Penta-Ocean Construction

Annual Report 2008

Year Ended March 31, 2008

Implementing Innovative Strategies for Growth

Penta-Ocean Construction Co., Ltd. is one of Japan's leading comprehensive construction companies, with 25 subsidiaries and two affiliates making up the Penta-Ocean Group worldwide. The Company is a leading producer of construction technology, developing materials and machinery for technologically advanced and geologically challenging construction projects. Penta-Ocean Construction has been actively involved in many very-large-scale civil and architectural engineering projects in Japan and overseas for 112 years.

Contents

Cover and above photos:

Keppel Bay Bridge and Marina at Keppel Bay

The Cable-Stayed Keppel Bay Bridge connecting Keppel Island in southern Singapore and state-of-the-art Marina at Keppel Bay were constructed by Penta-Ocean Construction in 2007.

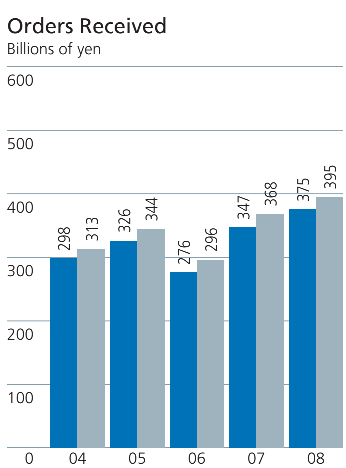
CONSOLIDATED FINANCIAL HIGHLIGHTS

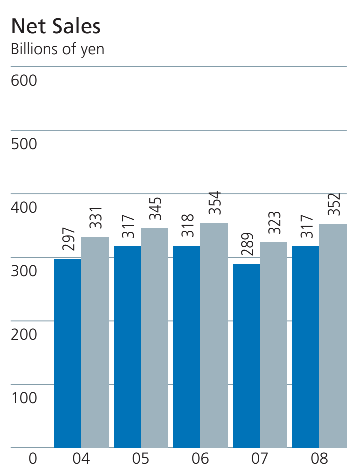
Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2008

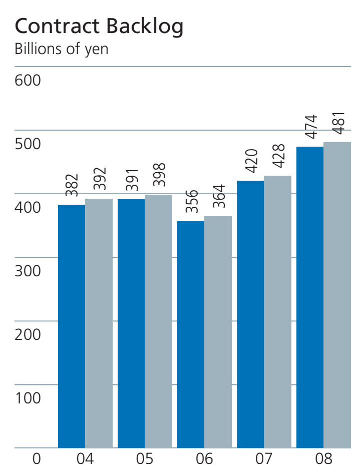
	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Order Received	¥368,262	¥395,083	$3,943,338
Net Sales	323,265	352,809	3,521,399
Contract Backlog	428,218	481,870	4,809,562
Total Assets	355,069	340,233	3,395,878
Total Net Assets	57,581	53,851	537,489
Ordinary Income	2,078	5,097	50,873
Income before Income Taxes and Minority Interests	(11,890)	4,328	43,198
Net Income (Loss)	(5,858)	2,571	25,661
Cash Dividends	—	—	—

Per share of common stock	Yen		U.S. dollars
Total Net Assets	¥117.18	¥219.19	$2.19
Net Income (Loss)	(11.92)	10.46	0.10
Cash Dividends	—	—	—

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥100.19 per U.S.$1, prevailing on March 31, 2008.







Non-Consolidated　Consolidated

Message from the President

I am pleased to present this overview of the Penta-Ocean Construction Group's business performance for its 58th reporting period - the term ended March 31, 2008. During the consolidated fiscal year under review the Japanese economy continued to show signs of a firm business expansion, owing to steady growth in private sector capital investment and exports. However, towards the end of the term, growing concern over the U.S. economy and the sharp rise in prices for raw materials and crude oil cast a shadow on future economic recovery for the region.

Although investment in equipment remained firm, backed by favorable corporate profits the domestic construction market, which forms the main business field for the Penta-Ocean Construction Group, remained depressed, owing to the protracted reduction in investment in public sector investment and to a decline in investment in condominium construction during the term. In recent years, the Japanese construction industry has undergone major structural reform as a result of violations stemming from falsification of safety data and antimonopoly laws. Competition has also increased across the board, with soaring material and outsourcing costs making the procurement of new orders increasingly competitive. In Southeast Asian and the Middle Eastern markets, however, where Penta-Ocean is actively engaged in reclamation work and the construction of commercial facilities and large-scale urban development projects, the Group continued to do well.

Business Results for Fiscal 2007

Under these severe conditions, all members of the Penta-Ocean Construction Group made strenuous efforts to increase new orders while further rationalizing their management structures. Taking advantage of Penta-Ocean's formidable architectural engineering related technological capabilities, the Group also endeavored to increase orders for private sector construction works.

As a result, consolidated net sales for the term in review amounted to ¥352,809 million (US$3,521.4 million), an increase of 9.1% over the previous term. Consolidated operating income amounted to ¥8,840 million (US$88.2 million), increasing by 90.4% compared with the previous term, while consolidated ordinary income rose substantially, by 145.3% to ¥5,097 million (US$50.9 million). Consolidated income before income taxes amounted to ¥4,328 million (US$43.2 million), resulting in a net profit for the Group, despite losses in the previous term. Moreover, extraordinary losses of ¥4,244 million (US$42.4 million), including transfers for allowance for bad debts of ¥2,633 million (US$26.3 million), and loss due to impairment of ¥735 million (US$7.3 million) were recorded, while extraordinary profit of ¥3,476 million (US$34.7 million) was recorded for the term. This amount included fiduciary profits of ¥3,068 million (US$30.6 million), for which a portion has been allocated for employee pension trusts. As a result, consolidated net income for the term under review amounted to ¥2,571 million (US$25.7 million), a year-on-year improvement from the net deficit of ¥5,858 million (US$58.5 million) reported in the previous term.

Under these circumstances however, and despite the reporting of net profits for the term in review, Penta-Ocean has decided to withhold payment of dividends for the fiscal period. It is our hope that our efforts to continue to rebuild our financial base, increase capital and retained earnings, strengthen the employee pension trust, and increase net assets, will return the Group to sustainable growth and secure future profits for our shareholders.

Further Corporate Compliance

In the term under review, regrettably, Penta-Ocean was prohibited from bidding on two projects by the Ministry of Land, amidst bid-rigging claims by the Fair Trade Commission over construction works ordered by the Defense Facilities Administration Agency and the Nagoya City Subway Construction Consortium. I sincerely apologize to stockholders and other stakeholders for this unfortunate breech of trust. We understand that compliance forms the basis of our Corporate Social Responsibility (CSR) policy, and as a result of these current events, the Group shall strive to prevent any reoccurrence of this violation in the future, by strengthening our internal risk management systems, and through more strict adherence to relevant laws and ordinances.

