
Retirement benefit expenses	—	1,817	15,124
Interest and dividends income	(292)	(309)	(2,567)
Interest expenses	1,173	1,019	8,481
Foreign exchange losses	(992)	(1,492)	(12,414)
Equity in (earnings) losses of affiliates	2	(6)	(49)
Loss (gain) on sales of property, plant and equipment	(218)	96	795
Loss (gain) on sales of investment securities	7	(52)	(431)
Loss on valuation of securities and investment securities	—	3	27
Change in assets and liabilities:			
Decrease (Increase) in notes and accounts receivable–trade	(17,753)	(38,430)	(319,796)
Decrease (Increase) in costs on uncompleted construction contracts	(633)	(582)	(4,847)
Decrease (Increase) in real estate for sale and development projects in progress and other inventories	595	576	4,794
Increase (Decrease) in notes and accounts payable–trade	(3,998)	28,967	241,051
Increase (Decrease) in advances received on uncompleted construction contracts	(1,070)	5,295	44,061
Increase (Decrease) in other provision	(344)	504	4,185
Other, net	(2,850)	(10,682)	(88,896)
Subtotal	(11,992)	(1,378)	(11,471)
Interest and dividends income received	277	290	2,419
Interest expenses paid	(1,139)	(1,096)	(9,120)
Income taxes paid	(1,409)	(2,454)	(20,419)
Net cash provided by operating activities	(14,263)	(4,638)	(38,591)
<b>Cash flows from investing activities:</b>			
Purchase of investment securities	(54)	(292)	(2,434)
Proceeds from sales and redemption of short–term and long–term investment securities	237	147	1,225
Purchase of property, plant and equipment	(8,207)	(9,461)	(78,729)
Proceeds from sales of property, plant and equipment	873	450	3,746
Payments of loans receivable	(70)	(18)	(150)
Collection of loans receivable	111	203	1,688
Other, net	(200)	(82)	(684)
Net cash used in investing activities	(7,310)	(9,053)	(75,338)

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	1,960	<b>3,158</b>	<b>26,282</b>
Net increase (decrease) in commercial papers	—	<b>19,996</b>	<b>166,400</b>
Proceeds from long-term loans payable	9,857	<b>10,120</b>	<b>84,214</b>
Repayment of long-term loans payable	(17,908)	<b>(13,387)</b>	<b>(111,400)</b>
Proceeds from issuance bonds payable	9,944	<b>9,943</b>	<b>82,738</b>
Redemption of bonds	—	<b>(10,000)</b>	<b>(83,215)</b>
Cash dividends paid	(569)	<b>(570)</b>	<b>(4,745)</b>
Other, net	(119)	<b>(147)</b>	<b>(1,228)</b>
Net cash provided by (used in) financing activities	3,165	<b>19,113</b>	<b>159,046</b>
<b>Effect of exchange rate change on cash and cash equivalents</b>	422	<b>503</b>	<b>4,187</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	(17,986)	<b>5,925</b>	<b>49,304</b>
<b>Cash and cash equivalents at the beginning of the period</b>	49,927	<b>31,941</b>	<b>265,800</b>
<b>Cash and cash equivalents at the end of the period</b>	¥31,941	<b>¥37,866</b>	<b>\$315,104</b>
<b>(Note) (1) Cash and cash equivalents are comprised as follows:</b>			
Cash and deposits	¥32,602	<b>¥38,469</b>	<b>\$320,125</b>
Less—Time deposits with maturity over three months	(661)	<b>(603)</b>	<b>(5,021)</b>
Cash and cash equivalents (Note 3 (18))	¥31,941	<b>¥37,866</b>	<b>\$315,104</b>

See accompanying Notes to Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements

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

## 1. Basis of preparation of consolidated financial statements

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

The accounting principles and practices adopted by the overseas

consolidated subsidiaries conform to those adopted by the Company.

The figures in these financial statements are shown in U.S. dollars at the conversion rate of U.S.\$1=¥120.17, the exchange rate prevailing on March 31, 2015. This is solely for the convenience of readers outside Japan and does not mean that assets and liabilities originating in yen can be converted into or settled in dollars at the above rate.

## 2. Consolidation

### (1) Scope of consolidation and application of equity method

The Company has 27 subsidiaries and 3 affiliated companies as at March 31, 2015.

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

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

### (2) Consolidated closing date

Consolidated closing date is March 31.

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

Closing date for other 7 overseas subsidiaries is December 31. The Company compiled the consolidated financial statements using the financial statements of each company's closing date, and adjustments were made for any material difference incurred between their closing dates and the consolidated closing date.

## 3. Summary of significant accounting policies

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

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

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

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

Exchange differences arising from conversion of balance sheet

accounts are stated as foreign currency translation adjustments in Net assets.

### (3) Investment securities

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

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

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

### (4) Derivative financial transactions

Derivative financial instruments are stated at fair value.

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

### (5) Inventories

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

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

### (6) Property, plant, equipment and depreciation (excluding leased assets)

Property, plant and equipment are stated at cost and for the Company and its domestic subsidiaries. Depreciation is calculated using

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

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

#### **(7) Research and development costs and computer software**

Research and development costs are charged to income as incurred.

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

#### **(8) Leased assets**

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

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

#### **(9) Allowance for doubtful accounts**

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

#### **(10) Provision for warranties for completed construction**

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

#### **(11) Provision for bonuses**

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

#### **(12) Provision for loss on construction contracts**

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

#### **(13) Provision for directors' retirement benefits**

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

#### **(14) Net defined benefit liability**

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

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

Transition effects of the application of the new accounting standards for retirement benefits are amortized by the straight-line

method over 15 years.

Prior service costs are recognized as an expense when incurred.

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

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

#### **(15) Recognition of sales and cost of sales**

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

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

#### **(16) Hedge accounting**

##### 1) Hedge accounting method

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

##### 2) Hedging instruments and hedged items

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

Hedged items are interest on bank loans and monetary receivables and payables denominated in foreign currencies.

##### 3) Hedging policy

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

##### 4) Evaluation of the effectiveness of hedge accounting

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

#### **(17) Goodwill**

Goodwill is amortized over 5 years by the straight-line method.

#### **(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 three months or less and are not exposed to significant valuation risks.

#### **(19) Net income per share**

Primary net income per share is calculated by the weighted average number of outstanding common stocks during the year.

Net income per share assuming full dilution is not presented

because there were no potential stocks as of March 31, 2015.

#### **(20) Income taxes**

The Company and its consolidated domestic 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 25.5 percent on taxable income, (b) enterprise tax of 7.0 percent on taxable income after certain adjustments, (c) prefectural and municipal taxes averaging 20.4 percent of corporation tax, and (d) special reconstruction corporate tax of 10 percent on corporation tax (from April 1, 2013 to March 31, 2014). 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.

#### **(21) Deferred assets**

Expenses for issuance of bond is charged to the statement of income when payment is made. Expenses for opening business is evenly amortized for 5 years.

#### **(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) Reclassifications**

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

## **4. Change in accounting policy**

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(Change in Accounting Standard for Retirement Benefits)

The Company and its domestic subsidiaries adopted Section 35 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and main clause of Section 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) effective from April 1, 2014. As a result, the methods of calculating the retirement benefit obligation and service cost have been revised in the following respects: the method for attributing projected benefits to each period has been changed from the straight-line basis to the benefit formula basis, and the method for determining the discount rate has been changed to use a single weight-average discount rate reflecting the expected timing and amount of benefit payments.

