

IR Presentation FY2005

Medium-term Management Program Evolution 21

Sept-2005



■ About Penta-Ocean

● Introduction of Penta-Ocean

Penta-Ocean Construction Co., Ltd. (POC) is one of the leading comprehensive construction companies in Japan, with 25 subsidiaries and 5 affiliates comprising the Penta-Ocean Group worldwide. Our business activities have been diversifying from a marine construction field with a century track record to other construction and engineering fields such as land civil engineering and building construction works both at home and abroad.

We are now embarking on a new stage in our history, as we successfully completed the medium-term management program “Challenge21” in FY2004 and began the new program “Evolution21”. In “Challenge 21”, we succeeded in a group-wide restructuring that improved our profitability and financial soundness. “Evolution21” is aimed to increase our earning potential and to make strategic moves for further development in our construction-related business activities in the coming future. Further efforts to improve our financial condition will be made. We intend to resume the payments of dividends at the earliest stage during this program.

● Corporate Data

Head Office: 2-8 Koraku 2-chome, Bunkyo-ku,
Tokyo 112-8576, Japan

Established: April 1896

Financial Year: April 1 to March 31

Number of Common Stock Issued: 395,264,852

Paid-in Capital: 20,570 millions of yen
(as of March 31, 2005)

Employees: 2,965 (as of March 31, 2005)

● Board of Directors and Auditors

President: Kazujiro Tetsumura*

Directors: Yoshio Murashige*,

Kazuyuki Kawakami*,

Hayuru Tsuda,

Toshinori Tajimi,

Jyunichi Kamise,

Kosuke Kondo,

Yoshihisa Takimoto,

Masafumi Saito,

Yoshihisa Tomoda

(External director)

Corporate Auditors:

Hirosuke Kawamoto, Kaoru Kurokawa,

Keiji Yokooji, Yoshiteru Iwasaki

*Representative Director(as of June 29, 2005)



Penta-Ocean Group

● Penta-Ocean Group

- Penta-Ocean Group has 25 consolidated subsidiaries and 5 consolidated affiliates.
- POC accounts for approximately 90% of consolidated net sales and profit.
- Construction accounts for 97% of total consolidated sales.
- 89% of total net sales are domestic.

【Penta-Ocean Group】		Net Sales (¥bn)	Number of Employees
Penta-Ocean Construction Co.,Ltd.		317.4	2,965
Consolidated Subsidiaries (25 Companies)			719
Penta-Ocean Dredging Co.,Ltd.	Civil	18.2*	335
Yoshin Construction Co.,Ltd.	Civil	16.0*	155
Kyushu-Yoshin Construction Co.,Ltd.	Civil	2.9*	53
Penta Builders Corporation	Building	5.6*	37
Penta Builders Nishi-Nippon Corporation	Building	1.4*	16
Kegoya Dock Co.,Ltd.	Ship Building	4.9*	32
Others (Domestic) (5 Companies)			91
Others (Overseas) (14 Companies)			—
Consolidated Affiliates (5 Companies)			
Consolidated Total		345.3	3,684

