

Top Message

# Contributing to sustainable social development through sustainable construction activities

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President,  
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Representative Director

Penta-Ocean Construction was founded in 1896 as Mizuno-gumi in Kure City, Hiroshima Prefecture, and we recently celebrated the 128th anniversary of the company's founding. Over a number of decades, our initial marine civil engineering business expanded to land civil engineering and building construction. Our overseas venture started with the Suez Canal Dredging Project in 1961, and we have been involved in many milestone projects, mostly based in Singapore, since our first entry into the market in 1964. At present, our three business segments of domestic civil engineering, domestic building construction and overseas, have roughly the same output in terms of net sales. We have developed into a company where these three business segments contribute to profits in a balanced manner.

## The Goal to Aim for

### – a Genuine Global General Contractor –

Penta-Ocean Construction Group aims to become a "Genuine global general contractor" who practices sustainability management. A "Genuine global general contractor" means a company with no barriers between each of the Business Units (Civil Engineering, Building Construction and International), where interdepartmental collaboration and Diversity and Inclusion (D&I) are embedded into the corporate culture so that diverse employees can thrive, regardless of gender or nationality. Our belief - "the greatest contribution to

society is the construction of high-quality infrastructure" - is profoundly reflected in our construction business activities. Not only do we strive to deliver reliable safety and quality backed by advanced technologies in our construction business activities, but we will also endeavor to tackle all sustainability issues from an ESG perspective. With this conviction, we will strive to contribute to sustainable social development, as a "Genuine global general contractor" with distinctive strengths in port, coastal and waterfront areas and overseas.

## Practicing Sustainability Management (Integrity in our corporate activities, Respect for individuals and human rights, Coexistence with society and nature)

In order to drive sustainable corporate growth, we must, above all else, reaffirm our full commitment to tackling "Sustainability" issues from a global perspective, in all our business and corporate activities. Under the new Medium-term Management Plan (2023-2025), which was launched in May 2023, we have designated our new corporate vision, which outlines our aspiration of becoming a "Genuine global general contractor" who practices sustainability management. To this end, we have been undertaking various initiatives to promote sustainability management, including development of structures to tackle specific issues, such as identification of the Materiality issues, embracing respect for humanity and building sustainable supply chains. In FY 3/25, our target is to roll out sustainability management practices across all our branch offices and construction sites, both at home and abroad.

In exploring sustainability management, integrity in corporate activities is paramount, and all officers and employees must uphold high ethical standards and the spirit of compliance. In May 2023, we revised and released the Code of Conduct, which outlines the standard behavior requirements as a member of society and the compliance framework to abide by for each executive and employee of POC Group. We will pursue fair and honest corporate activities through exerting further efforts to ensure strict compliance with laws and regulations, fair competition, management transparency and accountability.

Another key pillar of sustainability management is embracing respect for humanity. While making further efforts to ensure occupational health and safety in line with our motto of "safety as the top priority," we have also started incorporating specific measures to further advance our initiatives to ensure "Respecting human rights and building sustainable supply chain," which is one of the aforementioned Materiality issues. In order to address human rights issues, we launched the following initiatives in FY 3/24: 1. Establishment of the Human Rights Committee, 2. Formulation and release of the Human Rights Policy, and 3. Start of the human rights due diligence initiatives primarily targeted for POC Group. From FY 3/25 onwards, we will implement specific measures to cope with individual issues identified through human rights due diligence processes, as well as their continuous monitoring. In an effort to develop sustainable supply chains, we strive to disseminate the "Sustainable Supply Chain Policy" and the "Sustainable Supply Chain Guidelines", which were formulated and disclosed in November 2023, widely among all POC officers and employees and across our business partners. As a first step to develop sustainable supply chains in tandem with our business partners, we requested our main business partners to fill out a self-assessment questionnaire. It is our responsibility to ensure fair contract pricing which reflects rising labor and material costs to subcontractors or business partners. We will undertake the above initiatives