The cumulative effect of changing the method for calculating the retirement benefit obligation and service cost was recognized by adjusting retained earnings at April 1, 2014, in accordance with the transitional treatment provided in Paragraph 37 of Accounting Standard for Retirement Benefits.

As a result, net defined benefit liability increased by ¥1,755 million (U.S.\$14,611 thousand) and retained earnings decreased by ¥1,129 million (U.S.\$9,403 thousand) at April 1, 2014. The effect of this change on the consolidated statement of income and per share amounts for the fiscal year ended March 31, 2015 was immaterial.

## 5. Investment securities

### (1) Held-to maturity debt securities

As of March 31, 2014	Millions of yen		
	Book value on consolidated B/S	Fair value	Difference
<b>Securities whose fair value exceeds their book value on consolidated B/S:</b>			
National and local government bonds	¥214	¥222	¥ 8
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥214	¥222	¥ 8
<b>Securities whose fair value doesn't exceed their book value on consolidated B/S:</b>			
National and local government bonds	¥11	¥11	¥(0)
Corporate bonds	10	10	—
Other	—	—	—
Subtotal	¥ 21	¥ 21	¥(0)
Total	¥235	¥243	¥ 8

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

	Thousands of U.S. dollars		
	Book value on consolidated B/S	Fair value	Difference
<b>Securities whose fair value exceeds their book value on consolidated B/S:</b>			
National and local government bonds	\$1,928	\$2,003	\$75
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	\$1,928	\$2,003	\$75
<b>Securities whose fair value doesn't exceed their book value on consolidated B/S:</b>			
National and local government bonds	\$ 291	\$ 285	\$ (6)
Corporate bonds	83	83	—
Other	—	—	—
Subtotal	\$ 374	\$ 368	\$ (6)
Total	\$2,302	\$2,371	\$69

## (2) Other securities

As of March 31, 2014	Millions of yen		
	Book value on consolidated B/S	Acquisition cost	Difference
<b>Securities whose book value on consolidated B/S exceeds their acquisition cost:</b>			
Stock	¥ 8,646	¥4,209	¥4,437
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	142	96	46
Subtotal	¥ 8,788	¥4,305	¥4,483
<b>Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:</b>			
Stock	¥ 3,409	¥3,771	¥ (362)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	100	100	—
Other	—	—	—
Other	—	—	—
Subtotal	¥ 3,509	¥3,871	¥ (362)
Total	¥12,297	¥8,176	¥4,121

(Note) Since unlisted stocks (balance on consolidated balance sheet ¥2,766 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, 2015	Millions of yen		
	Book value on consolidated B/S	Acquisition cost	Difference
<b>Securities whose book value on consolidated B/S exceeds their acquisition cost:</b>			
Stock	¥13,079	¥7,770	¥5,309
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	¥13,079	¥7,770	¥5,309
<b>Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:</b>			
Stock	¥ 368	¥ 454	¥ (86)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	100	100	—
Other	—	—	—
Other	—	—	—
Subtotal	¥ 468	¥ 554	¥ (86)
Total	¥13,547	¥8,324	¥5,223

	Thousands of U.S. dollars		
	Book value on consolidated B/S	Acquisition cost	Difference
<b>Securities whose book value on consolidated B/S exceeds their acquisition cost:</b>			
Stock	\$108,841	\$64,662	\$44,179
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	\$108,841	\$64,662	\$44,179
<b>Securities whose book value on consolidated B/S doesn't exceed their acquisition cost:</b>			
Stock	\$ 3,065	\$ 3,779	\$ (714)
Bonds			
National and local government bonds	—	—	—
Corporate bonds	832	832	—
Other	—	—	—
Other	—	—	—
Subtotal	\$ 3,897	\$ 4,611	\$ (714)
Total	\$112,738	\$69,273	\$43,465

(Note) Since unlisted stocks (balance on consolidated balance sheet ¥2,772 million (U.S.\$23,071 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, 2014	Millions of yen		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	¥ —	¥ —	¥ —
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	87	—	7
Other	—	—	—
Total	¥ 87	¥ —	¥ 7

As of March 31, 2015	Millions of yen		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	¥ —	¥ —	¥ —
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	147	52	—
Other	—	—	—
Total	¥ 147	¥ 52	¥ —

	Thousands of U.S. dollars		
	Sales value	Total of gain on sale	Total of loss on sale
Stock	\$ —	\$ —	\$ —
Bonds			
National and local government bonds	—	—	—
Corporate bonds	—	—	—
Other	1,225	431	—
Other	—	—	—
Total	\$ 1,225	\$ 431	\$ —

### (4) Impairment of investment securities

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Other securities			
Stock	¥ —	¥ 3	\$ 27

## 6. Pledged assets

The following assets are pledged for fulfillment of construction contracts at March 31, 2014 and 2015.

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Securities	¥ —	¥ 33	\$ 273
Real estate for sale	563	644	5,357
Investment securities	308	304	2,530
Other (Investment and other assets)	5	5	41
Total	¥ 876	¥ 986	\$ 8,201

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

Short-term and long-term loans, commercial papers and bonds payable as of March 31, 2014 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Short-term loans from banks and insurance companies (The weighted average interest rate is 0.68%.)	¥24,060	<b>¥27,255</b>	<b>\$226,802</b>
Commercial papers (The weighted average interest rate is 0.11%.)	—	<b>19,996</b>	<b>166,400</b>
Long-term loans from banks and insurance companies due through 2027 (The weighted average interest rate is 1.31%.)	¥30,878	<b>¥27,646</b>	<b>\$230,056</b>
1.25% unsecured bonds payable due 2015	10,000	—	—
0.87% unsecured bonds payable due 2019	10,000	<b>10,000</b>	<b>83,215</b>
0.68% unsecured bonds payable due 2022	—	<b>10,000</b>	<b>83,215</b>
Less: current portion	(47,417)	<b>(58,282)</b>	<b>(485,000)</b>
Total	¥27,521	<b>¥36,615</b>	<b>\$304,688</b>

The aggregate annual maturity of short-term and long-term loans, commercial papers and bonds payable after March 31, 2015 is as follows:

Year ending March 31,

	Millions of yen	Thousands of U.S. dollars
2016	<b>¥58,282</b>	<b>\$485,000</b>
2017	<b>7,680</b>	<b>63,912</b>
2018	<b>4,045</b>	<b>33,655</b>
2019	<b>13,063</b>	<b>108,707</b>
2020	<b>1,704</b>	<b>14,175</b>
2021 and thereafter	<b>10,123</b>	<b>84,240</b>
Total	<b>¥94,897</b>	<b>\$789,688</b>

## 8. Non-operating income

The composition of Non-operating income—other for the fiscal years ended March 31, 2014 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Real estate rent	¥ 83	<b>¥ 97</b>	<b>\$ 805</b>
Other	293	<b>464</b>	<b>3,866</b>
Total	¥376	<b>¥561</b>	<b>\$4,671</b>

## 9. Non-operating expenses

The composition of Non-operating expenses—other for the fiscal years ended March 31, 2014 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Equity in losses of affiliates	¥ 2	<b>¥ —</b>	<b>\$ —</b>
Other	320	<b>260</b>	<b>2,165</b>
Total	¥322	<b>¥260</b>	<b>\$2,165</b>

## 10. Extraordinary income

The composition of Extraordinary income for the fiscal years ended March 31, 2014 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Gain on sales of non-current assets	¥256	<b>¥ 82</b>	<b>\$ 679</b>
Gain on bargain purchase	—	<b>200</b>	<b>1,664</b>
Gain on forgiveness of debts	50	—	—
Subsidy income	16	<b>190</b>	<b>1,578</b>
Other	48	<b>78</b>	<b>658</b>
Total	¥370	<b>¥550</b>	<b>\$4,579</b>

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

Gain on forgiveness of debts to minority shareholders was recognized when a liquidation procedure of the Company's consolidated subsidiary, Obama Marine Co., Ltd. had been completed.