Start of new mid-term management plan "Advance 21"

The Group's implementation of our "Evolution 21" management plan during the previous term was hampered by the events surrounding Penta-Ocean's exclusion from bidding on the two aforementioned projects by the Ministry of Land. Although this innovative management plan did achieve considerable improvement in operations during the first half of the third year of the plan, its objectives overall were not fully realized.

Despite this setback, orders for new construction projects increased for two consecutive terms, despite the increasingly competitive environment for new projects. Our new "Advance 21" three-year, mid-term management plan that will begin in the coming term represents our determination to meet the challenges of the severe business environment. The Group shall make full use of the evolving business environment, however, as favorable opportunities for further growth present themselves, making best use of our formidable expertise in construction-related technology development and marine and coastal construction.

During the fiscal term under review, Penta-Ocean successfully reached its target to reduce interest-bearing debt by achieving a healthier financial standing one year ahead of projections, owing to capital increases and the application of an inventory pricing method at lower cost at an earlier stage in implementation. These efforts, and the steady 2-term increase in new orders is expected to return the Group to profitability in the current term, enabling us to pay a dividend to shareholders in the coming term.

In submitting this fiscal report, I would like to take this opportunity to thank our shareholders for their continued support and understanding.

June 27, 2008

Y. Murashige

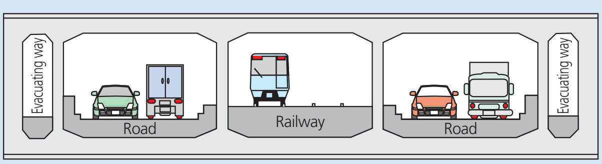
Yoshio Murashige,

President and Representative Director

Domestic Civil Engineering

No. 7 Caisson

■ Cross section of the submerged No. 7 caisson



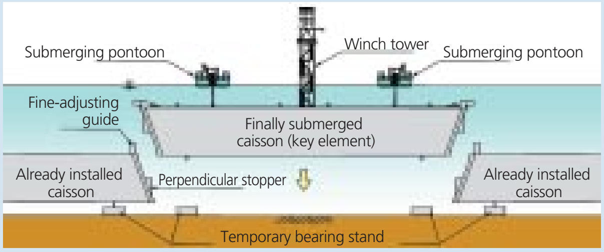
Yumeshima Submerged Tunnel Project, Port of Osaka / Osaka

To promote the construction of a new city core for the 21st century "Techno Port Osaka," international material-handling facilities are being developed and constructed at the Port of Osaka area, such as Yumeshima and Maishima.

The Port of Osaka Yumeshima Tunnel was planned to be a submerged type that would not hinder vessel passage after it was completed and would save construction costs. The submerged tunnel method is to prepare on land gigantic submergible caissons (made of steel frames and reinforced concrete, about 100m long x 35.4m wide x 8.6m high), submerge them at the bottom of the sea, and connect them there with each other to form a tunnel. Among the 8 caissons submerged, Penta-Ocean Construction Co., Ltd. constructed Caisson No. 2 and installed Caissons No. 7 (finally submerged one) and 8.

Among submerged tunnel-installing processes, that for installing a finally submerged caisson is said to be most difficult because it needs accurate installation along the seabed and full waterproofing work. Among the submergible caisson-installing technologies the Company had developed, the key element method (patented for a final coupling method) was adopted in the installation of the finally submerged one (Caisson No. 7).

■ Key element method



In the key element method, water located in connected portions is exhausted after a submergible caisson of inverted trapezoidal shape whose ends are inclined is installed between already submerged ones. By utilizing large downward water pressure thus generated, the finally submerged caisson is further pressed downward until it compresses and comes in close contact with stopper rubbers provided at the end of connecting portions, thereby effectively stopping water invasion.

Land formation work, Sangawa East Waterfront Area / Ehime

Construction period: March 2004 to March 2008
Client: Shikoku Chuo City, Ehime Prefecture
Construction summary:

- Dredging and land-filling work: 898,214m^3
- Seepage control work by driving sheet piles: 4,074 sheets
- Seepage control work for vertical walls: 8,495m^3
- Seepage control work for slopes: 68,791m^2
- Seepage control work for bottoms: 90,493m^3
- Clay guard work: 90,000 m^3

Shikoku Chuo City is an industrial city where industries with local tradition, such as paper-making and processing ones, flourish. This work was composed of the reclamation of publicly owned water body for separating dwelling and industrial zones, creating a water park with green space, and preparing land for building storage facilities for paper-making industry and a terminal treatment plant of industrial waste.

The bottom of the work site was finished with the **Clay Guard Method** that is one of Penta-Ocean's brand technologies.

East Nagoya/Osaka Expressway, Arimatsu Section / Aichi

Construction period: June 2005 to December 2007
Client: Central Nippon Expressway Co., Ltd., Nagoya Branch
Construction summary:

- Trench-excavating work, 640m long
- Trench section: 415m-long trench and 65m-long box structure
- Transition section: Wall-supporting work, 160m long
- Working volume: Reinforcement placing, 8,325 tons
  Concrete placing, 72,414 m^3

Among a total of approx. 66 km of Nagoya Beltway No. 2 passing through the southeastern part of Nagoya City, Penta-Ocean accepted the construction of a total of 640m of trench structure, including Arimatsu IC directly connected to National Road No. 1. The Company completed the work without any accidents and disasters while paying heed to influences to adjacent structures and taking care of maximum wall thickness of 2m, mass concrete countermeasures for maximum concrete placement of 1,300m^3 a day, and quality control.

Tunnel construction at Ikebukuro South IC, Metropolitan Expressway / Tokyo

Construction period: March 2002 to November 2007
Client: Metropolitan Expressway Co., Ltd.
Construction summary:

- Total length constructed: 170m long
- Sheathing work: A full set of sheathing work
- Ground improvement work: A full set of ground-improving work
- Excavation: 40,000m^3
- Support to sheathing: 1,800 t

This is a large sealed work, 12m in diameter, embedded under the Central Beltway Shinjuku Line, Metropolitan Expressway. It adopted a sealed portion-cutting method rarely seen in the world, for building the IC.

Domestic Architectural

New Construction of Brilla Grande Minatomirai / Kanagawa

Yokohama Minatomirai 21 Area is an area full of various kinds of amenity where people enjoy meeting, festivity, relaxation, and cultural taste. At the north of the Area were born high-rise condominiums “Brilla Grande Minatomirai, Ocean & Park.”

