Progress of the Medium-term Management Plan "Evolution 21"

POLICIES FOR ACTIVITIES IN FISCAL 2007 (58th business term)

Stay alive in the tough competitive environment that is expected to continue a little longer

Basic policies

(1) Full implementation of compliance and development of an effective internal control system
(2) Reinforcement of the earnings capacity of core operations
Improve our capabilities as a leader in port zones.
- Firmly maintain basic policy of emphasizing earnings and not accepting loss-making projects and not allowing accepted projects to move into the red.
- Strengthen our strategy for receiving orders, leveraging our technological capabilities.

(3) Continuous corporate streamlining
- Respond adequately to the retirement of the baby boomer generation.
- Rebuild our sales organization in response to changes in the operating environment.

(4) Sustained activities to improve our financial situation
(5) Reinforce Group management and clarify strategies for the future

Basic policies by segment

Domestic civil engineering:
- Strengthen the technological competiveness and the cost competitiveness, and streamline segment operations.
(Strengthen response to the comprehensive evaluation system, step up sales activities in the private sector, squeeze costs, and streamline operations.)

Domestic construction:
- Gradually expand the business volume and operating income by boosting competitiveness.
(Raise competitiveness by rising above the competition, establish Penta-Ocean Construction as a brand, and committing to a policy of emphasizing earnings.)

Overseas operations:
- Secure volume and income by cultivating the global market for marine civil engineering.
(Increase the ship operating ratio, commit fully to a policy of emphasizing earnings, and implement comprehensive risk management.)

Administration:
- Increase efficiency through greater focus and develop an effective internal control system.
(Develop a Group-wide internal control system and another internal control system on audit reports, strengthen management supervisory functions, and increase administrative efficiency through greater focus.)

OVERVIEW OF PROGRESS (from fiscal 2005 to fiscal 2007)

Results for core operations

Changes in the operating environment not anticipated at the time of the plan establishment occurred.
(Structural reforms in the construction industry, adverse effects of penalties including bidding suspension, etc.)

Fiscal 2005
- Ordinary income growth for the third consecutive year
- Ordinary income of ¥11,341 million (virtually according to the plan)
- Net income of ¥3,876 million (in excess of the plan)

Fiscal 2006
- First deficit settlement in four years, but strong order receipts
- Substantial increase in the volume of construction orders received (a 25% increase year-on-year)
- Substantially decreased ordinary income of ¥2,078 million (a ¥9,263 million decrease year-on-year, mainly because of the decreased number of completed projects and decreased income under the effects of penalties including bidding suspension)
- Reported extraordinary income of ¥5,887 million (consisting mainly of gains on the sale of marketable securities amounting to ¥5,423 million)
- Reported extraordinary loss of ¥19,855 million (mainly attributable to factors including a loss on the valuation of real estate on hand with the early application of the lower-of-cost-or-market method to inventory assets, loss on development projects, and impairment loss)
- Net loss of ¥5,858 million

Fiscal 2007
- Increase in both sales and income
- Performance in core operations to recover steadily, thanks to the substantial increase in orders in fiscal 2006 and commencement of construction work for the re-expansion of the Haneda Airport
- Net sales of ¥370,000 million (a ¥46,700 million increase from the previous term)
- Ordinary income of ¥6,500 million (a ¥4,400 million increase from the previous term)
- Net income of ¥2,000 million (a ¥7,800 million increase from the previous term)

Improving our financial situation

Measures for improving our financial situation were implemented ahead of schedule, and they achieved results almost according to the plan.

Capital reinforcement:
- Stability increased.
- Unsecured convertible bonds with stock acquisition rights worth ¥15,000 million were issued and converted (in fiscal 2005).
- Net assets of ¥57,606 million and a shareholders' equity ratio of 16.2% were secured, in spite of their declines due to deficit registration (at the end of fiscal 2006).

Reduction in interest-bearing liabilities:
- Targets were virtually achieved ahead of schedule.
- Targets for the balance of interest-bearing liabilities, ¥110,462 million at the end of fiscal 2006 and ¥110,000 million at the end of fiscal 2007, were nearly achieved.

Asset reduction:
- Asset reduction outpaced the plan.
- Loss on valuation of real estate on hand with early application of the lower-of-cost-or-market method to inventory assets, loss on development projects owing to the attempt at bulk sale, impairment loss for golf courses and other assets (in fiscal 2006)
- Steady sale of assets with reduced value (in fiscal 2006 and subsequent terms)

Evolution 21 Targets and Results (fractions omitted)

(Units: ¥ billion and %, fractions less than ¥0.1 billion and 1.0% are omitted.)

	Results and forecasts			Initial targets (as of May 2005)		
	Results for FY2005	Results for FY2006	Forecasts for FY2007	2005	2006	2007
Performance targets						
Construction orders received (non-consolidated)	274.4	343	315	280	282.5	285
Net sales	354.6	323.2	370	360	350	355
Gross profit	34.2	23.7	27.7	34.3	34.3	34.8
Selling, general and administrative expenses	20	19.1	18.2	19.8	19.3	18.8
Operating income	14.1	4.6	9.5	14.5	15	16
Ordinary income	11.3	2	6.5	11.5	12	13.5
Net income	3.8	(5.8)	2	3.5	4	5
Net income per share (in yen)	8.6 yen	(11.9 yen)	4.1 yen			10 yen or more
Financial targets						
Total assets	389.3	355	350	405		
Net assets	66.8	57.6	59.6	66.1		
Shareholders' equity ratio	17.2%	16.2%	17.0%	16.3%		20% or higher
Interest-bearing liabilities	135.6	110.4	107.5	144.7		110 or less
Ratio to total assets	34.9%	31.1%	30.7%	35.7%		30% or lower