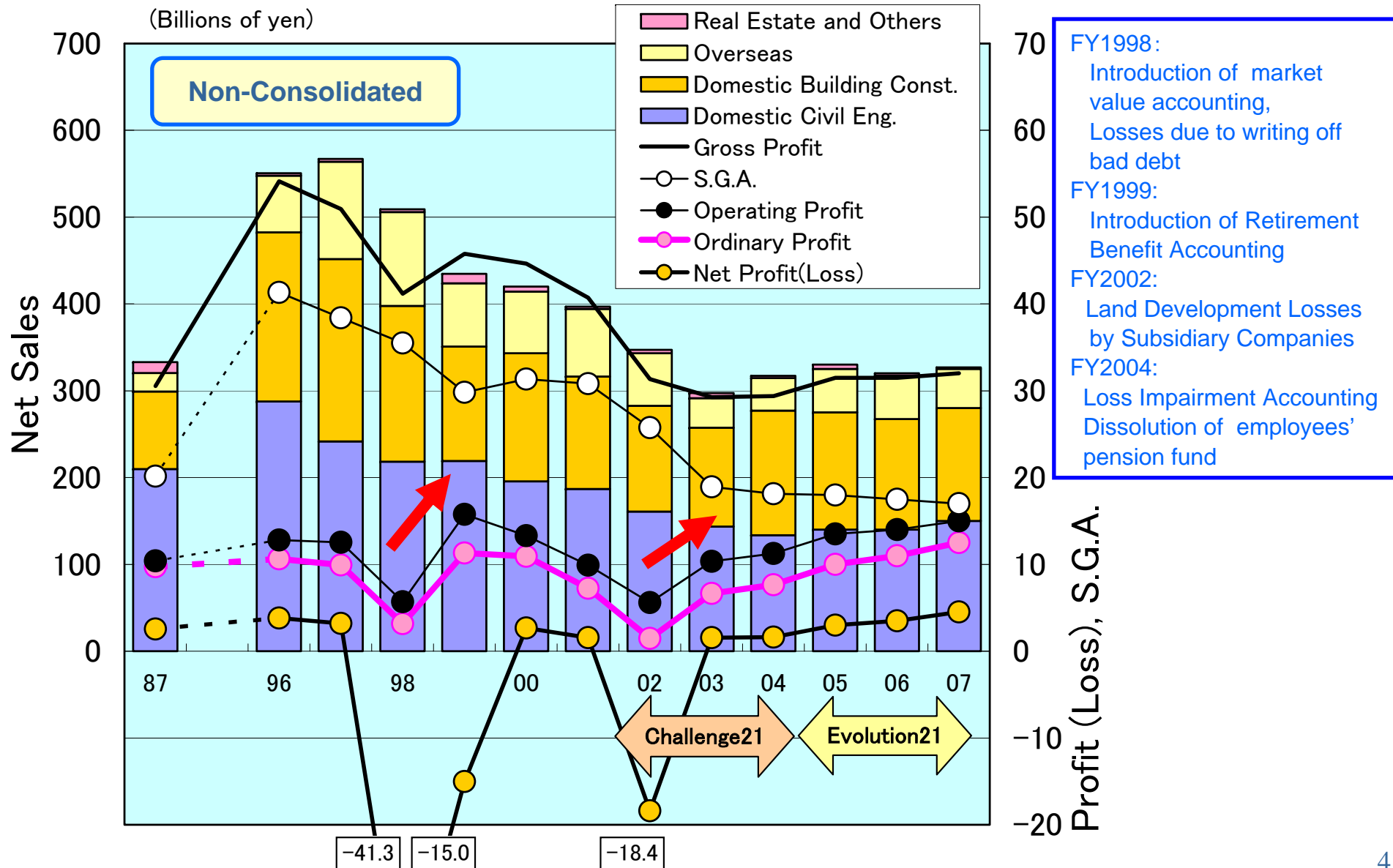
* net sales of individual subsidiaries

(Billions of yen)

【 P/L (FY3/05) 】	Consolidated ①		Non-Consolidated ②		Subsidiaries ①—②	①/②
Net sales	345.3		317.4		27.9	1.09
Gross profit	32.0	9.3%	29.4	9.3%	2.7	1.09
Selling, general and administrative expenses	20.0	5.8%	18.1	5.7%	1.9	1.11
Operating profit	12.0	3.5%	11.3	3.5%	0.7	1.07
Ordinary profit	8.9	2.6%	7.6	2.4%	1.2	1.16
Net profit	2.4	0.7%	1.6	0.5%	0.7	1.46

【 Net Sales (FY3/05) 】	Consolidated	
Construction	334.8	97.0%
Real estate development	2.4	0.7%
Others	8.1	2.3%
Total	345.3	100.0%

Business Performance (FY1996-FY2007)



■ Review of “Challenge 21”

Medium-term Management Program “Challenge21”(FY3/03~FY3/05)

successfully completed with better-than-expected results and achieving both profit and financial targets.

● Income

- **Orders received /Net sales**: bottoming out
- **V-shaped recovery of profits**:
Profit-focused management ⇒ Successful improvements in profitability,
especially in the Domestic Building Const. sector.
Corporate downsizing and cost reduction efforts

● Financial Standing

- ① **Early application of loss impairment accounting in FY3/04**: JPY 8.3bn total
A golf course in Nagasaki Prefecture (JPY 8.2bn) + 12 idle land sites (JPY 0.1bn)
- ② **Decrease in both total assets and interest-bearing debt**
 - Total assets decreased by 19% compared to FY3/02 (Current :-17%, Fixed:-25%)
Sales/write-offs of real estate inventories and land/structures for business use.
 - Interest-bearing debt decreased by 20% compared to FY3/03.
- ③ **Dissolution of employees’ pension fund**: Retirement benefit obligations decreased by 64% and the costs decreased by 49% compared to FY3/03.
- ④ **Restoration of the shareholders’ equity**: Equity ratio at 11.6%
First issue of JPY 5.0bn unsecured convertible bonds with warrants in 2004
(fully converted in Dec.2004)

■ Outline of “Evolution 21”

Medium-term Management Program “Evolution21”(FY3/06～FY3/08)

aimed to increase the earning potential and to make strategic moves for further development of our construction-related business activities in the near future.