## 11. Extraordinary losses

The composition of Extraordinary losses for the fiscal years ended March 31, 2014 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Loss on sales of non-current assets	¥ 38	¥ 177	\$ 1,474
Loss on retirement of non-current assets	230	101	842
Impairment loss <sup>(*)</sup>	201	1,440	11,980
Settlement package	195	—	—
Other	126	49	480
Total	¥790	¥1,767	\$14,704

(\*)1) The Company recognized impairment loss for the following group of assets in the current fiscal years ended March 31, 2014 and 2015.

### For the year ended March 31, 2014

Classification	Type of Assets	Location	Impairment loss
Business assets	Land	Chiba	¥201 million

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

Book values of above assets were written down to recoverable amounts due to following reasons. Management decision on disposal has been made and no alternative investment has been planned. The impairment loss (¥201 million) was accounted for as extraordinary losses.

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

### For the year ended March 31, 2015

Classification	Type of Assets	Location	Impairment loss
Leased assets	Land, Buildings	Hokkaido	¥49 million \$402 thousand
Business assets	Land, Mining rights	Saga	¥1,391 million \$11,578 thousand

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

Book values of above assets were written down to recoverable amounts due to following reasons. Management decision on disposal has been made and no alternative investment has been planned. The impairment loss (¥1,440 million, U.S.\$11,980 thousand) was accounted for as extraordinary losses.

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

## 12. Research and development costs

Research and development costs charged to income are ¥1,647 million for the fiscal year 2014 and ¥1,633 million (U.S.\$13,593 thousand) for the fiscal year 2015, respectively.

### 13. Other comprehensive income

The following table presents reclassification and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2014 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Valuation difference on available-for-sale securities			
Amount arising during the year	¥2,377	¥1,154	\$ 9,602
Reclassification adjustment for gains and losses realized in net income	5	(52)	(431)
Amount before tax effect	2,381	1,102	9,171
Tax effect	(813)	(245)	(2,035)
Valuation difference on available-for-sale securities	1,567	857	7,136
Deferred gains (losses) on hedges			
Amount arising during the year	(1,094)	(1,806)	(15,032)
Reclassification adjustment for gains and losses realized in net income	695	1,795	14,938
Amount before tax effect	(399)	(11)	(94)
Tax effect	390	3	28
Deferred gains (losses) on hedges	(9)	(8)	(66)
Revaluation reserve for land			
Tax effect	—	550	4,570
Foreign currency translation adjustments			
Amount arising during the year	21	17	142
Reclassification adjustment for gains and losses realized in net income	—	(6)	(52)
Amount before tax effect	21	11	90
Tax effect	—	—	—
Foreign currency translation adjustments	21	11	90
Remeasurements of defined benefit plans			
Amount arising during the year	—	3,985	33,160
Reclassification adjustment for gains and losses realized in net income	—	1,817	15,123
Amount before tax effect	—	5,802	48,283
Tax effect	—	(2,005)	(16,684)
Remeasurements of defined benefit plans	—	3,797	31,599
Share of other comprehensive income of associates accounted for using equity method			
Amount arising during the year	1	1	9
Reclassification adjustment for gains and losses realized in net income	—	—	—
Share of other comprehensive income of associates accounted for using equity method	1	1	9
Total of other comprehensive income	¥1,580	¥5,208	\$43,338

### 14. Summary of operating lease transactions

Future lease payments, about non-cancelable operating lease assets as of March 31, 2014 and 2015 are as follows:

<Borrower>	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Within one year	¥ 453	¥ 453	\$3,772
Over one year	1,096	642	5,344
Total	¥1,549	¥1,095	\$9,116

<Lender>	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Within one year	¥165	¥193	\$1,606
Over one year	331	193	1,606
Total	¥496	¥386	\$3,212

### 15. Derivative financial transactions

#### (1) Matters concerning derivative financial transactions

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

The derivative financial transactions are mainly performed by the Company, and have been made in accordance with the bylaw,

which clearly describes purposes, execution and control for transaction.

#### (2) Matters concerning fair value

Hedge accounting is applied for all derivative financial transactions for the year ended March 31, 2014 and 2015 and accordingly fair value information is waived.

## 16. Commitments and contingent liabilities

As of March 31, 2015, the Company has liabilities for guarantee to bank loans made by customers amounting to ¥711 million (U.S.\$5,919 thousand).

The Company also has the guarantee amounting to ¥126 million (U.S.\$1,051 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

The Company has agreements on commitment line with 23 banks totaling ¥32,621 million (U.S. \$ 271,453 thousand) for the purpose of flexible financing. Unused commitment line as of March 31, 2014 and 2015 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Commitment line			
Total of commitment line	¥30,000	¥32,621	\$271,453
Use of commitment	¥ 6,600	¥ 9,374	\$ 78,002
Total of unused commitment line	¥23,400	¥23,247	\$193,451

The amount of total of commitment line in 2015 includes foreign currency commitment line of 30,000 thousand Singapore dollar (¥2,621 million, U.S.\$21,807 thousand) and the amount of use of commitment in 2015 includes 10,000 thousand Singapore dollar (¥874 million, U.S.\$7,269 thousand) related to the commitment line in Singapore dollar.

