

Message from the President

Promoting Sustainability Management under the Slogan of “Sustainability Initiatives Start on Site”



Takuya Shimizu

President,
Chief Executive Officer and
Representative Director

Penta-Ocean Construction was founded in 1896 as Mizuno-gumi in Kure City, Hiroshima Prefecture, and we recently celebrated the 129th 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 ventures 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. During the past four years, we have experienced a downturn in profitability due to construction losses posted in the International Business Unit. Nevertheless, a substantial increase in business volume in domestic civil engineering and building construction segments propelled our consolidated net sales beyond the ¥700 billion threshold for the first time in FY 3/25. Looking ahead to FY 3/26, which is the final year of our current Medium-term Management Plan, profits are projected to reach a new record high, in line with our initial plan. Our aspiration is to grow and evolve into a company where all three business units contribute to profitability in a well-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 is defined by the absence of barriers among the three business units (Civil Engineering, Building Construction and International), enabling their seamless inter-departmental collaboration. Moreover, Diversity, Equity and Inclusion (DE&I) are deeply embedded in its corporate culture, and employees of diverse backgrounds can thrive equally and continue growing, regardless of nationality, gender, or field of expertise.

Our belief, “The Greatest Contribution to Society is the Construction of High-quality Infrastructure,” is profoundly ingrained in our construction business activities. Not only do we strive to deliver reliable safety and quality backed by advanced technologies, but we will also earnestly endeavor to tackle all sustainability issues from an ESG perspective, across all aspects of our business. With this conviction, we are committed to fostering sustainable development of society, 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 environment)

Under the current Medium-term Management Plan (FY3/24-FY3/26), which was disclosed in May 2023, we set forth our new corporate vision of becoming a “Genuine Global General Contractor” who practices sustainability management. Toward this objective, we are genuinely committed to tackling sustainability issues from a global perspective in all our business and corporate activities. By fostering close cooperation with our subcontractors and business partners in pursuit of sustainable construction activities, we aim to achieve long-term and stable growth of our group. To this end, we have identified eight Materiality issues from an ESG perspective and developed structures and frameworks to promote sustainability management. From FY 3/25, under the slogan of “Sustainability Initiatives Start on Site”, we are working to entrench sustainability management across all our branches and construction sites both at home and abroad. In exploring sustainability management, integrity in corporate activities is paramount, and all executives and employees must uphold high ethical standards and the spirit of compliance. Beyond ensuring strict compliance with laws and regulations, we are committed to conducting fair and honest corporate activities by making further efforts to foster fair competition, transparency, and accountability. In order to instill sustainability management throughout our corporate group and its extended network of subcontractors and business partners, we display posters outlining our Corporate Philosophy Structure (Management Philosophy, Vision, Materiality and Code of Conduct) throughout our domestic and international offices and sites. Furthermore, in FY 3/25, a new program of weekly “Sustainability Morning Briefings” has been implemented across all domestic POC and the group companies' sites, in which participants share specific initiatives aimed at promoting

sustainability management. Overseas, we introduced the “Sustainability Awards” in Singapore, through which management formally acknowledges and honors employees for their sustainability initiatives. The above efforts will be extended to our domestic and other international offices starting in FY 3/26. Another key pillar of sustainability management is embracing respect for individuals and human rights. While making further efforts to ensure occupational health and safety in line with our motto of “Safety as the top priority”, we will further advance our specific measures for “Respecting Human Rights and Building Sustainable Supply Chain”, which is one of the aforementioned Materiality issues. With regard to respect for human rights, our initiatives in FY 3/25 encompassed the evaluation of improvement plans based on the results of human rights monitoring, along with active engagement in human rights dialogues. Furthermore, our human rights due diligence process, which was primarily targeted for POC Group, was extended to include our business partners. From FY 3/26 onwards, we will implement specific measures tailored to address the issues identified through our extended human rights due diligence process, and carry out regular monitoring of these measures. In an effort to develop sustainable supply chains, we invited our major business partners to complete a self-assessment questionnaire (SAQ) and conducted follow-up visits based on the results. In order to develop sustainable supply chains, it is our responsibility to ensure fair contract pricing which appropriately reflects labor and material costs to subcontractors and business partners. We will undertake the above initiatives so we can build trustful relationships with our subcontractors and business partners to practice sustainable construction activities.