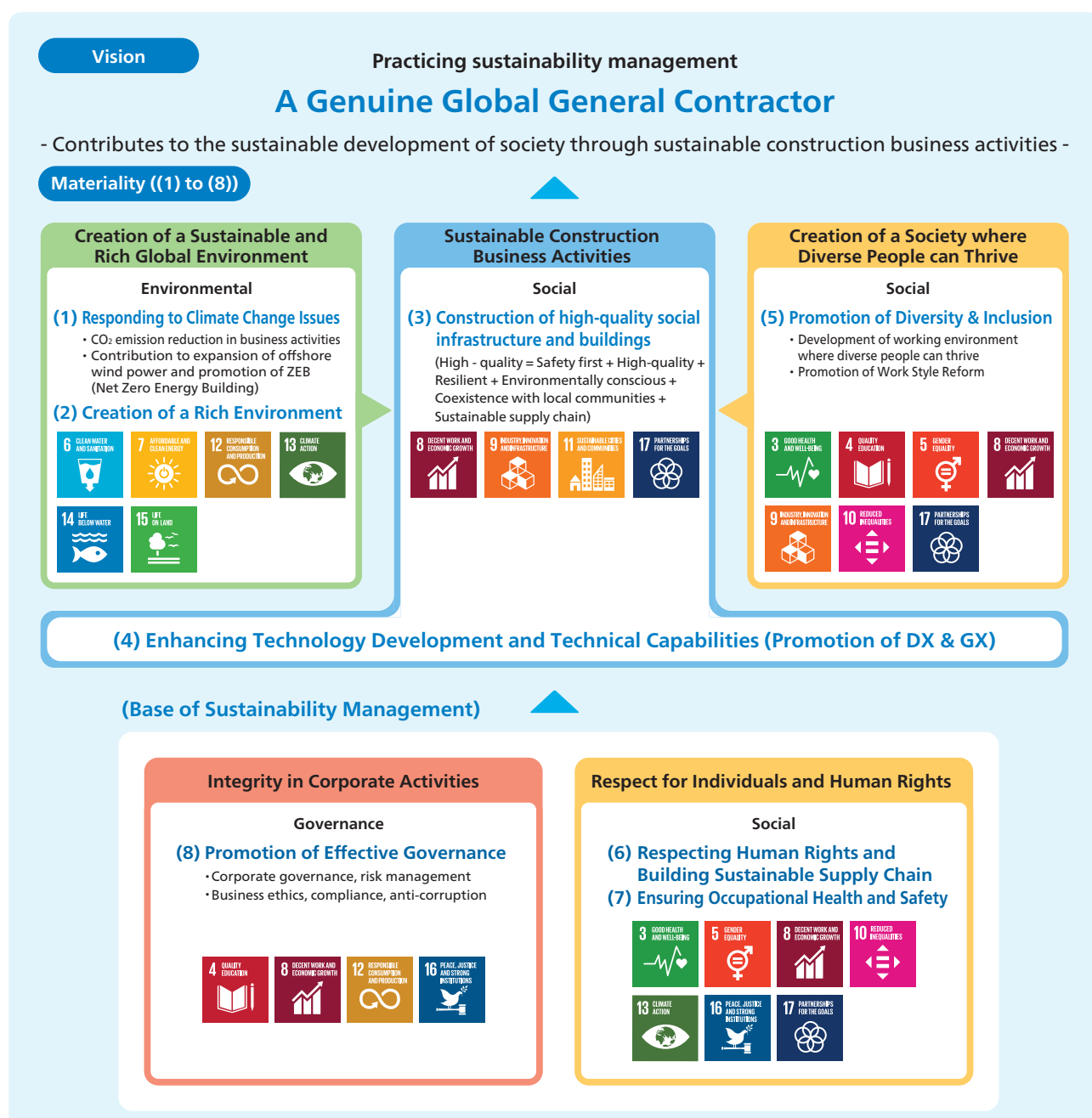
so we can build trustful relationship with our subcontractors and business partners to practice sustainable construction business activities.