The Brilla Grande Minatomirai, Ocean & Park is composed of twin towers, “Ocean Tower” that commands a panoramic view of the Port of Yokohama and “Park Tower” that lies adjacent to Takashima Central Park. They are a 30-storied building with a basement floor, respectively, containing a total of 555 dwelling rooms. Between these towers is a two-storied commercial building that contains shopping spaces and a mini-theater and acts as entrance for both towers.

A sky garden is provided at each 29th floor (with themes of “water” for the Ocean Tower and “trees” for the Park Tower) where sight-viewing lounge and other common spaces are also provided. The lounge commands the whole view of the Port of Yokohama represented by the Bay Bridge. Both towers are equipped with facilities for visitors, such as guest rooms and party ones. In the forest of many high-rise condominiums the Brilla Grande Minatomirai, Ocean & Park that stand nearest to the sea are just “landmarks of dwellings.”

They were built with a Precast method to secure high quality, minimize the construction periods, and assure safety. Since they are located near the sea, measures to prevent damage by salt are adopted at every corner of the buildings and many devices are applied to keep fine appearance and comfort for high quality life stages for a long period.

On Going Project

Construction of New Hiroshima Minicipal Baseball Stadium / Hiroshima

Construction period: September 2007 to March 2009
Client: City of Hiroshima
Construction summary:

- Building area: 23,000 m²
- Total floor area: 39,000 m²
- Number of floors: 7 stories with one basement
- Ground dimensions: 100m (right field), 101m (left field) and 122m (center field)
- Ground surface: Grass
- Capacity: 30,350

The stadium is under construction as new franchise stadium of the Hiroshima Toyo Carp in stead of the aged present Hiroshima Municipal Baseball Stadium. The new stadium has long been dreamed of Hiroshima people where Penta-Ocean was established and the project is fully backed by the City, Prefecture and business communities. It is to be put to use from the next season.

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Kurosaki Plant Construction Work Phase III / Fukuoka

Construction period: May 2007 to March 2008
Client: Dai Nippon Printing Co., Ltd.
Design and administration: Penta-Ocean Construction Co., Ltd., Head Office and Architectural Design Department
Construction summary:

- Structure: Steel structure
- Number of floors: 2 stories
- Building area: 23,418m²
- Total floor area: 23,850m²

Dai Nippon Printing's LCD color filter plant, Phase III was completed as plant of the most modern standards. It is annexed to the existing Kurosaki Plant, and its internal production lines are all housed in clean rooms. It will grow to one of the key plants for Dai Nippon Printing Co., Ltd.

Shogenji Temple Relocation and Construction Work / Hiroshima

Construction period: June 2004 to December 2007
Client: Shogenji Temple
Construction summary:

- Structure: RC and wooden structures
- Number of buildings: 9

This is a construction work not seen so often because it constructed a full set of a temple as a result of its relocation. The work covers the construction of a total of 9 buildings, including main hall, reception hall, priest's quarters, annexes, and believers' hall. As a result of land reclamation, the temple has been finished in a scale suitable for its stately appearance.

Overseas Projects

Subic Bay Development Project - ODA-related project / Philippines

An international container terminal was completed at Subic Bay, the Philippines. President Gloria Macapagal-Arroyo who was reelected in 2004 expressed in her administrative policy speech at an inauguration ceremony, "Clark and Subic Areas should be changed into international logistic service centers leading Asia." The Subic Bay Development Project forms a core of her plan and has been carried out under special Yen Loan by International Cooperation Bank as bay area improvement project for the former US Naval Base, about 80 km northwest to Manila.

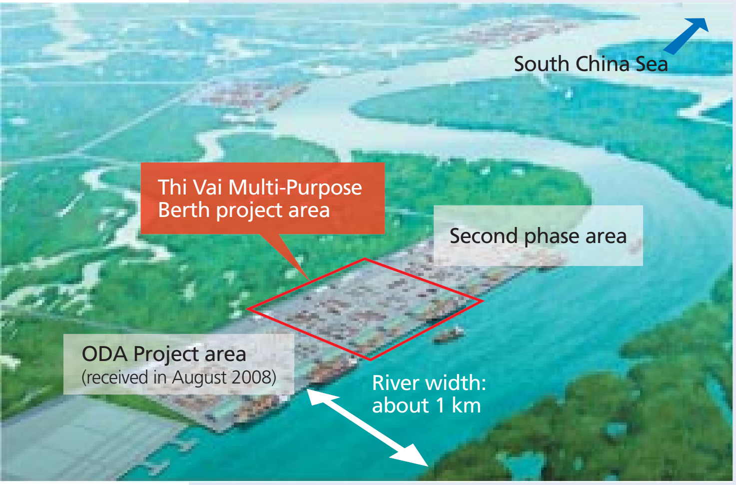
Penta-Ocean constructed and supplied container berths (2,000 TEU, 13.7m deep, 280m long, 2 berths), expansion and repair of existing quays (3 locations), access road (3 km long), office buildings, four gantry cranes, seven port service boats, and navigation support facilities.

The Company's experience and technologies in port zones accumulated over long periods were applied to the implementation of this project, thereby solving a variety of problems in quality and process control in the case of, for example, suspension of road construction by rainfall, construction in soft ground, and changes in supporting ground depths for foundation pillars. Hence, the Company is pleased to have supplied those facilities that were satisfactory to the ordering party and community people.

The completion of these facilities will smooth and promote physical distribution in the Central Luzon area, including Subic Bay, thereby contributing to the development of the local economy. They are expected to help the Philippines enjoy sustainable economic growth through this marine entrance for physical distribution along Subic and Clark.

President Arroyo attended at the opening ceremony.

On Going Project



Thi Vai-Cai Mep Complex Artistic View

<New order: July 2007>

SP-PSA Thi Vai Multi-Purpose Berth Project Phase 1 / Vietnam

Client: SP PSA International Port Co., Ltd.
Consultant: Surbana International Consultant Pte. Ltd.
Construction summary:

- 600m-long pier (300m x 2 berths attached to the seabed) + three bridges
- Container yard: Approx. 27 ha
- Dredging: Approx. 300,000 m^3
- Ground improvement: Approx. 240,000 m^2
- Buildings: 7 buildings (floor area of 3,400 m^2 of 2-storied offices, etc.)