As a human capital strategy to support increasing business volume, we endeavor to secure and foster diverse human resources and promote DE&I to create a workplace where employees with diverse backgrounds, regardless of nationality, gender or field of expertise, etc. can work together on an equal footing. To support employees in taking planned vacations and rest days, we strive to ensure strict compliance with the overtime cap regulations by encouraging the acquisition of two days off per week and maintaining overtime hours within 45 hours every two months. Furthermore, by implementing measures including: 1. promotion of Digital Transformation (DX) by



Sustainability Morning Briefings

way of proactive use of BIM/CIM and AI, 2. automation and autonomous operation of construction machinery and work vessels, and 3. adoption of precast concrete, we aim to further improve productivity, introduce labor-saving technologies, and enhance support for construction sites. 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 CO₂ emissions in construction activities and advancing the construction of offshore wind farms and net zero energy buildings (ZEB), we will actively contribute to achieving carbon neutrality.



Sustainability Awards (Singapore)

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

In FY 3/25, domestic business volume significantly increased in both civil engineering and building construction segments, with net sales surpassing ¥700 billion for the first time. In FY 3/26, which is the final year of the current Medium-term Management Plan, we expect to renew record-high profits in accordance with our original plan, by pursuing business strategies that convert increased business volume into greater profitability and enhanced corporate value.

Review of FY 3/25

In FY 3/25, the domestic construction market was favorable thanks to the Japanese Government's seamless execution of the FY 3/24 supplementary budget and the FY 3/25 initial budget. Steady public investment continued supported by initiatives such as the Five-Year Acceleration Plan for Disaster Prevention, Disaster Mitigation and National Resilience, as well as defense-related infrastructure development and other projects. Furthermore, construction investment remained robust in both public and private sectors, driven by increases in private capital investment from the perspectives of economic security and the promotion of Carbon Neutral (CN). In contrast, the industry suffered from persistently high material prices, as well as labor shortages, particularly among Mechanical & Electrical contractors operating in high-demand construction regions. Overseas, although construction demand was firm in our main markets of Singapore, Hong Kong and other countries in Southeast Asia, material prices remained high and labor costs continued rising, a trend also observed in Japan. Under this business environment, our consolidated net sales for FY 3/25 reached a record high of ¥727.5 billion (up 17.8% year-on-year). On the profit front,

operating profit was ¥21.7 billion (down 25.6% year-on-year), ordinary income was ¥18.8 billion (down 30.8% year-on-year), and net income attributable to owners of the parent was ¥12.5 billion (down 30.3% year-on-year). Although the domestic civil engineering and building construction segments achieved growth in both sales and profits thanks to the smooth progress of projects at hand including large-scale projects, profits saw significant year-on-year declines due to additional construction losses of ¥16 billion posted overseas, more particularly in civil engineering projects in Singapore and Hong Kong. Orders received for the domestic civil engineering segment showed a decline reflecting the order received in the previous term for additional works related to a large-scale project. However, orders for large-scale projects in the domestic building construction segment including a data center and national defense-related facilities, as well as for a large-scale building construction project in Singapore and a large-scale port construction project in Bangladesh in the International Business Unit, contributed to construction orders received (unconsolidated) of ¥667 billion (up 12.6% year-on-year).

Outlook for FY 3/26

For FY 3/26, the domestic construction market is projected to generate steady public investment including national resilience measures, thanks to the Japanese Government's seamless execution of the FY 3/25 supplementary budget and the FY 3/26 initial budget combined. Civil engineering and building construction projects related to enhancing defense capabilities are also expected to increase. In the private sector, we expect to witness an increase in capital investment associated with supply chain resilience enhancement, particularly from the standpoint of economic security, as well as the promotion of Carbon Neutrality (CN), on top of demands for logistics facilities, data centers and urban redevelopment projects. In overseas markets, robust construction demand is expected to continue in Singapore, our international business hub, as well as in Hong Kong and other countries in Southeast Asia. Both at home and abroad, we will be faced with challenges including hikes in material prices, supply constraints, as well as skilled worker shortages in certain regions and work types. Under the slogan of “Sustainability Initiatives Start on Site”, we will promote sustainable construction activities in tandem with our subcontractors and business partners, and achieve stable profit growth through business expansion by implementing targeted marketing strategies backed by technology and front-loading initiatives.