● **Basic Policy**

○ **Implement CSR (Corporate Social Responsibility) — *The Compass for Evolution***

- ~Company-wide sharing of management principles and medium-term corporate visions
- ~CSR activities (Compliance, Risk management, Contribution to society through our business)

○ **Increase Earnings of Core Business — *The Strategic Move for Evolution***

- ~Retaining “profit-oriented policy” and “distinction/concentration strategy in the market”
- ~Cultivating promising markets by developing advanced original technologies

○ **Strengthen Business Conditions — *Laying the Groundwork for Evolution***

- ~Further improvement of financial position: Equity finance, Decrease of interest-bearing debt
- ~Continuous cost reduction: Streamlining back office operations (SSC: shared service center)

● **Sector Policy**

○ **Domestic Civil Eng.: *Utilize POC’s technological superiority in waterfront areas***

- ~Development of POC’s brand technologies and marketing efforts to utilize them in the field

○ **Domestic Building Const.: *From turn-around to profitable contribution***

- ~Steady expansion of net sales with emphasis on profitability

○ **Overseas.: *Concentrate on fields most competitive in (marine civil works)***

- ~Generating earnings as one of the leading global marine contractors

■ Targets of “Evolution 21”

(Billions of yen)

	"Challenge21" (FY3/05) ①		"Evolution21" (FY3/08 Target) ②		Growth Rate (②-①)/①
【Income Target】					
	Parent	Consolidated	Parent	Consolidated	Consolidated
Orders received	324.1		285.0		
Net Sales	317.4	345.3	327.0	355.0	3%
Gross Profit	29.4	32.0	32.0	34.8	9%
S.G.A.	18.1	20.0	17.0	18.8	-6%
Operating profit	11.3	12.0	15.0	16.0	33%
Ordinary profit	7.6	8.9	12.5	13.5	52%
Net profit	1.6	2.4	4.5	5.0	112%
【Financial Target (Consolidated)】					
EPS	6.25 (¥)		no less than 10 (¥)		60% or more
Shareholders' Equity Ratio	11.6 (%)		no less than 20 (%)		70% or more
Interest-bearing Debt	165 (¥bn)		less than 110 (¥bn)		less than 30%
	(Ratio to Total Asset) 40.2%		(Ratio to Total Asset) less than 30%		

Income Plan of “Evolution21”

(Billions of yen)

【Non-Consolidated】(①)

	FY3/97	
Domestic civil engineering	252.1	
Domestic building construction	185.3	
Overseas	188.4	
Real estates and others	2.3	
Orders received	628.2	
Domestic civil engineering	287.5	
Domestic building construction	194.9	
Overseas	65.2	
Real estates and others	3.1	
Net sales	550.7	
Gross profit total	54.1	9.8%
Selling, general and administrative expenses	41.3	7.5%
Operating profit	12.8	2.3%
Nonoperating income/expense	-2.2	
Ordinary profit	10.6	1.9%
Extraordinary Gain	2.6	
Extraordinary Loss	1.8	
Profit (loss) before income taxes	11.4	
Net profit (loss)	3.8	0.7%
Number of employees	5,080	

【Consolidated】(②)

	(2/1)	
Net sales	—	—
Operating profit	—	—
Ordinary profit	—	—
Net profit (loss)	—	—
Number of employees	—	—