Thi Vai is located in the suburbs of Ho Chi Minh City, Southern Vietnam and a commercial area where large-scale development is being planned. Container volume handled in this Ho Chi Minh area increased steadily at an annual average of 19% since 1995, reaching about 22,000 thousand TEU in 2005. Its container-handling capacity was nearing limits. Water depth at the pier was as shallow as 10m, preventing containers more than 1,500 TEU (or 20,000-ton) class from touching down. The container-handling capacity is anticipated to continuously grow about 20% every year. Hence, it has been expected that a new port facility should be constructed to cope with expanding volume and touching down of larger vessels. Many pier development projects are planned here in Thi Vai and Cai Mep areas and improvement programs are under way, aiming at constructing an international gateway port.

Universal Terminal Storage and Terminal Facilities at Jurong Island / Singapore

Construction period: December 2005 to September 2007
Client: United Terminal (Singapore) Pte. Ltd.
Construction summary:

- Pier work of a total of 9 berths, including 2 berths for VLCC (for dead weight capacity from 320,000 tons to 5,000 tons, max water depth: 23m)
- Quay construction work: 3 berths (total length: approx. 1,000m, water 11m deep)
- Dredging work: Approx. 600,000 m^3

In west Singapore, where world-leading petrochemical bases are situated, Penta-Ocean's land-fill work has long been engaged in land formation work.

A universal terminal was constructed at the top end of the filled land of Jurong Island. The terminal's pier facilities are composed of storage tanks on land and piers where large-sized tankers can unload crude oil and petroleum products. The 14.5 million barrel (approx. 2.3 million m^3) of storage capacity means one of the world's largest independent petroleum storage facilities on land.

Keppel Bay Bridge / Singapore

Construction period: March 2005 to July 2007
Client: Keppel Bay Pte. Ltd.
Design and administration: T Y Lin International Pte. Ltd.
Construction summary:

- Cable-stayed bridge, 270m long
- Sunken bank-type bridge protection work: 11 caissons
- Continuous pile-type bank protection work: 570m long
- RC pier construction work: 1,750 m^2
- Breakwater construction work: 18 caissons

Marina at Keppel Bay / Singapore

Construction period: June 2006 to December 2007
Construction summary:

- RC-structured, 2-storied building and 1 basement with steel roof
- Site area: 9,383 m^2
- Floor space: 11,587 m^2

Penta-Ocean engaged in the construction of a 270m-long cable-stayed bridge with maximum span of 91m connecting between the Keppel Island (off the Sentosa Island, one of the most famous sight-seeing spots in Singapore), bank protection work around the island, in addition to the construction of the marina.

Management Philosophies

- Affinity with society
- Establishing a healthy environment
- Practicing the enterprising spirit

Mid-term Visions

A **"creative company"** on land and at sea

We seek to create attractive spaces as the leading contractor in coastal and waterfront area, and pursue customer satisfaction and social contribution as a proposal-oriented company.

A "**committed company**" that guarantees sold quality

We build the relationship of trust with our customers and society through provision of high quality and safe products backed by solid technologies.

A "**future-oriented company**" that leaves a rich environment to future generations

We establish a quality, rich environment through the course of our corporate activities, and pass on our dreams, hopes, and possibilities to the next generations.

Basic CSR Policy

The Penta-Ocean Construction Group takes the view that the construction of superior infrastructure is the greatest contribution we can make to society. We aim to transform ourselves into a group of attractive companies that is respected not only by our shareholders, customers, business partners, employees but also by local communities, by providing solid quality backed by advanced technology and having regard to safety and ecological considerations.

1. Honorable Corporate Activities

We take an honest approach to our business operations at all times, in addition to observing laws and ordinances, and respecting social norms an ethics.

2. Coexistence with the Environment and Nature

- We help preserve the global environment by seeking to develop environmentally friendly products and environmental technologies.
- We develop living spaces equipped to better withstand disasters by developing disaster prevention technologies that can be incorporated into both systems and structures.
- In the event of emergency, we implement rapid-response support activities.

3. Respect for Humanity

- We seek to realize a working environment that motivates our employees, that respects their individuality and that enables them to fully demonstrate their abilities.
- We respect the human rights and diversity of not only our employees but of all people connected with the Company.

4. Communication with Society

We are committed to broad-based communications with our stakeholders (including shareholders, customers, business partners, employees, and the local community), and, at the same time, demonstrate maximum accountability by disclosing timely and appropriate information.

Main business performance - Securing more order volumes than planned

> Abrupt changes in management environment not expected when planned

(Structural reform in Japanese construction business, effects of exclusion from designated contractor lists, etc.)

> More orders received for two consecutive terms though targets were not met
Reduction in general administrative expenses thanks to retirement of baby boom generation workers

- Fiscal 2005: Profits increased for three consecutive terms; Plan almost completed
- Fiscal 2006: Operating income reduced first in the four terms; Loss recorded for this term; Affected by exclusion from designated contractor list; Profits reduced in domestic civil-engineering works; and Special losses recorded such as losses in development projects
- Fiscal 2007: Recovered steadily but forecast at the beginning of the term not reached; and Domestic construction reduced profits due to hike in material and subcontracting expenses though profitability improved in domestic civil engineering and overseas projects

Making financial positions healthier — by advancing projects

- Capital increase: CB for ¥15,000 million issued and converted (in fiscal 2005)
- Reduction of interest-bearing debts: Target fulfilled as planned
- Assets compressed: About 20% reduced when compared with those at fiscal 2004 end
- Real estate disposed of and evaluation reduced (fiscal 2005 to 2007)
- Investment securities disposed of (fiscal 2006)
- Employee pension trust added to (fiscal 2007)

Evolution 21 Targets and Consolidated Results

(Millions of Yen)

	Evolution 21 Results			Initial Targets (May 2005)
	FY2005	FY2006	**FY2007**	**FY2007**
Business Performance Targets				
Consolidated Net Sales	¥354,657	¥323,265	**¥352,809**	¥355,000
Total Gross Profit	34,259	23,767	**26,528**	34,800
Selling, General and Administrative Expenses	20,082	19,123	**17,688**	18,800
Operating Income	14,177	4,644	**8,840**	16,000
Ordinary Income	11,341	2,078	**5,097**	13,500
Consolidated Net Income	3,876	-5,858	**2,571**	5,000
EPS* (Yen)	17.1	-23.8	**10.5**	20 or more
Financial Targets				
Total Assets	¥389,367	¥355,069	**¥340,233**	
Net Assets	66,891	57,605	**53,862**	
Shareholders' Equity Ratio (%)	17.2	16.2	**15.8**	20% or more
Interest-bearing Liabilities	135,699	110,463	**109,098**	110,000 or less
Ratio to Total Assets (%)	34.9	31.1	**32.1**	30% or less
D/E Net Ratio	1.1	1.1	**1.4**	
ROE (%)	6.8	-9.4	**4.6**	

*Earning per Share (EPS) is based on consolidation of stocks.