## 17. Tax effect accounting

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Deferred tax assets</b>			
Net operating loss carried forward	¥1,417	¥ 255	\$ 2,119
Employees' retirement benefits trust	2,257	2,073	17,253
Net defined benefit liability	1,213	45	376
Impairment loss	743	854	7,106
Loss on valuation of real estate for sale	1,839	1,793	14,924
Provision for loss on construction contracts	965	992	8,256
Allowance for doubtful accounts	1,000	757	6,298
Provision for bonuses	483	512	4,259
Other	1,365	1,101	9,156
Total: deferred tax assets	11,282	8,382	69,747
Less : valuation allowance	(3,709)	(2,995)	(24,922)
Deferred tax assets	¥7,573	¥5,387	\$44,825
<b>Deferred tax liabilities</b>			
Prepaid pension cost	¥ —	¥ (388)	\$ (3,231)
Valuation difference on available-for-sale securities	(1,371)	(1,616)	(13,447)
Depreciation	(14)	—	—
Other	(82)	(139)	(1,145)
Total: deferred tax liabilities	(1,467)	(2,143)	(17,823)
Net: deferred tax assets	¥6,106	¥3,244	\$27,002

### 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:

	2014	2015
The statutory effective tax rate	38.01%	35.64%
(Adjustments)		
Permanent differences (expense)	6.39	8.80
Permanent differences (income)	(2.31)	(1.31)
Per capita levy on inhabitant tax	2.56	1.06
Consolidated adjustments	0.79	0.70
Increase (Decrease) in valuation allowance	(7.63)	(1.33)
Foreign corporation tax	13.79	(3.50)
Downward adjustment of deferred tax assets at the year end due to the change in corporate tax rates	2.92	4.65
Effect from the application of consolidated taxation system	0.79	(2.74)
Other	0.27	(3.56)
Actual burden tax rates after the application of tax effect accounting	55.58%	38.41%

### 3. Change in effective statutory tax rate

In accordance with the promulgation on March 31, 2015, of the "Act on Partial Revision of the Income Tax Act, etc." (Act No.9 of 2015) and the "Act on Partial Revision of the Local Tax Act, etc." (Act No.2 of 2015), the effective statutory tax rate of 35.64% utilized previously for the computation of deferred tax assets and deferred tax liabilities for the fiscal year ended March 31, 2014 (applied only to temporary differences expected to be recovered or settled on or after April 1, 2015) has been revised to 33.10% for temporary differences expected to be recovered or settled during the period from April 1, 2015 to March 31, 2016, and to 32.34% for temporary differences expected to be recovered or settled from April 1, 2016.

As a result, net deferred tax assets (after offsetting deferred tax liabilities) decreased by ¥246 million, deferred tax liabilities for land revaluation decreased by ¥550 million, income taxes-deferred increased by ¥473 million, revaluation reserve for land increased by ¥550 million, valuation difference on available-for-sale securities increased by ¥164 million, and remeasurements of defined benefit plans increased by ¥62 million as of and for the fiscal year ended March 31, 2015.

## 18. Net assets

### (1) Legal retained earnings and legal capital surplus

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

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

### (2) Revaluation reserve for land

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
The difference between the appraisal value of land at the end of the current fiscal year and the book value	¥12,379	¥11,705	\$97,401

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 ¥3,607 million (U.S.\$36,018 thousand) gain as of March 31, 2015.

## 19. Retirement benefits

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

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

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

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

**(1) The changes in the retirement benefit obligation and the plan assets during the years ended March 31, 2014 and 2015 are as follows:**

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Retirement benefit obligation at the beginning of year	¥25,572	¥24,834	\$206,655
Cumulative effect of change in accounting principle	—	1,755	14,611
Restated balance at the beginning of the year	25,572	26,589	221,266
Service cost	1,037	1,132	9,418
Interest cost	404	210	1,746
Actuarial gain and loss	(51)	(494)	(4,109)
Retirement benefits paid	(2,128)	(1,760)	(14,648)
Prior service cost	—	19	158
Retirement benefit obligation at end of year	¥24,834	¥25,696	\$213,831

**(2) The change in the plan assets during the years ended March 31, 2014 and 2015 are as follows:**

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Plan assets at the beginning of year	¥19,260	¥21,438	\$178,392
Expected return on plan assets	344	371	3,092
Actuarial gain	986	3,491	29,052
Contributions by the Company	2,561	2,995	24,921
Retirement benefits paid	(1,713)	(1,455)	(12,108)
Plan assets at the end of year	¥21,438	¥26,840	\$223,349

**(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, 2014 and 2015 for the Company's and the consolidated subsidiaries' defined benefit plans:**

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Funded retirement benefit obligation	¥24,469	¥25,311	\$210,627
Plan assets at fair value	(21,437)	(26,840)	(223,349)
	¥ 3,032	¥ (1,529)	\$ (12,722)
Unfunded retirement benefit obligation	364	386	3,205
Net liability for retirement benefits in the balance sheet	¥ 3,396	¥ (1,143)	\$ (9,517)
Net defined benefit liability	¥ 3,396	¥118	\$ 980
Net defined benefit asset	—	(1,261)	(10,497)
Net liability for retirement benefits in the balance sheet	¥ 3,396	¥ (1,143)	\$ (9,517)

**(4) The components of retirement benefit expense for the years ended March 31, 2014 and 2015 are as follows:**

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Service cost	¥1,037	¥1,132	\$ 9,418
Interest cost	404	210	1,746
Expected return on plan assets	(344)	(372)	(3,092)
Amortization of actuarial gain and loss	313	515	4,292
Amortization of prior service cost	—	19	158
Amortization of net retirement benefit obligation at transition	1,302	1,302	10,832
Retirement benefit expense	¥2,712	¥2,806	\$23,354

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, 2014 and 2015 are as follows:**

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Actuarial gain and loss	¥ —	¥4,500	\$37,451
Net retirement benefit obligation at transition	—	1,302	10,832
Total	¥ —	¥5,802	\$48,283

**(6) The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 and 2015 are as follows:**

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Unrecognized actuarial gain and loss	¥2,595	<b>¥1,906</b>	<b>\$15,858</b>
Unrecognized net retirement benefit obligation at transition	1,302	—	—
Total	¥3,897	<b>¥1,906</b>	<b>\$15,858</b>

**(7) The fair value of plan assets, major category, as a percentage of total plan assets as of March 31, 2014 and 2015 are as follows:**

	2014	2015
Bonds	37%	<b>36%</b>
Stocks	47	<b>50</b>
General accounts	5	<b>5</b>
Cash and deposits	0	<b>0</b>
Others	11	<b>9</b>
Total	100%	<b>100%</b>

Note: Total plan assets include retirement benefit trusts of 11% and 13% that are set up for a corporate pension plan as of March 31, 2014 and 2015, 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:**

	2014	2015
Discount rates	1.6%	<b>0.8%</b>
Expected rates of long-term return on plan assets	1.4–2.0%	<b>1.2–2.0%</b>
Expected rates of s increase in salary	3.1–5.0%	<b>3.1–5.0%</b>

## 20. Financial instruments

### (1) Policy for acquiring Financial instruments

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

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

Investment securities include mainly stocks, held-to-maturity bonds and investment trusts and are exposed to fluctuation of

market value. Those fair values, financial status of the issuers and so on are checked regularly. Accounts receivable-other is mainly credit other than accounts receivable associated with operating transactions and most of the accounts are collected in short term and detail of the balance is reviewed on monthly basis.

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

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

### (2) Estimated fair value of financial instruments

Book value on consolidated balance sheet, fair value and the difference as of March 31, 2014 are as follows:

	Millions of yen		
	Book value on consolidated B/S	Fair value	Difference
<b>Assets</b>			
(1) Cash and deposits	¥ 32,602	¥ 32,602	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	131,640	131,622	(18)
(3) Accounts receivable-other	11,478	11,478	—
(4) Investment securities	12,532	12,541	9
<b>Total Assets</b>	<b>¥188,252</b>	<b>¥188,243</b>	<b>¥ (9)</b>
<b>Liabilities</b>			
(1) Notes payable, accounts payable for construction contracts and other	¥101,975	¥101,975	¥ —
(2) Electronically recorded obligations-operating	5,772	5,772	—
(3) Short-term loans payable	24,060	24,060	—
(4) Bonds payable <sup>(*)1</sup>	20,000	20,286	286
(5) Long-term loans payable <sup>(*)1</sup>	30,878	31,020	142
<b>Total Liabilities</b>	<b>¥182,685</b>	<b>¥183,113</b>	<b>¥428</b>
<b>Derivative transaction <sup>(*)2</sup></b>	<b>¥ (15)</b>	<b>¥ (15)</b>	<b>¥ —</b>

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

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

(\*)2 The debit and credit balances recorded by derivative transaction are offset each other.