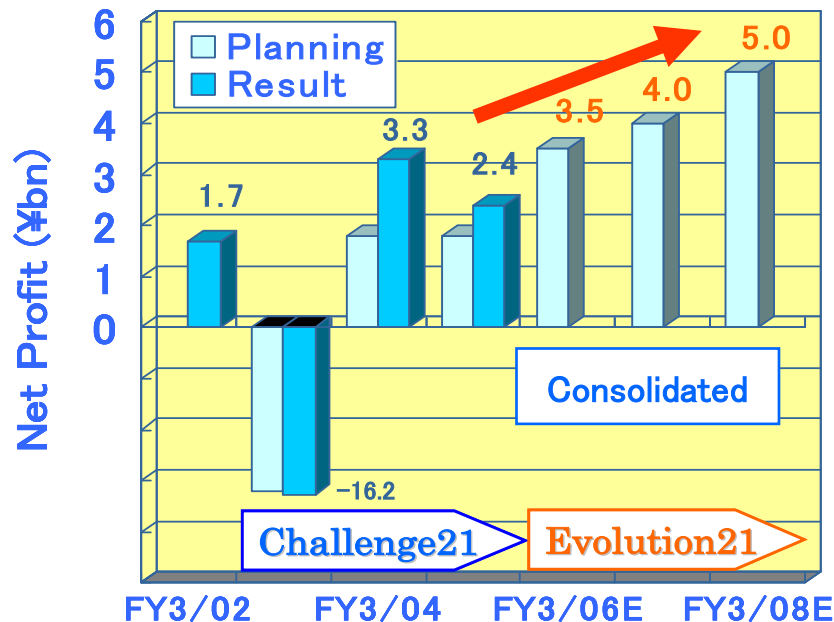
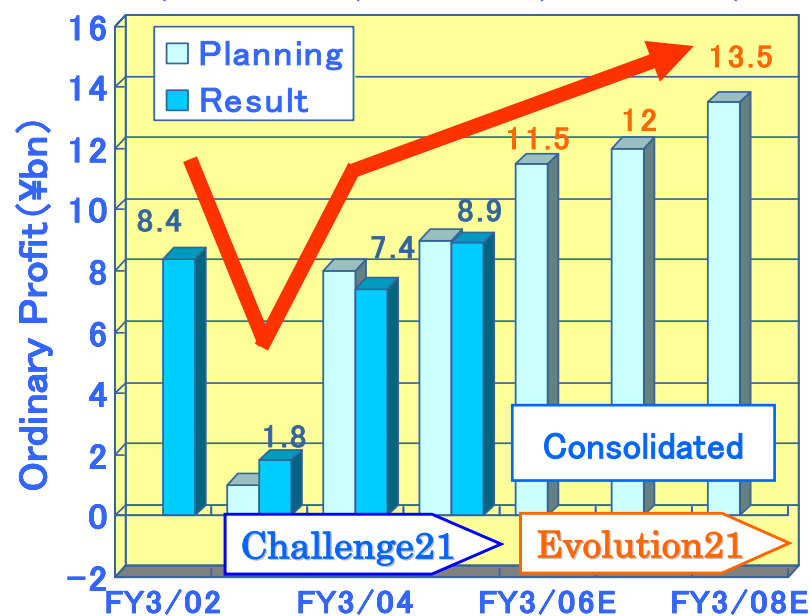
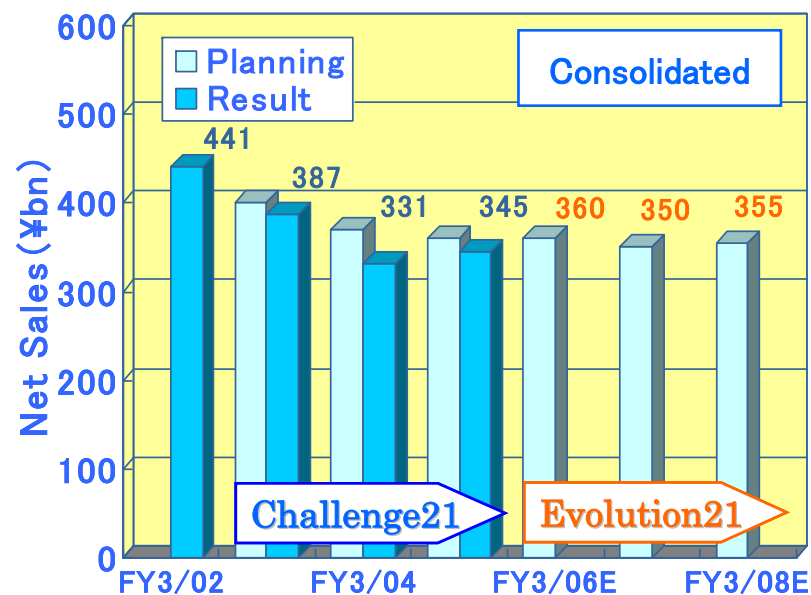
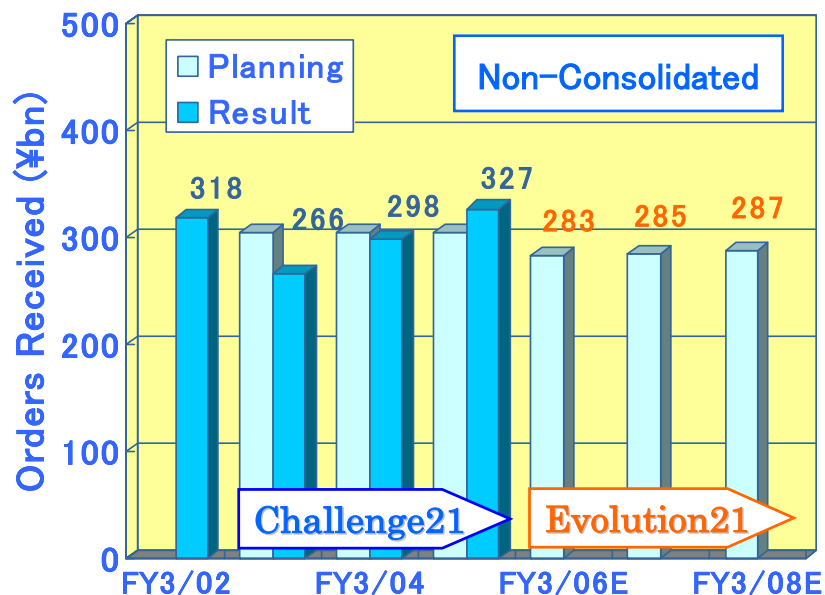
Challenge21