Furthermore, to foster a society where people with diverse backgrounds can thrive, we promote Diversity and Inclusion (D&I) initiatives. We endeavor to create a workplace where employees with diverse backgrounds, regardless of gender or nationality, can work together with mutual respect and enthusiasm, and promote Work Style Reform. As we view the improvement in productivity to be the key component in successful Work Style Reform, we strive to encourage technological innovation and management reform by way of Digital Transformation (DX). Amid the increasing business volume, we endeavor to help our employees adapt to the new overtime cap regulations enforced in April 2024, by

encouraging acquisition of two days off per week and by keeping overtime work within 45 hours per month bimonthly. To this end, we strive to incorporate organizational strategies to implement rotational working hours, timely provision of manpower and sufficient on-site support, without relinquishing overtime management responsibilities to individual worker or construction site.

As for coping with climate change issues, we are promoting Green Transformation (GX) with pioneering spirit, which is part of our corporate DNA. By making continuous efforts to reduce CO<sub>2</sub> emissions in construction activities and advancing the construction of offshore wind farms and net zero energy buildings (ZEB), we will contribute to the achievement of carbon neutrality.

## » Sustainability Management



## Progress of the Medium-term Management Plan towards “The Goal to Aim for”

Under the current Medium-term Management Plan (2023 - 2025), which was launched in FY 3/24, we expect to renew record-high sales and profits thanks to the start of new construction and full-scale construction of several large-scale projects both at home and abroad, for which we received orders during the last Medium-term Management Plan.

### ● Review of FY 3/24

In FY 3/24, the business environment surrounding the construction industry was favorable, helped by strong construction demand in both public and private sectors: robust public investment related to disaster prevention/mitigation and national resilience measures, and the increase in private sector investment related to economic security strategies and carbon neutral (CN) initiatives. In contrast, we observed the consistent upward trend in material prices, as well as labor shortage/constraints and rising labor costs of subcontractors, particularly in the regions where construction demand was booming. Overseas, although construction demand was firm in our main markets of Singapore, Hong Kong and other countries in Southeast Asia, material prices and labor costs remained high, as was the case in Japan.

Under this business environment, our consolidated net sales for FY 3/24 reached a record high of JPY 617.7 billion (up 23% year-on-year). On the profit front, although they improved significantly compared to the previous fiscal year, the achievement rate against our targets set at the beginning of the fiscal year remained in the 80% range. Operating profit was JPY 29.2 billion (608% increase year-on-year, 85.7% achievement rate), ordinary income was JPY 27.2 billion (1,823% increase year-on-year, 85.1% achievement rate), and net income attributable to owners of the parent was JPY 17.9 billion (2,511% year-on-year, 81.3% achievement rate), respectively. The Civil Engineering Business Unit (domestic) was affected by the delay in progress of large-scale port projects. The International Business Unit was impacted by the increase in losses of loss-making projects, due to non-operation of dredging vessels caused by timing difference of projects and FX rate fluctuations, etc.

Orders received for domestic civil engineering and building construction projects both in public and private sectors significantly exceeded the targets set at the beginning of the fiscal year, although overall figures showed a year-on-year decline, due to timing difference of large-scale projects for the overseas segment and the impact of the largest-ever scale order received in FY 3/23 for the domestic segments.

On a non-consolidated basis, orders received reached JPY 592.2 billion (down 11.4% year-on-year, achievement rate 109.7%), and the backlog for construction projects carried over to the next fiscal year

totaled JPY 1,103.6 billion, even surpassing the record-high figure achieved in the previous fiscal year.

### ● Outlook for FY 3/25

For FY 3/25, the domestic construction market is projected to generate steady public investment thanks to the seamless execution of the FY 3/24 supplementary budget and the FY 3/25 initial budget combined. In overseas markets, we expect to benefit from robust construction demand in the Southeast Asia markets, including our home base of Singapore.