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

#### Assets

(1) Cash and deposits, (3) Accounts receivable-other

Since these items are settled within the short term, the fair values are nearly equivalent to the book values therefore the book value is used.

(2) Notes receivable, accounts receivable from completed construction contracts and other  
These items' fair values are the present value, discounted by using interest rate determined based on the term until maturity and credit risk with respect to the receivables categorized by a certain period.

(4) Investment securities

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

#### Liabilities

(1) Notes payable, accounts payable for construction contracts and other, (2) Electronically recorded obligations-operating, (3) Short-term loans payable

Since these items are settled within short term, the fair values are nearly equivalent to book values, therefore the current book value is used.

(4) Bonds payable (5) Long-term loans payable

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

#### Derivative transaction

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

(Note 2) Since unlisted stocks (balance on consolidated balance sheet ¥2,871 million have no market value, have no estimated future cash flows and are quite difficult to recognize the fair value, they are not included in "(4) Investment securities."

(Note 3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2014

	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	¥ 32,539	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	123,320	8,320	—	—
Investment securities				
Held-to-maturity bonds				
National and local government bonds	—	63	162	—
Corporate bonds	—	10	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	100	—
Other	—	—	—	—
Accounts receivable – other	11,478	—	—	—
<b>Total</b>	<b>¥167,337</b>	<b>¥8,393</b>	<b>¥262</b>	<b>¥—</b>

Book value on consolidated balance sheet, fair value and the difference as of March 31, 2015 are as follows:

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

	Thousands of U.S. dollars		
	Book value on consolidated B/S	Fair value	Difference
<b>Assets</b>			
(1) Cash and deposits	\$ 320,125	\$ 320,125	\$ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	1,416,564	1,416,556	(8)
(3) Securities and investment securities	115,040	115,109	69
(4) Accounts receivable – other	222,130	222,130	—
<b>Total Assets</b>	<b>\$2,073,859</b>	<b>\$2,073,920</b>	<b>\$ 61</b>
<b>Liabilities</b>			
(1) Notes payable, accounts payable for construction contracts and other	\$1,057,529	\$1,057,529	\$ —
(2) Electronically recorded obligations – operating	81,615	81,615	—
(3) Short-term loans payable	226,802	226,802	—
(4) Commercial papers	166,400	166,400	—
(5) Bonds payable	166,431	167,895	1,464
(6) Long-term loans payable <sup>(*)</sup>	230,056	233,486	3,430
<b>Total Liabilities</b>	<b>\$1,928,833</b>	<b>\$1,933,727</b>	<b>\$4,894</b>
Derivative transaction <sup>(*)</sup>	\$ (218)	\$ (218)	\$ —

(\*)1 Long-term loans payable includes the current portion of long-term loans payable.

(\*)2 The debit and credit balances recorded by derivative transaction are offset each other.

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

**Assets**

(1) Cash and deposits, (4) Accounts receivable–other

Since these items are settled within the short term, the fair values are nearly equivalent to the book values therefore the book value is used.

(2) Notes receivable, accounts receivable from completed construction contracts and other

These items' fair values are the present value, discounted by using interest rate determined based on the term until maturity and credit risk with respect to the receivables categorized by a certain period.

(3) Securities and investment securities

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

**Liabilities**

(1) Notes payable, accounts payable for construction contracts and other, (2) Electronically recorded obligations–operating, (3) Short–term loans payable, (4) Commercial papers

Since these items are settled within short term, the fair values are nearly equivalent to book values, therefore the current book value is used.

(5) Bonds payable, (6) Long–term loans payable

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

**Derivative transaction**

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

(Notes 2) Since unlisted stocks (balance on consolidated balance sheet ¥2,880 million (U.S. \$23,970 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 3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2015

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits	¥ 38,428	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	166,757	3,472	—	—
Securities and investment securities				
Held–to–maturity bonds				
National and local government bonds	33	87	147	—
Corporate bonds	10	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	100	—
Other	—	—	—	—
Accounts receivable – other	26,693	—	—	—
<b>Total</b>	<b>¥231,921</b>	<b>¥3,559</b>	<b>¥247</b>	<b>¥ —</b>

	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	\$ 319,778	\$ —	\$ —	\$ —
Notes receivable, accounts receivable from completed construction contracts and other	1,387,672	28,892	—	—
Securities and investment securities				
Held–to–maturity bonds				
National and local government bonds	273	720	1,226	—
Corporate bonds	83	—	—	—
Other marketable securities with maturities				
Corporate bonds	—	—	832	—
Other	—	—	—	—
Accounts receivable – other	222,130	—	—	—
<b>Total</b>	<b>\$1,929,936</b>	<b>\$29,612</b>	<b>\$2,058</b>	<b>\$ —</b>

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

## 21. Segment information

(Segment information)

### 1. General information about reportable segments

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

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

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

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

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

Intersegment sales and transfers are based on prevailing market price.

The Company do not allocate assets to business segments.

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

Millions of yen

	Reportable segment				Total	Other (Note 1)	Total	Adjustments (Note 2)	Recorded amount on consolidated statement of income (Note 3)
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Domestic real estate development segment					
Year ended March 31, 2014									
<b>Net sales:</b>									
Sales to third parties	¥140,887	¥127,792	¥104,598	¥2,430	¥375,707	¥5,475	¥381,182	¥ —	¥381,182
Intersegment sales and transfers	182	2	—	177	361	1,584	1,945	(1,945)	—
Total	141,069	127,794	104,598	2,607	376,068	7,059	383,127	(1,945)	381,182
Segment profit (loss)	7,387	545	2,633	(988)	9,577	305	9,882	14	9,896
<b>Other item:</b>									
Depreciation	1,558	338	2,227	59	4,182	525	4,706	(43)	4,663

Millions of yen

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

Thousands of U.S. dollars

	Reportable segment				Total	Other (Note 1)	Total	Adjustments (Note 2)	Recorded amount on consolidated statement of income (Note 3)
	Domestic civil engineering segment	Domestic building construction segment	Overseas segment	Domestic real estate development segment					
Year ended March 31, 2015									
<b>Net sales:</b>									
Sales to third parties	\$1,224,489	\$1,088,150	\$1,152,311	\$15,770	\$3,480,720	\$66,236	\$3,546,956	\$ —	\$3,546,956
Intersegment sales and transfers	5,313	24	—	1,449	6,786	18,615	25,401	(25,401)	—
Total	1,229,802	1,088,174	1,152,311	17,219	3,487,506	84,851	3,572,357	(25,401)	3,546,956
Segment profit (loss)	44,167	16,947	40,112	(2,316)	98,910	3,308	102,218	82	102,300
<b>Other item:</b>									
Depreciation	13,863	3,423	21,832	484	39,602	4,509	44,111	(103)	44,008

Notes

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

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

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

**(Related information)**

For the year ended March 31, 2014

1. Information of each products and service

Please refer to Note 21 Segment information.