	FY3/02	FY3/03	FY3/04	FY3/05				
Domestic civil engineering	160.0	131.4	143.4	180.8				
Domestic building construction	112.0	110.3	115.9	125.2				
Overseas	44.0	17.7	32.5	18.0				
Real estates and others	2.2	6.2	6.2	2.8				
Orders received	318.2	265.6	298.1	326.9				
Domestic civil engineering	186.8	160.9	143.4	133.5				
Domestic building construction	129.6	121.9	114.0	143.5				
Overseas	77.8	60.5	34.2	37.7				
Real estates and others	2.5	3.9	5.8	2.7				
Net sales	396.7	347.2	297.4	317.4				
Gross profit total	40.7	10.3%	31.3	9.0%	29.3	9.8%	29.4	9.3%
Selling, general and administrative expenses	30.8	7.8%	25.8	7.4%	18.9	6.4%	18.1	5.7%
Operating profit	9.9	2.5%	5.6	1.6%	10.3	3.5%	11.3	3.5%
Nonoperating income/expense	-2.7		-4.1		-3.7		-3.6	
Ordinary profit	7.2	1.8%	1.5	0.4%	6.6	2.2%	7.6	2.4%
Extraordinary Gain	1.7		2.5		2.1		12.9	
Extraordinary Loss	3.4		28.1		3.2		12.7	
Profit (loss) before income taxes	5.6		-24.1		5.6		7.8	
Net profit (loss)	1.6	0.4%	-18.4	-5.3%	1.5	0.5%	1.6	0.5%
Number of employees	3,655		3,121		3,043		2,965	