NEW MID-TERM MANAGEMENT PLAN — ADVANCE 21 (FY2008 TO FY2010)

Basic Policy

Practicing of honest corporate activities	Endeavor to establish a technology-oriented company	Strengthening of engineering abilities at construction site

Intending to win in a technological competition era as the leading contractor in coastal and waterfront areas

Basic Strategies

■ To strengthen management capability

Establishing and implementing effective internal control systems

1. Routine practicing of CSR
- Practicing of honest corporate activities and social contribution through main lines of business

2. Promotion of risk management
- Steady observation of corporate compliance, communication of negative information without delay, and detection of risk at earlier stages and taking appropriate countermeasures

3. Reinforcing corporate governance
- Keeping the whole company and group well informed of the management strategies to secure most appropriate results

■ To reinforce earning abilities of the main business

Expanding business volume gradually with profits secured

1. Endeavoring to establish a technology-oriented company: Strengthening of engineering abilities (technological, safety-securing, and managerial capabilities) at construction site from a fundamental viewpoint
   Further improvement of technological capabilities (to propose higher technologies, better projects and improve construction technologies and cost competitiveness)
2. Keeping to the policy to give top priority to profitability: Eliminating possibilities of falling into deficit at receiving order and avoiding quality and safety troubles while engaging in construction
3. Expanding favorite fields and areas: Giving priority to projects at coastal, waterfront and urban areas
- To better cope with a new bidding system based on integrated evaluation
- To reinforce proposal-oriented sales (by giving priority to private construction projects and assuring collaboration between civil engineering and construction)
- To improve strategic handling of construction and land civil engineering projects (by selecting and concentrating on priority projects)

4. Securing and bringing up human resources
- Securing new human resources in anticipation of mass retirement of baby boom generation employees and utilizing them to utmost

5. Reinforcing Group's competitiveness
6. Challenging innovative businesses and prospective fields (including environment, renewal, and consulting activities)

■ To continue efforts to make financial position healthier

Consolidating the foundation for future growth

1. Continuing efforts to reduce interest-bearing debts
2. Increasing capital and improving capital efficiency
3. Securing profitable disposal of real estate

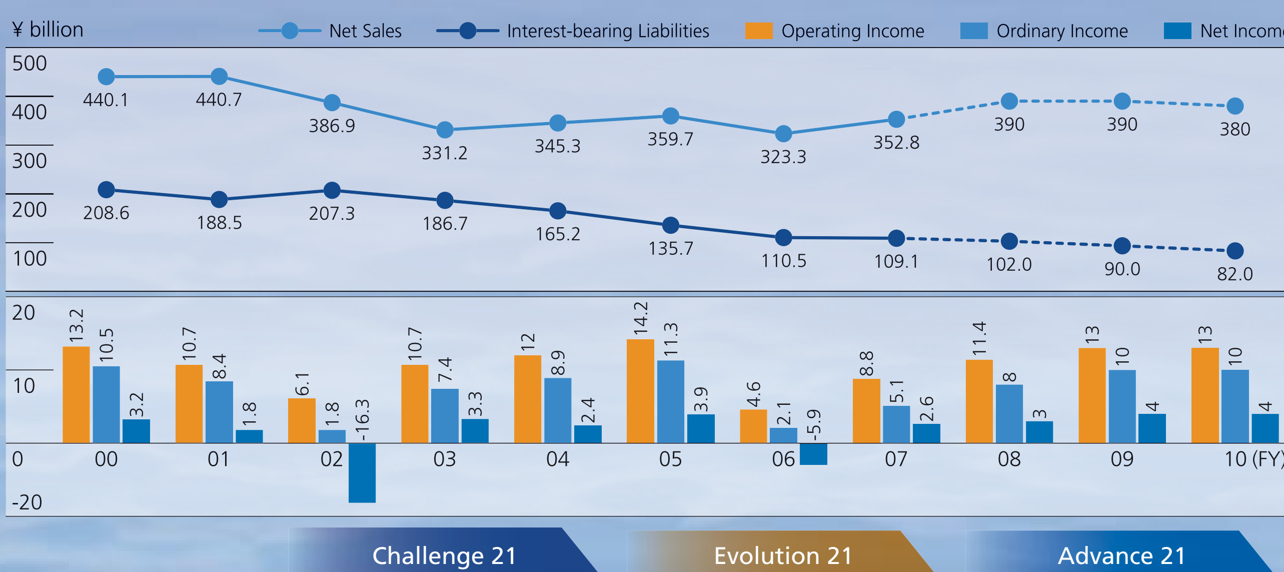
FY 2010 Targets of Advance 21

(Millions of Yen)

	Medium-term Management Plan Evolution 21 (FY 2007 Results)		New Medium-term Management Plan Advance 21 (FY 2010 Targets)	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Business Performance Targets				
Construction Orders Receined	¥373,595	¥395,083	¥340,000	
Net Sales	317,857	352,809	346,000	¥380,000
Total Gross Profit	22,695	26,528	27,000	29,700
General Expenses	15,915	17,688	15,000	16,700
Operating Income	6,780	8,840	12,000	13,000
Ordinary Income	3,081	5,097	9,000	10,000
Net Income	1,390	2,571	3,500	4,000
Net Income per Share (Yen)	5.66	10.46		16 or more
Financial Targets (Consolidated)				
Interest-bearing Liabilities		¥109,098		¥82,000 or less
D/E Net Ratio		1.4		1.0 or less
REO (%)		4.6		6.0 or more

Consolidated Management Targets

- **Realizing resumption of dividend**
  Intending to resume dividend payment at the end of fiscal 2008 first in the 8 terms
  ¥2 per share (consolidated dividend payout ratio: 16.4%)
- **Main targets of consolidated figure (FY 2010)**
  Ordinary income: ¥10 billion or higher
  D/E ratio (net): 1.0 or less   * D/E ratio (net) = (interest-bearing debt - cash and deposits) / net assets



PENTA-OCEAN CONSTRUCTION'S SOCIAL ACTION PROGRAM

Companies should continuously engage in activities for fulfilling their Corporate Social Responsibility so that they may survive a long period as an enterprise accepted by the society. The whole members of each company, rather than its particular sections or departments, should engage in them. All the employees as well as the management should fulfill CSR by clearly indicating corporate ethics and sharing its sense of values, Hence, Penta-Ocean Construction carefully handles communications among employees and societies while endeavoring to infiltrate such intention into the whole company members.

