

Outline of “Evolution 21”

Basic Policy – From Recovery to Advancement

Implementation of CSR (Corporate Social Responsibility) – The Compass for Evolution

At Penta-Ocean, we live by the philosophy of “The construction of superior infrastructure is our best contribution to society”. As such, by providing reliable quality backed by advanced technology and regard for safety and the environment, we aim to continue advancing as a company that stands out not only to shareholders, customers, business partners, and employees, but as a model corporation respected by society.

Compliance is the key to making CSR works, and will also have the benefit of improving risk management. Solid safety management must first start with a management system focusing on quality and the environment. A CSR implementation system must be established, and all directors and employees must be trained in CSR awareness.

Increasing Earnings of Core Business – The Strategic Move for Evolution

“Evolution 21” retains core “Challenge 21” strategies such as “Profit-oriented, cash flow focus, and distinction and concentration”, which are used to manage each division individually.

In addition to assigning specific operating income targets to each division, we must also respond to the demands of the current market while cultivating promising markets. Specifically, we will further strengthen environmental-related efforts such as disaster prevention/renovation work to fortify structures against earthquakes and tsunami, prevent soil pollution, and build waste management facilities. This includes the development of supporting technology and exploiting existing technologies. In the domestic architectural division, we will also set up an urban development headquarters to promote the urban development business using proactive marketing in order to receive orders on a medium- to long-term basis. Additionally, we will utilize our reputation as the number one marine engineering business to further integrate and collaborate civil/architectural engineering, and domestic/overseas operations.

Strengthening Business Conditions – Laying the Groundwork for Evolution

Restructuring of Administrative Operations

As the first step of “Evolution 21”, we established a new general management department at headquarters to centralize the administrative operations and make them efficient by combining the workload of branch offices. During the fiscal year ending March 2006, we will start this process in eastern Japan with full deployment company-wide in the fiscal year ending March 2007. This will eliminate overlapping operations between headquarters and branches, and enable a system where specialized staff at each branch can concentrate on risk management at the frontline of operations and construction.

Further Improvement of Our Financial Condition

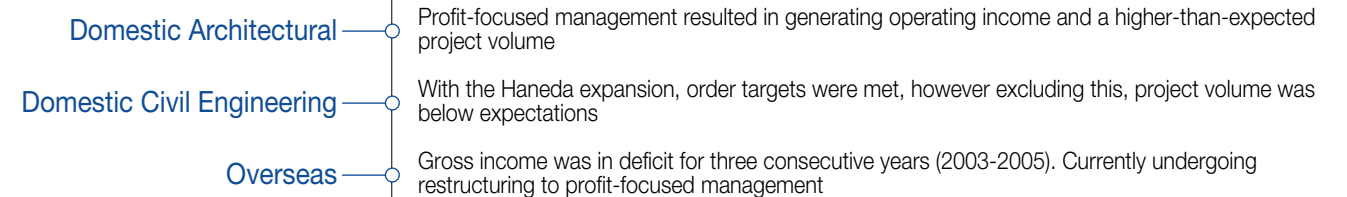
During “Challenge 21”, we achieved better than expected results including the write-off of losses generated by development operations at related companies, early adoption of asset impairment accounting, and reductions in costs/retirement benefit obligations due to the disintegration of the employee pension program. Furthermore, the issuance and complete conversion of ¥5.0 billion in convertible bonds restored the equity ratio to 11.9%, which is a complete recovery to the fiscal year ended March 2002 levels. However, interest bearing liabilities are still too high at 40% of total assets, which is having too much effect on tangible net worth. On top of this, we must aggressively promote the sale of idle real estate as well as real estate assets for sale (excluding urban real estate), prices of which continue to fall.

To further improve our financial condition, we must stabilize our base of operations, and improve earning potential. In May of 2005, we issued another ¥15.0 billion of convertible bonds. Assuming these are all converted to stock, our equity ratio will be over 20% with surplus capital by the last year of “Evolution 21”. In addition, we intend to lower consolidated interest-bearing debt by over ¥55.0 billion over the next 3 years.

Medium-Term Management Program “Challenge 21” (2003 – 2005) Better Than Expected Results

Income

Turning profitable in domestic architectural operations and decrease in expenses due to reduction in project volume, resulted in a V-shaped recovery.



Financial Position

Phenomenal improvement with results that exceeded expectations