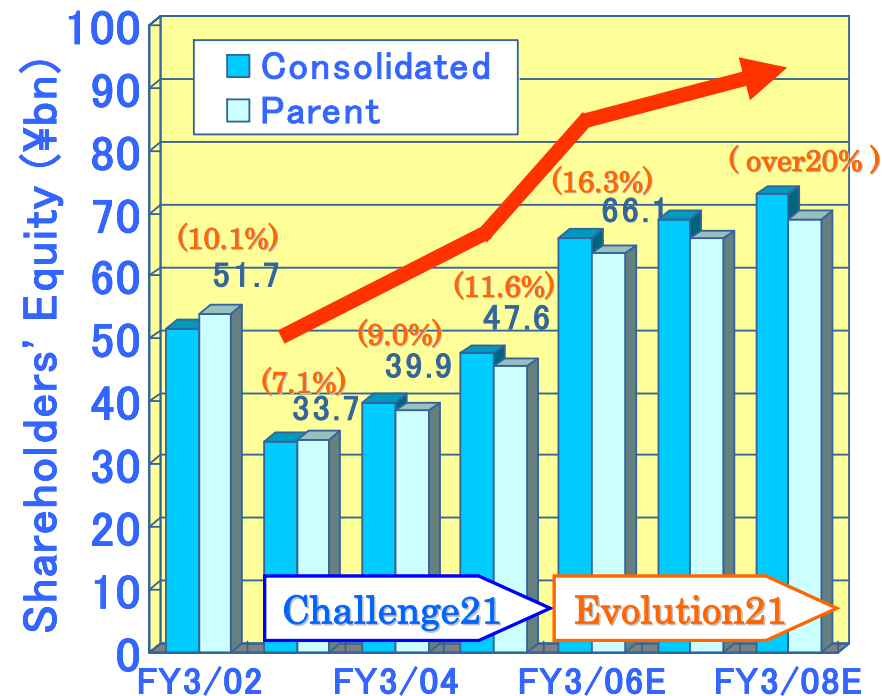
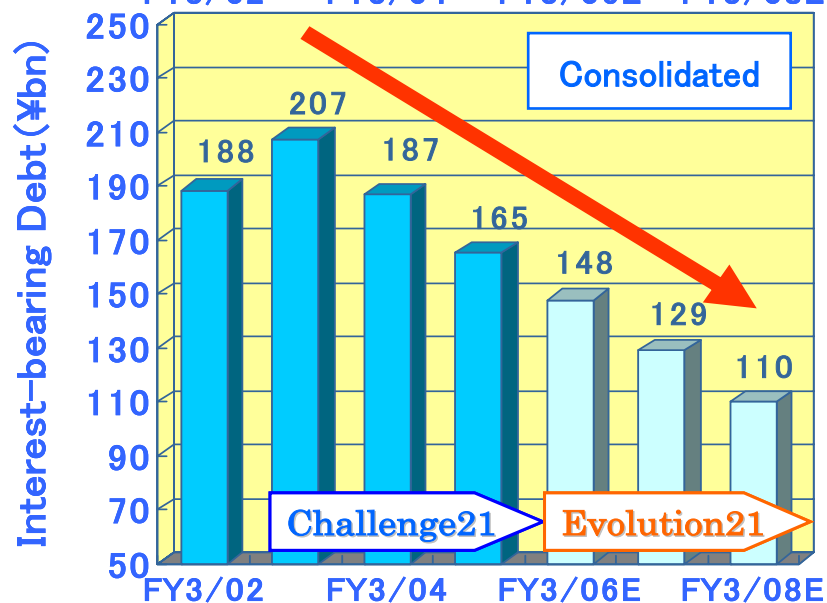
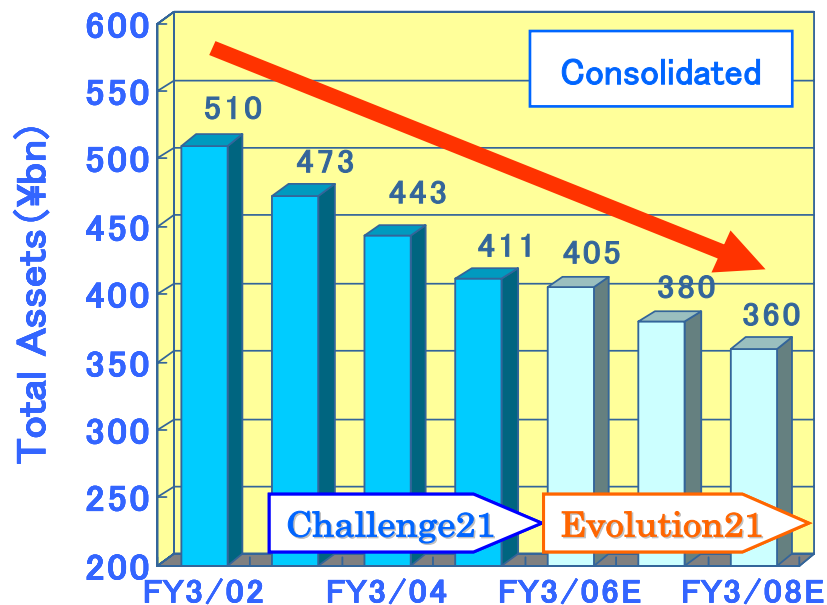
Evolution21

	FY3/06	FY3/07	FY3/08			
Domestic civil engineering	125.0	125.0	125.0			
Domestic building construction	125.0	127.5	130.0			
Overseas	30.0	30.0	30.0			
Real estates and others	3.0	2.5	2.0			
Orders received	283.0	285.0	287.0			
Domestic civil engineering	140.0	140.0	150.0			
Domestic building construction	135.0	127.5	130.0			
Overseas	50.0	50.0	45.0			
Real estates and others	5.0	2.5	2.0			
Net sales	330.0	320.0	327.0			
Gross profit total	31.5	9.5%	31.5	9.8%	32.0	9.8%
Selling, general and administrative expenses	18.0	5.5%	17.5	5.5%	17.0	5.2%
Operating profit	13.5	4.1%	14.0	4.4%	15.0	4.6%
Nonoperating income/expense	-3.5		-3.0		-2.5	
Ordinary profit	10.0	3.0%	11.0	3.4%	12.5	3.8%
Extraordinary Gain	0.0		0.0		0.0	
Extraordinary Loss	2.5		2.5		2.5	
Profit (loss) before income taxes	7.5		8.5		10.0	
Net profit (loss)	3.0	0.9%	3.5	1.1%	4.5	1.4%
Number of employees	2,920		2,870		2,800	