Exhibitions of or invitation to construction sites and the Research Institute are one of the activities to keep communications with people in the societies through our construction activities.

In the term under review Penta-Ocean held several construction site exhibitions, cooperated with similar events, and collaborated with internship and scientific researches. Typical examples are described below.

■ Exhibition of and invitation to construction sites

Construction sites are put to public exhibition for visitors who are mainly people living near the sites and pupils/students so that the visitors may enjoy the best part of manufacturing and students may learn what is construction work.

■ Cooperation with events

Penta-Ocean positively participates in and cooperates with a wide variety of events, covering from nature observation meetings to food industry-related ones as well as local community events, in addition to those related to construction.

■ Collaboration with internship and scientific research

Penta-Ocean also accepts foreign students and holds site study meetings for college and university students and teachers' training sessions at private enterprises. It supports the dispatches of Antarctic exploration members.

In the term under review Penta-Ocean accepted students from Miyakonojo, Miyazaki Prefecture so that they might engage in simulated training of water invasion and evacuation, summarization of training results, and many other activities.

Consolidated Five-year Summary

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2004	2005	2006	2007	2008	2008
Orders received	¥313,751	¥344,716	¥296,046	¥368,262	¥395,083	$3,943,338
Construction	313,751	344,716	296,046	368,262	395,083	3,943,338
Net sales	331,170	345,266	354,657	323,265	352,809	3,521,399
Construction	314,626	334,802	338,842	311,389	337,476	3,368,360
Development business and other	6,240	2,368	4,488	1,447	4,436	44,276
Other	10,304	8,096	11,327	10,429	10,897	108,763
Contract backlog	392,377	398,369	364,407	428,218	481,870	4,809,562
Construction	392,377	398,369	364,407	428,218	481,870	4,809,562
Total assets	443,193	411,322	389,367	355,069	340,233	3,395,878
Net assets excluding minority interests	39,860	47,640	66,891	57,581	53,851	537,489
Ordinary income	7,440	8,864	11,341	2,078	5,097	50,873
Income (loss) before income taxes and minority interests	6,624	9,500	10,019	(11,890)	4,328	43,198
Net income (loss)	3,292	2,360	3,876	(5,858)	2,571	25,661
Cash dividends	—	—	—	—	—	—
Per share of common stock:	Yen					U.S. dollars
Net assets excluding minority interests	¥110.31	¥120.55	¥136.12	¥117.18	¥219.19	$2.19
Net income (loss)	9.11	6.25	8.57	(11.92)	10.46	0.10
Cash dividends	—	—	—	—	—	—
Number of employees	3,767	3,684	3,557	3,464	3,414	

Notes:
1. The amounts of orders received and contract backlog related to development business and other and other business are not stated on the above summary, because those amounts are small and do not have a material effect to respective total amounts.
2. Figures in U.S. dollars are converted for convenience only, at the rate of ¥100.19 per U.S.$1, prevailing on March 31, 2008.

FINANCIAL REVIEW

Business Performance

Consolidated net sales for the term in review amounted to ¥352,809 million (US$3,521.4 million), a year-on-year increase of 9.1%, while consolidated operating income increased by 90.4%, to ¥8,840 million (US$88.2 million). Consolidated ordinary income increased substantially, by 145.3% over the previous term, to ¥5,097 million (US$50.9 million). Consolidated income before taxes amounted to ¥4,328 million (US$43.2 million), which reflected the increase in profits for the term in review, despite the losses of the previous period. Extraordinary losses of ¥4,244 million (US$42.4 million) included the transfer to allowances for bad debts of ¥2,633 million (US$26.3 million), and the loss due to loss of capital reduction of ¥735 million (US$7.3 million), while extraordinary profits of ¥3,476 million (US$34.7 million) were recorded. This included fiduciary profits of ¥3,068 million (US$30.6 million), for which a portion of stockholdings was reassigned to the Group's Employee Pension Trust so that financial assets might be effectively utilized and that retirement payments might be further improved. As a result, consolidated net income for the term under review amounted to ¥2,571 million (US$25.7 million), a substantial improvement in financial standing from the net deficit of ¥5,858 million (US$58.5 million) recorded in the previous term.

Segment Information

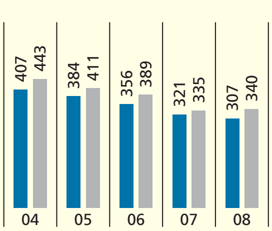
Although private sector investment in equipment remained firm, backed by favorable corporate earnings, the domestic construction market, which forms the core business for the Penta-Ocean Construction Group, remained depressed overall, during the term. This was caused by stagnation in orders for new public works projects, and owing to the falloff in investment in new condominium construction following revision of the Building Standard Law. Growth was seen in overseas construction markets during the term, however; the Group's businesses in Southeast Asian and the Middle Eastern recorded favorable growth in new orders for material handling facilities and urban development. Owing to these gains, consolidated sales for the construction segment increased by 8.4% from the previous term, to ¥337,543 million (US$3,368.7 million). Consolidated operating income amounted to ¥7,969 million (US$79.5 million), a substantial increased of 96.5% over the previous term.

In the Group's development segment, consolidated net sales amounted to ¥4,625 million (US$46.2 million), substantially increasing by 170.6% from the previous term. This gain was attributable to the sale of real estate held by the Group. As was the case in the previous term, operating loss for the term under review amounted to ¥370 million (US$3.7 million, owing to an evaluation loss of ¥453 million (US$4.5 million) based on the application of a lower cost inventory pricing method.

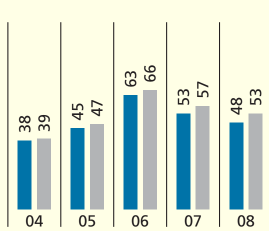
The other business segment is comprised primarily of shipbuilding; sales and leasing of construction materials and facilities; and the leasing of vessels. Thanks to favorable market conditions and improved production efficiency backed by a steady increase in private sector capital investment and investment in shipbuilding, the largest contributor in this business segment, consolidated sales rose by ¥18,338 million (US$183.0 million), or 2.5%, year-on-year. Operating income amounted to ¥1,205 million (US$12.0 million), increasing by 104.7% over the previous term.