In terms of consolidated business results for FY 3/25, our net sales is expected to renew the record high once again at JPY 655.0 billion, thanks to the smooth progress of large-scale civil engineering/building construction projects at hand, both at home and abroad. As for the profits, we have made a downward revision of the targets announced in the Medium-term Management Plan formulated in May 2023 by taking a more conserving approach in estimating: 1. Progress of large-scale port construction projects and profit margins for offshore wind projects in the domestic civil engineering field, and 2. The timing of construction start for a large-scale port project overseas. On a side note, the targets for FY 3/26, the final year of the Medium-term Management Plan, remain unchanged.

With regard to capital investment, we plan to make a strategic capital investment of approx. JPY 30 billion annually in offshore work vessels in the offshore wind construction field, which we consider to be one of the main business thrusts in the future. Our second offshore installation vessel CP-16001 (jointly owned with Kajima Corporation and Yorigami Maritime Construction) was completed in 2023 and started operations in the Kitakyushu area. In FY 3/26, the upgrade of our third offshore installation vessel Sea Challenger (jointly owned with DEME Offshore) with a 1,600t lifting crane will be completed. She is scheduled to start operations in FY 3/27. Further, we are currently discussing the construction of other vessels, including a Heavy Lift Vessel (HLV) and a Cable Laying Vessel (CLV), aiming at their completion in FY 3/28. The full-scale construction of offshore wind farms in Japan is expected to commence in 2027, contributing to our sales.

### ● Shareholder Returns

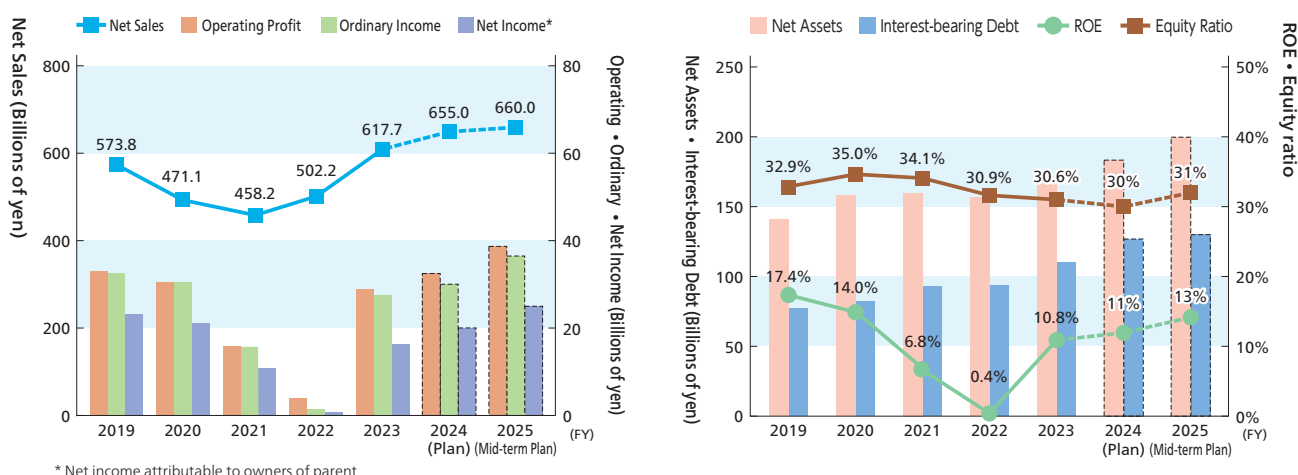
In terms of shareholder returns, we set new targets of a total payout ratio (consolidated) of 40% or higher, and a dividend payout ratio of 30% or higher, in FY 3/25. Further, at the Ordinary General Shareholders Meeting held in June 2024, we amended the Articles of Incorporation to distribute dividends of surplus (interim dividend) as stipulated in Paragraph 5, Article 454 of the Companies Act, in addition to the annual year-end dividend, upon resolution of the Board of Directors.