Major Indices in Income Statement



Major Indices in Balance Sheet



Domestic Civil Eng. Sector

● Basic Strategy

- Maintain market standing as a leading marine contractor
- Secure and expand our share in land civil engineering market
- Develop our own brand technologies to be adopted in actual construction projects
- Cultivate promising markets, environment-related works and disaster prevention projects against earthquakes and tsunamis

● Promising Markets

- Environment-related works :
 - Strictly-controlled landfill for industrial waste in the sea area
 - Polluted soil disposal
 - Garbage and sewage plant dismantling
 - Wind-power plants, etc.
 - Disaster prevention and its related renewal works :
 - Liquefaction prevention of foundation ground under the existing structures (oil storage tanks, runways, etc.) (Permeable Grouting Method)
 - Anti-seismic reinforcement of underwater bridge piers (NDR Method: Neo-dry repair method; a temporary construction method)
 - Tsunami disaster prevention, etc.
 - New foundation improvement technologies :
 - Volume reduction of reclaimed soils and waste
 - New shield tunnel technologies :
 - Earth pressure-type sealed shield machines with two different shield units
 - T-shaped junction shield tunnel method
- ⇒ Expecting increase of **JPY 15bn** in orders received, instead of decrease in local government public works

(Non-Consolidated)

(Billions of yen)

【 Orders received 】	FY3/05	FY3/06E	FY3/07E	FY3/08E
Public works	156.5	100.0	100.0	100.0
Private works	24.3	25.0	25.0	25.0
Civil engineering total	180.8	125.0	125.0	125.0
Environment-related works	10.6	12.0	15.0	16.0
Disaster prevention and its related renewal works	3.1	5.5	7.5	8.0
New foundation improvement	0.1	1.5	2.0	4.0
New shield tunnel technologies	0.6	1.0	1.5	2.0
POC's brand technologies	14.4	20.0	26.0	30.0

※POC's brand technologies: Construction works using Penta-Ocean's advanced original technologies

Domestic Building Const. Sector

● Basic Strategy

- Retain the core “Challenge21” strategies such as “profit-oriented, cash flow focus, and distinction and concentration in the market”
- Achieve steady increase in orders under the above policy
- Promote project proposal sales based on real estate information

● Promising Markets

○ Housing:

- Approx.30% of the total orders received
- Introduction of land for condominium buildings will then lead to the proposal of the total business plans including costs of land, construction and sales
- Advanced technology for high-rise condominiums
- Many urban redevelopment projects planned in big city areas such as Tokyo area.

○ Logistic facilities and warehouses:

- Approx.15% of the total orders received, profit-earning sector in building const.
- Technological superiority and many years of experience in building construction on the reclaimed ground
- Many projects in the port area due to convenient connections between road and port logistics

○ Other promising markets:

- Medical facilities
- Food/Medical goods factories
(HACCP: Hazard Analysis & Critical Control Point)

(Non-Consolidated)

(Billions of yen)

【 Orders received 】	FY3/05	FY3/06E	FY3/07E	FY3/08E
Public works	12.0	19.0	18.0	17.0
Private works	113.2	106.0	109.5	113.0
Building construction total	125.2	125.0	127.5	130.0
Housing	40.8	44.0	42.0	40.0
Logistic facilities and warehouses	21.6	16.0	17.0	18.0
Medical facilities	9.5	16.0	17.0	18.0
Food/Medical goods factories	6.0	4.0	5.0	6.0
Environment-related facilities	0.4	5.0	6.0	7.0
Others	46.9	40.0	40.5	41.0
Building construction total	125.2	125.0	127.5	130.0
Renewal works	13.1	15.0	15.5	16.0

※Renewal works are included in building construction works.

Overseas Sector

● Basic Strategy

- Regain profitability along with a complete turnaround under profit-oriented policy.
- Focus on marine civil works, especially “dredging and reclamation”, worldwide from the East Asia to the Middle East, as one of the top10 global marine contractors.
- Select orders carefully with an emphasis on profitability and by taking into account every conceivable risks associated with the particular project.

● Promising Markets

○ Dredging and reclamation :

- Singapore: Bases for working ships such as dredgers and barges.
Reclamation of Jurong Island Phase4 and Tuas View Expansion is in practice (total JPY 110bn; the amount carried over JPY 50bn; FY2000 to FY2008)

Further projects will be expected.