A review of business results by region showed that consolidated sales in Japan amounted to ¥297,862 million (US$2,972.7 million). This represented a fiscal term increase of 10.4%, resulting from the diminishing influences of the Group's exclusion from designated contractor lists, and improved profitability in domestic civil engineering works. Operating income increased by 37.2% from the previous term, to ¥7,418 million (US$74.0 million). In Southeast Asian, the number of completed works during the term increased in Singapore and Hong Kong, while consolidated sales in this region overall declined by 2.1% to ¥45,653 million (US$455.6 million). Sales profit amounted to ¥1,267 million (US$12.6 million), a substantial improvement from the deficit reported in the previous term. Mainly due to an increase in the number of completed works in the U.A.E., and other Middle Eastern countries, consolidated sales for

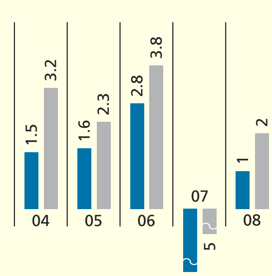
Total Assets
Billions of yen



Total Net Assets
Billions of yen



Net Income (Loss)
Billions of yen



■ Non-Consolidated ■ Consolidated

this region increased by 34.4% year-on-year, to ¥9,292 million (US$92.7 million). Operating profit declined, however, by 54.5% from the previous term, to ¥143 million (US$1.4 thousand), as a result of increased expenses and the cost of construction materials.

Orders Received and Contract Backlog

Consolidated orders for new construction for the Group in the term under review increased by 7.3% overall, to ¥395,083 million (US$3,943.3 million). New construction orders received by Penta-Ocean Construction Co., Ltd. amounted to ¥373,594 million (US$3,728.9 million) for the same period, a year-on-year increase of 8.9%. Overseas construction orders received amounted to ¥111,157 million (US$1,109.5 million), an increase of 70.7%. Consolidated contract backlog amounted to ¥481.870 million (US$4,809.6 million), increasing 12.5% over the previous fiscal period.

Financial Position

The Group's total assets at term end amounted to ¥340,233 million (US$3,395.5 million), a decrease of 4.3%, or ¥14,836 million (US$148.1 million) from the previous term. This decrease was attributable mainly to declines in cash and deposits, due to increased expenses related to gradual expansion of business volume, sell-off of real estate in inventory, and additional contribution to the accrued retirement benefits for employees, which represented securities held to strengthen the Group's financial assets and improve its overall financial condition. Debt was reduced by ¥11,093 million (US$110.7 million) from the previous term, to ¥286,370 million (US$7,848.0 million), resulting from the reduction in the additional contribution to retirement benefits for employees, as well as other factors. Net assets also decreased, by ¥3,743 million (US$37.4 million) from the previous term, to ¥53,862 million (US$537.5 million) owing to an adjustment in securities evaluation of ¥6,249 million (US$62.4 million) from the previous term. This adjustment was made based on the addition to the accrued retirement trust and owing to slumps in the Japanese stock exchanges.

Cash Flows

The cash flow from business operations decreased by ¥13,869 million (US$138.4 million) from the previous term owing to a payment of ¥9,148 million (US$91.3 million), a growth in expenses caused by increased work completions during the term. Net income before tax and other adjustments amounted to ¥4,328 million (US$43.2 million).

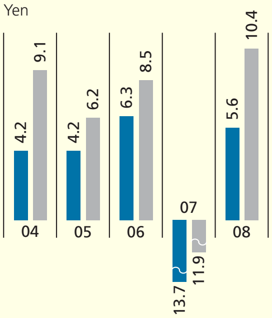
The cash flow from investing activities declined by ¥4,530 million (US$19.8 million) to ¥10,088 million (US$100.7 million) as a result of revenue decreases in reaction to the income recorded by selling investment securities and payment of equipment investment in the previous consolidated fiscal year. Cash flow from financing activity declined by ¥23,917 million (US$238.7 million) year-on-year to ¥1,753 million (US$17.5 million), due mainly to a reduction in repayment on borrowings.

Consolidated cash and cash equivalents at the end of the term declined 32.0% year-on-year, or ¥15,730 million (US$157.0 million), to ¥33,394 million (US$333.3 million). The balance of interest-bearing liabilities for the Group at term-end amounted to ¥109,098 million (US$1,088.9 million), including interest-bearing liabilities held by Penta-Ocean amounting to ¥99,647 million (US$994.6 million).

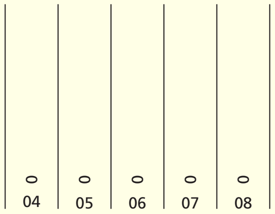
Dividends

Consolidated net income and non-consolidated net income for the term under review amounted to ¥2,570 million (US$25.6 million) and ¥1,389 million (US$13.9 million), respectively. Management made the decision, however, not to pay a dividend to shareholders in order to strengthen internal reserves. This cautious decision was made based on several factors raising concern about future corporate stability, including evaluation differences that were reduced by ¥6,249 million (US$62.4 million), and the decline in term-end net assets of ¥4,864 million (US$48.5 million) as a result of the contribution of some portions of securities to the accrued retirement trust and to generally weak performance in stock markets.

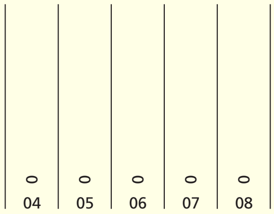
Net Income (Loss) per Share
Yen



Cash Dividends
Billions of yen



Cash Dividends per Share
Yen



CONSOLIDATED BALANCE SHEETS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars
ASSETS	2007	2008	2008
Current assets:			
Cash and deposits	¥ 49,247	¥ 33,422	$ 333,586
Short-term investment securities (Notes 3 (4), 4 and 5)	103	102	1,018
Trade receivables:			
Notes	10,295	10,361	103,413
Accounts	127,083	145,523	1,452,470
Inventories (Note 3 (7)):			
Costs on uncompleted construction contracts	28,779	29,379	293,233
Real estate for sale and development projects in progress.	18,728	12,741	127,168
Other.	3,250	4,136	41,282
Deferred tax assets (Note 15)	9,593	8,018	80,028
Other	3,796	2,868	28,626
Allowance for doubtful accounts (Note 3 (6))	(1,089)	(1,161)	(11,588)
Total current assets	249,785	245,389	2,449,236
Investments and non-current assets:			
Investment securities.(Notes 3 (4), 4 and 5)	21,880	14,464	144,366
Long-term loans receivables	3,870	3,988	39,804
Deferred tax assets (Note 15)	7,177	10,598	105,779
Other	13,477	10,556	105,360
Allowance for doubtful accounts (Note 3 (6))	(5,660)	(6,601)	(65,885)
Total investments and non-current assets	40,744	33,005	329,424
Property, plant and equipment (Note 3 (8)):			
Land (Note 5)	35,171	36,024	359,557
Buildings and structures (Note 5)	32,399	31,259	311,997
Machinery, equipment and vehicles	18,865	18,183	181,485
Dredgers and vessels	52,834	52,259	521,599
Construction in progress	38	124	1,238
Total property, plant and equipment	139,307	137,849	1,375,876
Less accumulated depreciation	(75,356)	(76,578)	(764,328)
Property, plant and equipment — net	63,951	61,271	611,548
Other (Note 3 (9))	589	568	5,670
Total assets	¥355,069	¥340,233	$3,395,878