2. Geographical information

(1) Net sales

Japan	Southeast Asia	Other	Total
¥276,426 million	¥103,831 million	¥925 million	¥381,182 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
¥60,592 million	¥15,401 million	¥0 million	¥75,993 million

3. Each main customer

Name of Customer	Net sales	Related segment
Ministry of Land, Infrastructure, Transport and Tourism	¥47,193 million	Domestic civil engineering segment and Domestic building construction segment

For the year ended March 31, 2015

1. Information of each products and service

Please refer to Note 21 Segment information.

2. Geographical information

(1) Net sales

Japan	Southeast Asia	Other	Total
¥287,599 million U.S.\$2,393,266 thousand	¥136,912 million U.S.\$1,139,319 thousand	¥1,727 million U.S.\$14,371 thousand	¥426,238 million U.S.\$3,546,956 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
¥56,363 million U.S.\$469,025 thousand	¥20,300 million U.S.\$168,927 thousand	¥2 million U.S.\$23 thousand	¥76,665 million U.S.\$637,975 thousand

3. Each main customer

Name of Customer	Net sales	Related segment
Ministry of Land, Infrastructure, Transport and Tourism	¥44,335 million U.S.\$368,932 thousand	Domestic civil engineering segment and Domestic building construction segment

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

For the year ended March 31, 2014

There is no impairment loss divided by reportable segment.

The amount and contents of impairment loss which is not divided by reportable segment is omitted to disclose to Note 11 Extraordinary loss.

For the year ended March 31, 2015

There is no impairment loss divided by reportable segment.

The amount and contents of impairment loss which is not divided by reportable segment is omitted to disclose to Note 11 Extraordinary loss.

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

This information is omitted, due to insignificant amount.

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

For the year ended March 31, 2014

None

For the year ended March 31, 2015

This information is omitted, due to insignificant amount.

## 22. Amounts per share

1. Per share information is summarized as follows:

	Yen		U.S. dollars
	2014	2015	2015
Net assets per share	¥235.53	¥269.44	\$2.24
Net income per share	13.16	21.63	0.18

2. For the year ended March 31, 2014 and 2015, diluted net income 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, 2015

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, 2015, was approved at the general shareholders' meeting held on June 26, 2015 and became effective June 29, 2015:

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Cash dividends ( ¥4 (U.S.\$0.03) per share)	¥1,144	\$9,517

## Independent Auditor's Report



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

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

### Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of PENTA-OCEAN CONSTRUCTION CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2015, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PENTA-OCEAN CONSTRUCTION CO., LTD. and its consolidated subsidiaries as at March 31, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

#### *Convenience Translation*

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

*Ernst & Young ShinNihon LLC*  
June 26, 2015

A member firm of Ernst & Young Global Limited

## **Non-Consolidated Financial Statements**

# Non-Consolidated Five-Year Summary

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

	Millions of yen					Thousands of U.S. dollars
	2011	2012	2013	2014	2015	2015
Orders received	¥276,936	¥299,133	¥281,428	¥449,146	<b>¥722,341</b>	<b>\$6,010,992</b>
Civil engineering	127,903	156,294	131,883	274,182	<b>405,004</b>	<b>3,370,259</b>
Building construction	147,479	140,219	148,423	172,482	<b>311,453</b>	<b>2,591,768</b>
Development business and other	1,554	2,620	1,122	2,482	<b>5,884</b>	<b>48,965</b>
Net sales	279,374	308,576	329,510	355,927	<b>393,711</b>	<b>3,276,286</b>
Civil engineering	164,706	158,503	179,012	191,384	<b>216,009</b>	<b>1,797,531</b>
Building construction	113,026	147,452	149,210	162,101	<b>175,633</b>	<b>1,461,536</b>
Development business and other	1,642	2,621	1,288	2,442	<b>2,069</b>	<b>17,219</b>
Contract backlog	360,558	349,956	315,084	416,885	<b>762,370</b>	<b>6,344,095</b>
Civil engineering	204,470	201,590	163,471	251,106	<b>452,830</b>	<b>3,768,241</b>
Building construction	155,881	148,160	151,574	165,701	<b>305,647</b>	<b>2,543,453</b>
Development business and other	207	206	39	78	<b>3,893</b>	<b>32,401</b>
Total assets	268,403	293,775	282,616	283,701	<b>345,576</b>	<b>2,875,722</b>
Net assets	55,860	58,271	61,317	65,578	<b>69,795</b>	<b>580,802</b>
Ordinary income	6,778	7,599	6,385	8,152	<b>9,044</b>	<b>75,258</b>
Income before income taxes	4,649	6,499	5,100	7,526	<b>7,611</b>	<b>63,334</b>
Net income	1,924	2,083	2,320	3,276	<b>4,520</b>	<b>37,611</b>
Cash dividends	572	572	572	572	<b>1,144</b>	<b>9,517</b>
Per share of common stock:						
	Yen					U.S. dollars
Net assets	¥195.37	¥203.81	¥214.46	¥229.37	<b>¥244.12</b>	<b>\$2.03</b>
Net income	7.56	7.29	8.12	11.46	<b>15.81</b>	<b>0.13</b>
Cash dividends	2.00	2.00	2.00	2.00	<b>4.00</b>	<b>0.03</b>
Number of employees	2,390	2,391	2,386	2,390	<b>2,441</b>	

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥120.17 per U.S.\$1, prevailing on March 31, 2015.

# Non-Consolidated Balance Sheet

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Current assets:</b>			
Cash and deposits	¥ 24,197	¥ 28,185	\$ 234,541
Trade receivables:			
Notes	3,390	12,394	103,141
Accounts	130,618	174,607	1,453,002
Subsidiaries and affiliates	6,458	6,395	53,217
Securities	—	43	356
Inventories:			
Costs on uncompleted construction contracts	8,161	9,214	76,674
Real estate for sale and development projects in progress	7,817	9,802	81,569
Raw materials and supplies	1,046	909	7,562
Deferred tax assets	2,990	2,586	21,516
Other	4,067	5,484	45,634
Allowance for doubtful accounts	(743)	(976)	(8,122)
<b>Total current assets</b>	<b>188,001</b>	<b>248,643</b>	<b>2,069,090</b>
<b>Property, plant and equipment:</b>			
Land	40,976	36,399	302,897
Buildings and structures	30,894	31,953	265,897
Machinery, equipment and vehicles	10,521	12,222	101,704
Dredgers and vessels	26,373	26,302	218,877
Construction in progress	982	379	3,155
Other	222	266	2,214
<b>Total property, plant and equipment</b>	<b>109,968</b>	<b>107,521</b>	<b>894,744</b>
Less: Accumulated depreciation	(51,985)	(53,297)	(443,516)
<b>Property, plant and equipment-net</b>	<b>57,983</b>	<b>54,224</b>	<b>451,228</b>
<b>Intangible assets:</b>	<b>1,036</b>	<b>1,092</b>	<b>9,086</b>
<b>Investments and other assets:</b>			
Stock of and long-term loans receivable from subsidiaries and affiliates	16,835	22,043	183,433
Investment securities	15,286	16,543	137,664
Long-term loans receivable	101	83	689
Deferred tax assets	1,428	836	6,957
Other	7,117	3,267	27,186
Allowance for doubtful accounts	(4,086)	(1,155)	(9,611)
<b>Total investments and other assets</b>	<b>36,681</b>	<b>41,617</b>	<b>346,318</b>
<b>Total assets</b>	<b>¥283,701</b>	<b>¥345,576</b>	<b>\$2,875,722</b>