- East Asia and Southwest Asia :

First approach in Taiwan has been realized (Taipei Port; ¥2.1bn; FY2004 to FY2006)

Many promising projects in Taiwan and Thai markets

- Middle East: Markets encompassing Qatar, UAE, etc. are showing positive signs

○ ODA(Official Development Assistance) :

- Southwest Asia, Small Island States in Oceania, Sri Lanka, Africa
- Fishing port, Public Building (grant-aid)
Commercial Harbour (yen-loan)

○ Plant construction (civil and building works) :

- In cooperation with plant engineering companies
- Sales promotion by providing our original advanced technologies

(Non-Consolidated)

(Billions of yen)

【 Orders received 】	FY3/05	FY3/06E	FY3/07E	FY3/08E
Civil Engineering works	16.7	25.0	18.0	25.0
Building construction works	1.3	5.0	12.0	5.0
Overseas total	18.0	30.0	30.0	30.0
Singapore	8.8	16.0	12.0	8.0
Hong Kong	0.0	7.0	7.0	7.0
Indonesia	9.2	2.5	4.5	3.5
Others	0.0	4.5	6.5	11.5
Overseas total	18.0	30.0	30.0	30.0

■ Financial Strategies Implemented in 1Q of 2005

● Issue of Convertible Bonds

- **2nd issue of JPY 15bn unsecured convertible bonds** with warrants on 11 May 2005, entirely allotted to Mizuho Securities Co.,Ltd.
- **Aims:** ①Capital reinforcement ⇒ Equity ratio: no less than 20% in FY3/08
②Financing for operating funds and business investments
- **Purpose for funds:**
 - ①Temporary increase of operating funds in Domestic building const. sector due to increase in orders received
 - ②Investments for working-ship construction and upgrading
 - ③Reduce interest-bearing debt
- **Dilution:** approximately 20% ⇒ Earnings per share (EPS) in FY3/08 will exceed 60% compared to EPS in FY3/05.

● Commitment-line Contract

- **Commitment-line of JPY 20bn** syndicated by 22 banks (including arranger and co-arrangers)
 - (Contract period) from 24 June, 2005 to 22 June of 2006
 - (Arranger of syndication) Mizuho Corporate Bank. Ltd.
 - (Co-arranger of syndication) Resona Bank, Ltd., Mizuho Trust & Banking, Co.,Ltd.
The Hiroshima Bank, Ltd., The Sumitomo Trust & Banking Co.,Ltd.
- **Aims and effects expected:**
 - ①Expeditious financing when needed
 - ②Reduce interest-bearing debt and interest expense ahead of schedule

■ Cash Flows and Interest-bearing Debt

(Billions of yen)

	FY3/02	Challenge21			Evolution21		
		FY3/03	FY3/04	FY3/05	FY3/06	FY3/07	FY3/08
Consolidated							
Cash flows from operating activities	25.1	-13.0	33.2	21.9	8.5	9.0	9.5
Cash flows from investing activities	3.6	-6.2	-4.2	5.8	1.0	-2.5	-2.5
Cash flows from financing activities	-31.0	17.9	-20.6	-16.5	-2.5	-18.5	-19.2
Cash and deposits at the end of the period	52.4	50.0	58.1	70.4	77.4	65.4	53.2
Interest-bearing debt	188.5	207.3	186.7	165.2	147.7	129.2	110.0
Increase (decrease) in debt	-17.1	18.8	-20.6	-21.5	-17.5	-18.5	-19.2
Non-Consolidated							
Cash and deposits at the end of the period	43.5	43.7	50.3	64.1	72.6	62.1	51.7
Interest-bearing debt	169.4	188.9	170.3	150.4	134.4	117.4	100.0
Increase(decrease) in debt	-23.1	19.5	-18.7	-19.9	-16.0	-17.0	-17.4

Shareholders' Equity

(Billions of yen)

	FY3/02	Challenge21			Evolution21		FY3/08
		FY3/03	FY3/04	FY3/05	FY3/06		
Consolidated							
Total shareholders' equity	51.7	33.7	39.9	47.6	66.1		
Total assets	509.5	472.8	443.2	411.3	405.0		
Shareholders' equity ratio	10.1%	7.1%	9.0%	11.6%	16.3%		over 20%
Non-Consolidated							
Common stock	34.0	34.0	18.1	20.6	28.1		
Capital surplus	10.6	10.6	10.1	12.6	20.1		
Earned surplus (deficit)	2.9	-16.4	-0.3	4.2	7.3		
Land revaluation excess	5.6	5.8	7.6	4.8	4.7		
Unrealized valuation gain on other securities	0.9	-0.1	3.0	3.4	3.4		
Total shareholders' equity	54.0	33.9	38.5	45.6	63.6		
Total assets	458.1	430.6	407.1	384.1	377.0		
Shareholders' equity ratio	11.8%	7.9%	9.5%	11.9%	16.9%		over 20%



Rainbow under the Rainbow



The end