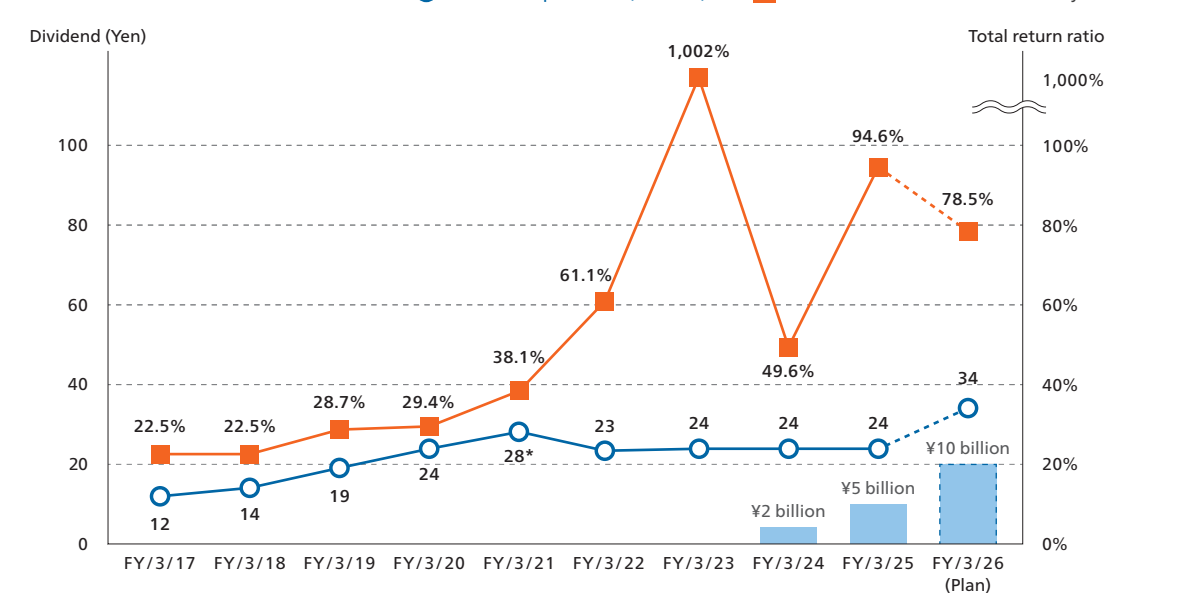
In terms of consolidated business results for FY 3/26, which is the final year of our current Medium-term Management Plan, net sales is projected to be almost on par year-on-year, at ¥727 billion, thanks to the smooth progress of large-scale projects at hand both at home and abroad. Profitability is projected to reach a record high of ¥25 billion in net income attributable to owners of the parent, driven by improved profit margins in both domestic civil engineering and building construction projects, as well as by the turnaround to profitability of the International Business Unit. This projection aligns with the original target outlined in the Medium-term Management Plan. Furthermore, as part of our capital investment in offshore wind construction, which is a field we regard as a key strategic focus for the future, we have started the construction of two vessels in FY 3/25: a Heavy Lift Vessel (HLV) and a Cable Laying Vessel (CLV). In the Kitakyushu Hibikinada Offshore Wind Farm Project, the foundation works were completed by FY 3/25. In the first half of FY 3/26, we successfully completed installation of 25 wind turbines and cable laying works. In preparation for the start of full-scale construction of domestic offshore wind farms in FY3/28, we are steadily expanding our fleet and continuously building expertise while advancing related technologies, as a “Front-runner in Offshore Wind Construction”.

Shareholder returns

In terms of shareholder returns, our targets in the current Medium-term Management Plan (FY3/24-FY3/26) were a total payout ratio (consolidated) of 40% or higher, which comprises a dividend payout ratio of 30% or higher, and a payout ratio of approximately 10% through acquisition of treasury stock. In order to practice corporate management with greater emphasis on capital cost and stock price performance, we launched a new initiative in FY 3/26 designating the next three years as a period for enhancing corporate value by delivering more attractive shareholder returns. The new shareholder return targets are: 1. a consolidated dividend ratio of 35 % or higher, 2. share repurchases worth approximately ¥30 billion (for three

consecutive years from FY 3/26). More specifically, we intend to execute annual share repurchases totaling ¥10 billion - ¥5 billion in each half of the fiscal year (the interim period commencing from the second half of a fiscal year, and the fiscal period commencing from the first half of the following fiscal year). This corresponds to 40% of our FY 3/26 net income target of ¥25 billion, contributing to a consolidated payout ratio of 40%. Moreover, we plan to continue share repurchases on a regular basis after FY 3/29, while taking into account financial requirements for construction projects and growth investments related to offshore wind construction, etc. Therefore, the combined total payout ratio of 1. and 2. will be 75 % or more.

Transition of Shareholder Returns



* The dividend for FY3/21 includes the 125th anniversary commemorative dividend of 5 yen.