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Current liabilities:</b>			
Short-term loans payable			
Bank	¥ 22,230	¥ 25,490	\$ 212,114
Commercial papers	—	19,996	166,400
Current portion of long-term loans payable and bonds payable	23,340	11,012	91,639
Trade payable:			
Notes	21,200	19,726	164,154
Accounts	72,140	95,113	791,489
Electronically recorded monetary payable	5,457	9,252	76,990
Subsidiaries and affiliates	6,683	8,507	70,794
Advance received on uncompleted construction contracts	15,439	20,116	167,393
Deposits received	9,465	14,228	118,395
Income taxes payable	1,776	2,309	19,216
Provision for loss on construction contracts	2,470	2,901	24,143
Provision for warranties for completed construction	857	682	5,672
Other provision	1,215	1,395	11,609
Other	1,936	2,266	18,852
<b>Total current liabilities</b>	<b>184,208</b>	<b>232,993</b>	<b>1,938,860</b>
<b>Non-current liabilities:</b>			
Bonds payable	10,000	20,000	166,431
Long-term loans payable	17,330	16,415	136,596
Provision for retirement benefits	—	583	4,852
Deferred tax liabilities for land revaluation	6,187	5,382	44,790
Other	398	408	3,391
<b>Total non-current liabilities</b>	<b>33,915</b>	<b>42,788</b>	<b>356,060</b>
<b>Total liabilities</b>	<b>218,123</b>	<b>275,781</b>	<b>2,294,920</b>
<b>Net assets:</b>			
Capital stock	30,450	30,450	253,391
Authorized—599,135,000 shares			
Issued shares—286,013,910 shares in 2014 and 2015			
Capital surplus			
Legal capital surplus	12,380	12,380	103,017
Other capital surplus	6,007	6,007	49,989
<b>Total capital surplus</b>	<b>18,387</b>	<b>18,387</b>	<b>153,006</b>
Retained earnings			
Retained earnings brought forward	7,459	10,717	89,186
<b>Total retained earnings</b>	<b>7,459</b>	<b>10,717</b>	<b>89,186</b>
Less: Treasury stock	(25)	(25)	(210)
Valuation difference on available-for-sale securities	2,749	3,606	30,012
Deferred losses on hedges	(10)	(17)	(146)
Revaluation reserve for land	6,568	6,677	55,563
<b>Total net assets</b>	<b>65,578</b>	<b>69,795</b>	<b>580,802</b>
<b>Total liabilities and net assets</b>	<b>¥283,701</b>	<b>¥345,576</b>	<b>\$2,875,722</b>

# Non-Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
<b>Construction business:</b>			
Net sales	¥353,485	¥391,642	\$3,259,067
Cost of sales	330,508	367,986	3,062,211
Gross profit	22,977	23,656	196,856
<b>Development business and other:</b>			
Net sales	2,442	2,069	17,219
Cost of sales	3,213	2,224	18,514
Gross loss	(771)	(155)	(1,295)
<b>Total:</b>			
Total net sales	355,927	393,711	3,276,286
Total cost of sales	333,721	370,210	3,080,725
<b>Total gross profit</b>	22,206	23,501	195,561
<b>Selling, general and administrative expenses</b>	13,319	13,807	114,895
<b>Operating income</b>	8,887	9,694	80,666
<b>Non-operating income:</b>			
Interest and dividends income	233	507	4,217
Interest and dividends income from subsidiaries and affiliates	213	238	1,985
Reversal of allowance for doubtful accounts	127	29	244
Other	285	414	3,444
	858	1,188	9,890
<b>Non-operating expenses:</b>			
Interest expenses	1,161	1,009	8,396
Foreign exchange loss	112	586	4,878
Other	320	243	2,024
	1,593	1,838	15,298
<b>Ordinary income</b>	8,152	9,044	75,258
<b>Extraordinary income</b>	152	328	2,730
<b>Extraordinary losses</b>	778	1,761	14,654
<b>Income before income taxes</b>	7,526	7,611	63,334
<b>Income taxes:</b>			
Current	1,715	1,966	16,358
Deferred	2,535	1,125	9,365
Total income taxes	4,250	3,091	25,723
<b>Net income</b>	¥ 3,276	¥ 4,520	\$ 37,611
<b>Net income per share of common stock</b>			
	Yen		U.S. dollars
Basic	¥11.46	¥15.81	\$0.13

## Company Outline

(As of March 31, 2015)

<b>Company Name</b>	Penta-Ocean Construction Co., Ltd.
<b>Established</b>	April 1896
<b>Head Office</b>	2-8, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8576, Japan Tel: 81-3-3817-7181 Fax: 81-3-3817-7642
<b>Paid-in Capital</b>	¥30,450 million (U.S.\$253.4 million)
<b>Employees</b>	2,441 (2,949 consolidated)
<b>Website</b>	<a href="http://www.penta-ocean.co.jp">http://www.penta-ocean.co.jp</a>

## Directors, Members of the Board and Corporate Auditors

(As of June 26, 2015)

### Chairman & Representative Director

Yoshio Murashige

### President, Chief Executive Officer and Representative Director

Takuzo Shimizu

### Executive Vice President, Representative Director

Kunihiko Sasaki

### Members of the Board

Akihiko Togo Kazuya Ueda Yuji Nakamitsu Tetsushi Noguchi  
Shinichi Igarashi Michio Inatomi Hisanori Ohara\*

