

Message from the President

During the fiscal year ended March 31, 2012, manufacturing recovered in Japan following the restoration of the domestic supply chain, which had been affected by the Great East Japan Earthquake. However, a slowdown in the global economy caused by Europe's debt problems and the impact of the stubbornly high yen created a situation in which it would take some time before a full-fledged recovery took hold in Japan.

In the domestic construction industry, the implementation of the national budget for restoration and recovery projects related to the Great East Japan Earthquake led to projections of an increase in public works projects. Residential investment, which had slowed in the aftermath of the earthquake, showed signs of recovering, particularly in metropolitan areas. Still, investment levels as a whole remained low. Efforts to restore the supply chain created some capital investment demand, and investment levels were low, reflecting uncertain economic trends. Meanwhile, construction demand was strong in the Penta-Ocean Construction Group's main overseas markets in Southeast Asia, mainly in the area of social infrastructure development.

In this business climate, the Group is targeting continued growth as the "No. 1 contractor in coastal and waterfront areas," and is striving to achieve the goals of its Medium-Term Management Plan. As a result, the Group's consolidated net sales came to ¥328,005 million (US\$3,990.8 million), an increase of 8.5% year-on-year. Operating income amounted to ¥8,983 million (US\$109.3 million), a decrease of ¥8.2 million year-on-year, and ordinary income totaled ¥7,448 million (US\$90.6 million), an increase of 0.2% year-on-year. The Group recorded income before income taxes and minority interests of ¥6,308 million (US\$76.7 million), an increase

of 14.4% year-on-year. Consolidated net income came to ¥1,622 million (US\$19.7 million), a decline of 25.0% year-on-year.

Penta-Ocean's Medium-Term Management Plan (2012-2014) sets forth diverse and stable funding as one of the basic strategies for strengthening the Group's business foundation. As part of this effort, we completed our first offering of unsecured bonds amounting to ¥10,000 million (US\$121.7 million) in October 2011. The proceeds will be used to repay loans.

Looking at the domestic construction market in the fiscal year ending in March 31, 2013, we anticipate the steady implementation of major projects that will allow the Group to make full use of its strengths. These include disaster recovery-related public works projects, which are being implemented in spite of Japan's fiscal challenges, and projects related to the development of strategic international ports and remote islands. While we expect to see a gradual recovery in private-sector construction projects, actual conditions will be heavily influenced by economic trends. Careful monitoring of such factors as exchange rates and the electricity supply are therefore necessary.

Elsewhere, the Group expects infrastructure development and the construction of medical and educational facilities to remain strong in Singapore, Hong Kong and other Southeast Asian markets.

The Penta-Ocean Group's corporate message is "Going Further." These words embody the future vision we must strive for, and our resolve as we face tomorrow. As the No. 1 frontrunner in coastal and waterfront areas, we will aim to enhance our corporate value, to develop and grow in a sustainable manner that harmoniously blend with the society and to be an attractive business, all while keeping our sights firmly fixed on "Going Further" and even beyond.



Y. Murashige

Yoshio Murashige,
President, Chief Executive Officer and Representative Director

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

Questions and Answers with President Murashige

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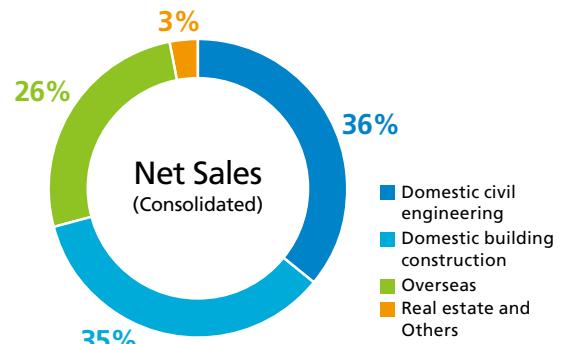
What is the composition of net sales for the period?

A

The Penta-Ocean Group's net sales consist predominantly of construction projects, which is approximately 97% of the total. Roughly 3% of sales is derived from real-estate development, shipbuilding, equipment leasing, and sales of finished goods, which make up the bulk of the business labeled "Real Estate and Others."

Explanation

Net sales from domestic civil engineering works fell slightly below the previous year's level, while domestic construction was sharply higher. Overseas construction, meanwhile, was little changed from the previous year. As a result of these developments, consolidated net sales amounted to ¥328.0 billion yen, up a significant ¥25.7 billion yen (8.5% increase) year-on-year. The Japanese government's procurement of restoration and recovery projects related to the Great East Japan Earthquake peaked at the end of the fiscal year, and did not contribute to the Group's 2012 sales.



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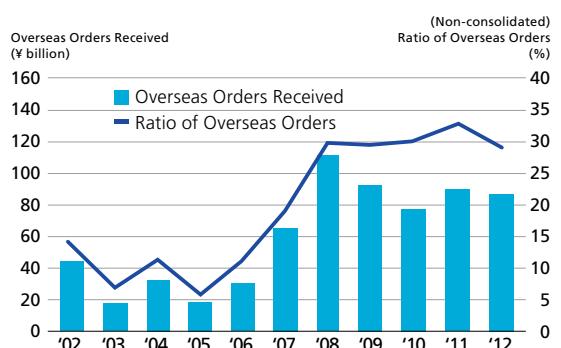
It appears that Penta-Ocean has enjoyed strong performance in overseas orders for the past several years. Does the Group plan to continue its aggressive expansion overseas?

A

The Penta-Ocean Group's highest priority, in our international operations as well as in our other businesses, is securing profits. We are aiming for a gradual expansion in business volume.

Explanation

The Penta-Ocean Group's overseas expansion began in 1957. Now more than half a century, when we provided technical assistance for Goa Port in India. From the 1960s and '70s, the Group took part in numerous major overseas projects, including improvements of the Suez Canal and land reclamation projects in Singapore. We currently have offices in Singapore and Hong Kong, and in recent years we have been developing new bases in Vietnam and elsewhere. Orders received have been solid for the past several years, but in the end our top priority is securing profit. We established our World Operation Center in April 2011, which handles inquiries and management of all matters ranging from tenders to construction, and works to eliminate risk and ensure profit.



Q

The Company has been reducing its interest-bearing debt in an effort to improve its financial well-being. What are the specific targets?

A

Our aim is to achieve a consolidated interest-bearing debt balance of ¥67.2 billion or less and a D/E ratio of 1.0% or less at the end of the fiscal year ending in March 31, 2014.

Explanation

Penta-Ocean's core business both in Japan and overseas lies in marine civil engineering works. This necessitates capital investment in specialized equipment such as large-scale dredgers and soil improvement vessels. We carry out a large portion of our capital investment using loans from financial institutions, so our interest-bearing debt is high relative to total assets. Reducing our interest-bearing debt and strengthening our capital base to improve our financial health are matters of utmost urgency. In the fiscal year ended March 31, 2012, our interest-bearing debt balance increased slightly because we issued ¥10.0 billion worth of corporate bonds. Looking ahead, we will continue our efforts to reduce our interest-bearing debt in order to achieve a robust financial constitution. Specifically speaking, our goal at the end of the fiscal year ending 2014 is for a consolidated interest-bearing debt balance of ¥67.2 billion or less and a D/E ratio of 1.0% or less.