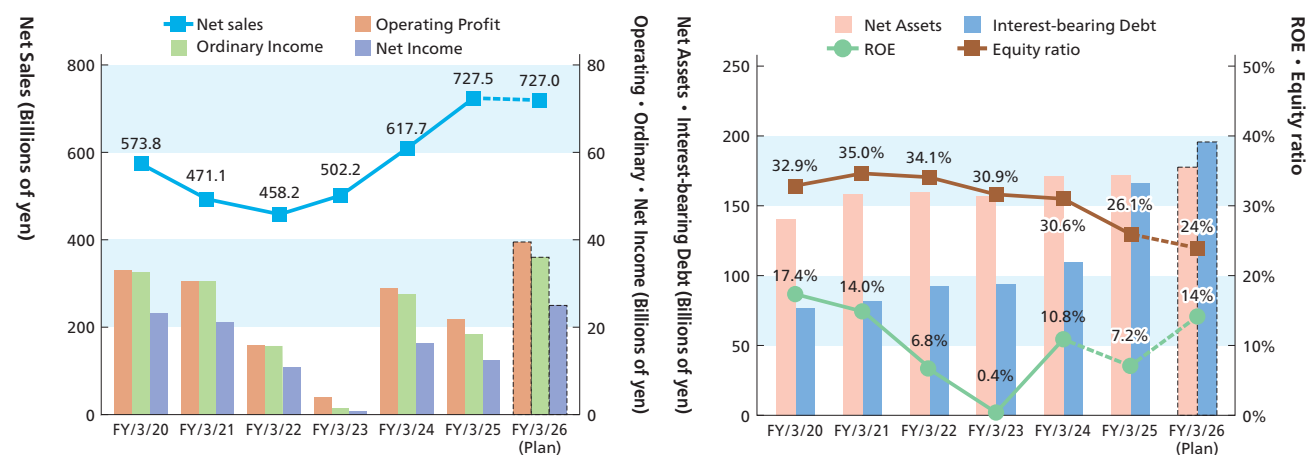
Main Management Targets (Consolidated)

Management Targets (FY 3/26)

Net Sales	Operating Profit	Net Income	ROE (return on Equity)	Shareholder Return (total return ratio)
FY 3/25 result ¥727.5 billion	FY 3/25 result ¥21.7 billion	FY 3/25 result ¥12.5 billion	FY 3/25 result 7.2%	FY 3/25 result 94.6% (of which, dividend payout ratio accounts for 54.5%)
¥727 billion	¥39.5 billion	¥25 billion	10% or higher	78.5% (of which, dividend payout ratio accounts for 38.5%)
Original ¥660 billion	Original ¥38.5 billion	Original ¥25 billion	Original 10% or higher	Original Total return ratio 40%

Net income: Net income attributable to owners of the parent
Original: At the time of formulation of the Medium-term Management Plan in May 2023

Trends in Key Figures (Consolidated)



Investment Plan & Financial Plan (Consolidated)

Investment Plan	Financial Plan
- Capital investment: Approx. ¥100 billion/3 years - Third offshore installation vessel, Heavy Lift Vessel (HLV), Cable Laying Vessel (CLV) - Response to DX and GX in work vessels - R&D investment: approx. ¥3 billion/year - Strengthening technological development to promote DX and GX	- Balance of debt with interest: ¥196.5 billion (FY3/26) - Increased working capital needs to support larger business volume - Improvement in cashflow from operating activities as we started receiving construction fees - FY 3/26 is the peak of funding needs related to newbuilds for offshore wind construction - Various funding strategies are utilized such as joint vessel holding with Fuyo General Lease or the loans under the FILP scheme

Targets and Basic strategies by Business Units (Consolidated)

Domestic Civil Engineering Business Unit	Domestic Building Construction Business Unit	International Business Unit (Overseas)
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
FY 3/26 targets	FY 3/26 targets	FY 3/26 targets
- Net sales ¥285 bn - Gross profit margin 14.6% - Operating profit ¥26.5 bn	- Net sales ¥260 bn - Gross profit margin 7.3% - Operating profit ¥10 bn	- Net sales ¥167 bn - Gross profit margin 2.7% - Operating profit ¥2 bn

Commemorative Ceremony for Celebrating the 60th Anniversary of Entering into Singapore

In celebration of the 60th anniversary of our presence in the Singapore market, we hosted a commemorative ceremony on December 6, 2024, which was attended by over 900 guests (approximately 600 locally-hired POC employees, as well as clients, business partners and subcontractors). The ceremony featured a variety of events, including a video presentation showcasing POC's 60-year history in Singapore, a traditional sake-barrel breaking, and a vibrant dragon dance performance. These

activities helped strengthen partnership with the participants. In a tough and competitive Singapore market, we have an established track record of leveraging our technological capabilities to deliver highly complex projects successfully and safely. By continuing to address technological challenges and advancing sustainable construction practices, we aim to earn the trust of local clients and business partners, thereby driving sustainable growth of our business in Singapore.



Commemorative ceremony in Singapore

In Conclusion

Under the slogan of "Sustainability Initiatives Start on Site", Penta-Ocean Construction Group will strive to promote sustainable construction activities from an ESG (Environment, Social and Governance) perspective, by fostering close collaboration with subcontractors and business partners. We would appreciate your continued guidance and support.