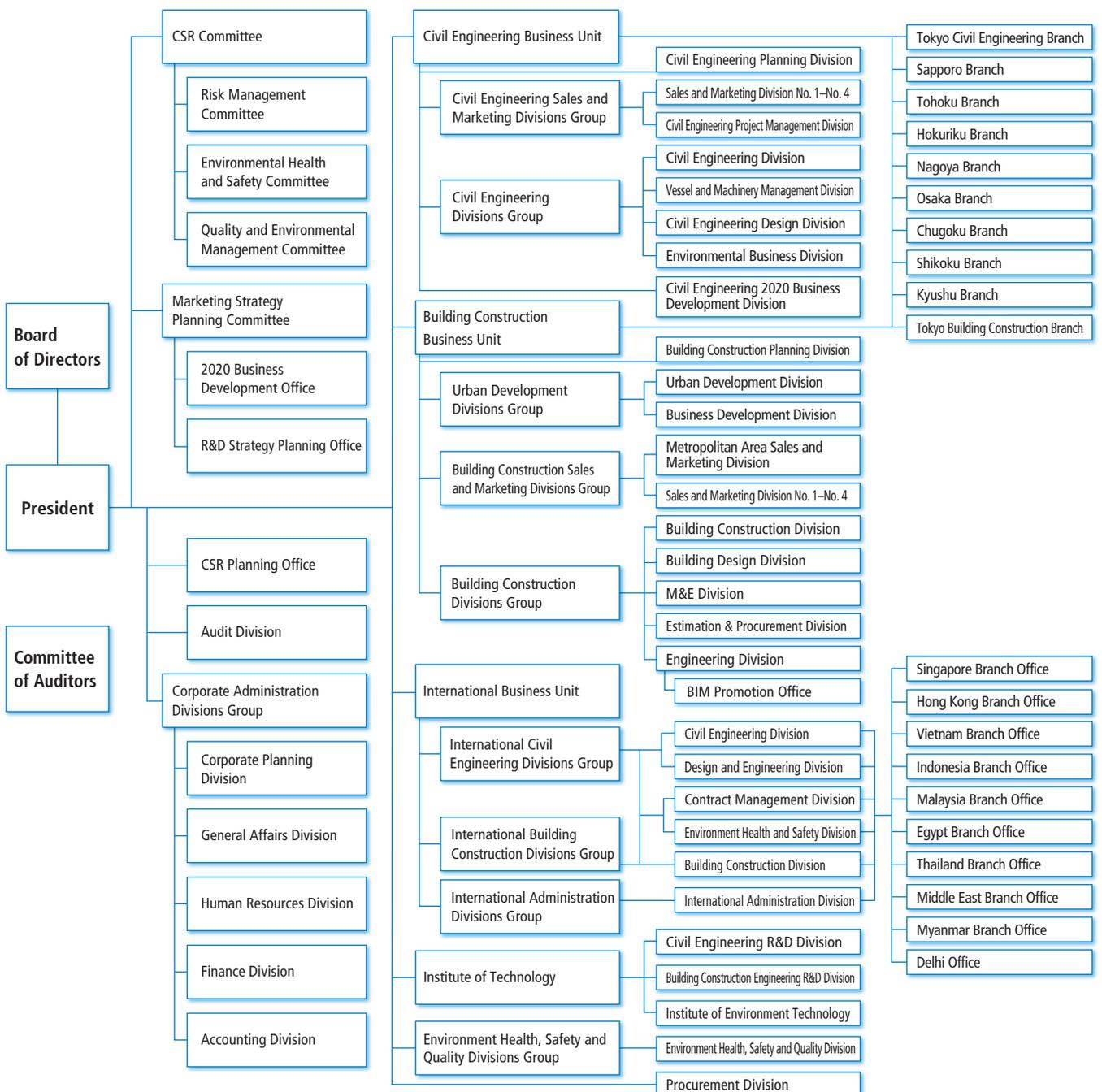
### Corporate Auditors

Takeshi Miyazono Tatsushi Higuchi\*  
Hironaga Fukuda\* Tatsuya Toyoshima\*

\* Indicates external members

## Organization Chart

(As of April 1, 2015)





### 1 HEAD OFFICE

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

### 2 SINGAPORE BRANCH OFFICE

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

### 3 HONG KONG BRANCH OFFICE

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

### 4 VIETNAM BRANCH OFFICE

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

### 5 INDONESIA BRANCH OFFICE

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

### 6 MALAYSIA BRANCH OFFICE

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

### 7 EGYPT BRANCH OFFICE

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

### 8 THAILAND BRANCH OFFICE

11th Floor, Room 1106, Vanit II Building, 1126/2  
New Petchburi Road, Makkasan Rajthevee,  
Bangkok 10400, Thailand  
Tel: 66-2-655-2183 Fax: 66-2-655-2185

### 9 MIDDLE EAST BRANCH OFFICE

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

### 10 MYANMAR BRANCH OFFICE

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

### 11 DELHI OFFICE

No. 402, 4th Floor, Time Tower, Mehrauli Gurgaon Road,  
Gurgaon-122002, Haryana, India  
Tel: 91-124-436-8355 Fax: 91-124-436-8356

### Consolidated Subsidiaries

Penta–Ocean Dredging Co., Ltd.	Tokyo, Japan
Yoshin Construction Co., Ltd.	Hiroshima, Japan
Penta Builders Corporation	Tokyo, Japan
Kegoya Dock Co., Ltd.	Hiroshima, Japan
Penta Techno Service Co., Ltd.	Tochigi, Japan
Sand Techno Co., Ltd.	Chiba, Japan
Domi Environmental Solutions Co., Ltd.	Tokyo, Japan
Penta Insurance Services Co., Ltd.	Tokyo, Japan
Jaiwat Co., Ltd.	Miyagi, Japan
Miki Biotech Co., Ltd.	Hyogo, Japan
Penta–Ocean (Malaysia) SDN. BHD.	Malaysia
Angkutlaut Ltd.	Malaysia
Siam Goyo Co., Ltd.	Thailand
Thai Penta–Ocean Co., Ltd.	Thailand
Penta–Ocean Construction (India) Ltd.	India
Penta–Ocean Construction (Hong Kong) Ltd.	Hong Kong
Brichwood Co., Ltd.	Hong Kong

Penta–Ocean Marine Holdings Pte. Ltd.	Singapore
Andromeda Five Pte. Ltd.	Singapore
Cassiopeia Five Pte. Ltd.	Singapore
Mercury Five Pte. Ltd.	Singapore
Mars Five Pte. Ltd.	Singapore
Jupiter Five Pte. Ltd.	Singapore
Neptune Five Pte. Ltd.	Singapore
Cherry Five Pte. Ltd.	Singapore
KD Shipping Inc.	Panama
Penta–Ocean Technology Information Advisory (Shenzhen) Ltd.	China

### Equity Affiliates

Haneda International Airport Apron PFI Co., Ltd.	Tokyo, Japan
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### Non–Equity Affiliate

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

### Investor Information

(As of March 31, 2015)

<b>Fiscal Year</b>	April 1–March 31
<b>Common Stock</b>	Authorized: 599,135,000 Issued: 285,904,764 (excluding 109,146 shares of treasury stock)
<b>Stock Listing</b>	First Section of the Tokyo and Nagoya Stock Exchanges
<b>Shareholders</b>	35,950
<b>Transfer Agency</b>	Mizuho Trust & Banking Co., Ltd. 2–8–4, Izumi, Suginami–ku, Tokyo 168–8507, Japan

### Major Shareholders

Shareholders	Number of shares held (thousands)	Percentage of shares held (%)
Japan Trustee Service Bank, Ltd. (Trust Account)	38,741	13.6
The Master Trust Bank of Japan, Ltd. (Trust Account)	22,625	7.9
BBH for BBHNTSIA Nomura Funds Ireland. Plc./ Japan Strategic Value Fund.	7,415	2.6
Mizuho Bank, Ltd.	7,060	2.5
Meiji Yasuda Life Insurance Co.	6,656	2.3
Juniper	5,535	1.9
Northern Trust Co. (Avfc) Re Exempt UK Pension Funds	4,670	1.6
Sompo Japan Nipponkoa Insurance Inc.	4,280	1.5
Tokio Marine & Nichido Fire Insurance Co., Ltd.	3,934	1.4
The Nomura Trust & Banking Co., Ltd.	3,605	1.2



[www.penta-ocean.co.jp](http://www.penta-ocean.co.jp)