## 》Management Targets (Consolidated)

### Management Targets (FY 3/26)

Net Sales	Ordinary Income	Net Income	ROE (return on equity)	Shareholder return (total return ratio)
FY 3/24 result ¥617.7 billion	FY 3/24 result ¥27.2 billion	FY 3/24 result ¥17.9 billion	FY 3/24 result 10.8%	FY 3/24 result 49.6% (Of which, dividend payout ratio accounts for 38.4%.)
▼	▼	▼	▼	▼
¥ <b>660</b> billion	¥ <b>36.5</b> billion	¥ <b>25</b> billion	<b>10%</b> or higher	<b>40% or higher</b> (Of which, dividend payout ratio accounts for 30% or higher.)

### Trends/Projection of KPI (Consolidated)



## 》Investment and Financial Plan (Consolidated)

Investment Plan	Financial Plan
<ul style="list-style-type: none"> <li>○ Capital Investment: Approx. JPY 30 bn/year <ul style="list-style-type: none"> <li>● Construction of large-scale work vessels for offshore wind construction</li> <li>● DX and GX for work vessels</li> </ul> </li> <li>○ R&amp;D investment: approx. JPY 3 billion/year <ul style="list-style-type: none"> <li>● Strengthening technological development to promote DX and GX</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>○ Balance of debt with interest: JPY 130 bn (FY 3/26)</li> <li>○ Funding due to increasing business volume <ul style="list-style-type: none"> <li>● Funding in response to capital investment toward expansion of offshore wind construction</li> <li>● Funding in response to working capital needs due to increasing business volume</li> </ul> </li> <li>○ Countermeasures against foreign exchange risk <ul style="list-style-type: none"> <li>● Strengthen efforts for balancing foreign currency-denominated receivables and payables</li> <li>● Execution of cost-effective FX hedging (utilization of borrowings in foreign currencies)</li> </ul> </li> </ul>

## 》Targets and Basic Strategies by Business Units (Consolidated)

Domestic Civil Engineering Business Unit	Domestic Building Construction Business Unit	International Business Unit
Achieving sustainable business expansion with high engineering capabilities	Strengthening management base eyeing sustainable business expansion	Recovery of the International Business Unit and steps towards its sustainable development
Final year targets (FY 3/26)	Final year targets (FY 3/26)	Final year targets (FY 3/26)
<ul style="list-style-type: none"> <li>● Net sales ¥265 bn</li> <li>● Gross profit margin 16.6 %</li> <li>● Operating profit ¥30.7 bn</li> </ul>	<ul style="list-style-type: none"> <li>● Net sales ¥215 bn</li> <li>● Gross profit margin 6.0 %</li> <li>● Operating profit ¥4.8 bn</li> </ul>	<ul style="list-style-type: none"> <li>● Net sales ¥170 bn</li> <li>● Gross profit margin 2.9 %</li> <li>● Operating profit ¥2.2 bn</li> </ul>

## Penta-Ocean Museum

In 2021, we celebrated the 125th anniversary of the company's founding. To commemorate the occasion, we established the Penta-Ocean Museum inside our Institute of Technology, which is located in Nasu Shiobara-City, Tochigi Prefecture. The museum, open for visitors since July 2024, serves as a hub to communicate our CSR activities and the history of overcoming challenges by practicing pioneering spirit, by depicting three major themes of "History of Challenges", "Global" and "Creation of Technologies". As the symbol of our pioneering spirit, which is our corporate DNA, the cutterhead of a cutter suction dredger used for the Suez Canal Dredging Project at the front of the museum entrance to welcome visitors. The Suez Canal Dredging Project is an iconic project which spearheaded our expansion to global markets. The museum showcases POC's history of challenges over the past 125 years driven by our pioneering spirit and allows visitors to have hands-on experience on future innovations in new fields and technologies. It will be actively used as a platform to enhance our corporate brand and disseminate our corporate philosophy.



Dialogue with Misako Konno



Only  
available in  
Japanese

## In Conclusion

By placing sustainability management at the heart of our corporate management, and by ensuring close corporation with all our officers, employees as well as our subcontractors, Penta-Ocean Construction Group

will strive to promote sustainable construction business activities from an ESG (Environment, Social and Corporate Governance) perspective. We would appreciate your continuous guidance and support.