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2007	Millions of yen 2008	Thousands of U.S. dollars 2008
Current liabilities:			
Short-term loans payable (Note 6)	¥ 32,215	¥ 32,237	$ 321,759
Current portion of long-term loans payable (Note 6)	31,632	30,952	308,933
Trade payable:			
Notes	37,769	30,785	307,266
Accounts	80,190	90,730	905,579
Advance received on uncompleted construction contracts	36,621	28,911	288,562
Deposits received	9,832	10,363	103,434
Income taxes payable	952	743	7,416
Provision for loss on construction contracts (Note 3 (12))	840	715	7,136
Other provision	2,233	2,251	22,467
Other	3,430	3,130	31,241
Total current liabilities	235,714	230,817	2,303,793
Noncurrent liabilities:			
Long-term loans payable (Note 6)	46,616	45,910	458,229
Provision for retirement benefits (Notes 3 (11) and 19)	6,577	1,109	11,069
Provision for directors' retirement benefits (Note 3 (13))	438	213	2,126
Deferred tax liabilities for land revaluation (Note 17(2))	7,259	7,216	72,023
Other	859	1,106	11,039
Total noncurrent liabilities	61,749	55,554	554,486
Total liabilities	297,463	286,371	2,858,279
Net assets (Note 3 (18)):			
Shareholders' equity:			
Common stock	28,070	28,070	280,168
Authorized — 599,135,000 shares			
Issued and outstanding shares			
March 31, 2008 245,763,910 shares			
March 31, 2007 491,527,820 shares			
Capital surplus (Note 17 (1))	20,106	20,106	200,679
Retained earnings	4,103	3,992	39,844
Less: Treasury stock	(15)	(20)	(200)
Total shareholders' equity	52,264	52,148	520,491
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities (Note 17 (3))	4,277	(1,973)	(19,693)
Deferred gains (losses) on hedges	(6)	(33)	(329)
Revaluation reserve for land (Note 17 (2))	857	3,539	35,323
Foreign currency translation adjustment (Note 3 (2))	189	170	1,697
Total valuation and translation adjustments	5,317	1,703	16,998
Minority interests	25	11	110
Total net assets	57,606	53,862	537,599
Total liabilities and net assets	¥355,069	¥340,233	$3,395,878

Commitments and contingent liabilities (Note 14)

CONSOLIDATED STATEMENTS OF OPERATIONS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2008

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Construction business:			
Net sales	¥311,389	¥337,476	$3,368,360
Cost of sales	288,794	312,523	3,119,303
Gross profit	22,595	24,953	249,057
Development business and other:			
Net sales.	11,876	15,333	153,039
Cost of sales.	10,704	13,758	137,319
Gross profit	1,172	1,575	15,720
Total net sales	323,265	352,809	3,521,399
Total cost of sale	299,498	326,281	3,256,622
Total gross profit	23,767	26,528	264,777
Selling, general and administrative expenses	19,123	17,688	176,545
Operating income	4,644	8,840	88,232
Non-operating income:			
Interest and dividends	570	599	5,979
Other (Note 7)	737	455	4,541
	1,307	1,054	10,520
Non-operating expenses:			
Interest	2,840	2,993	29,873
Other (Note 8)	1,033	1,804	18,006
	13,873	4,797	47,879
Ordinary income	2,078	5,097	50,873
Extraordinary gain (Note 9)	5,887	3,476	34,694
Extraordinary loss (Note 10)	19,855	4,245	42,369
Income (loss) before income taxes and minority interests	(11,890)	4,328	43,198
Income taxes (Notes 3 (17) and 15):			
Current	1,034	899	8,973
Deferred	(7,080)	874	8,723
	(6,046)	1,773	17,696
Minority interests	(14)	16	159
Net income (loss)	¥ (5,858)	¥ 2,571	$ 25,661
Net income (loss) per share of common stock (Note 3 (14))	Yen		U.S. dollars
Primary	¥(11.92)	¥10.46	$0.10

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2008

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained Earnings	Treasury Stock	Total shareholders' equity
Balance at March 31, 2006	¥28,070	¥20,106	¥ 9,939	¥(13)	¥58,102
Changes of items during the period					
Net income (loss)			(5,858)		(5,858)
Reversal of revaluation reserve for land			22		22
Purchase of treasury stock				(2)	(2)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	(5,836)	(2)	(5,838)
Balance at March 31, 2007	¥28,070	¥20,106	¥ 4,103	¥(15)	¥52,264

	Millions of yen						
	Valuation and translation adjustments						
	Valuation difference on availabe-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total Valuation and translation adjustments	Minority interests	Total Net Assets
Balance at March 31, 2006	¥ 7,724	¥—	¥879	¥186	¥ 8,789	¥10	¥66,901
Changes of items during the period							
Net income (loss)							(5,858)
Reversal of revaluation reserve for land							22
Purchase of treasury stock							(2)
Net changes of items other than shareholders' equity	(3,447)	(6)	(22)	3	(3,472)	15	(3,457)
Total changes of items during the period	(3,447)	(6)	(22)	3	(3,472)	15	(9,295)
Balance at March 31, 2007	¥ 4,277	¥(6)	¥857	¥189	¥ 5,317	¥25	¥57,606

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained Earnings	Treasury Stock	Total shareholders' equity
Balance at March 31, 2007	¥28,070	¥20,106	¥ 4,103	¥(15)	¥52,264
Changes of items during the period					
Net income (loss)			2,571		2,571
Reversal of revaluation reserve for land			(2,682)		(2,682)
Purchase of treasury stock				(5)	(5)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	(111)	(5)	(116)
Balance at March 31, 2008	¥28,070	¥20,106	¥ 3,992	¥(20)	¥52,148

	Millions of yen						
	Valuation and translation adjustments						
	Valuation difference on availabe-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total Valuation and translation adjustments	Minority interests	Total Net Assets
Balance at March 31, 2007	¥ 4,277	¥ (6)	¥ 857	¥189	¥ 5,317	¥ 25	¥57,606
Changes of items during the period							
Net income (loss)							2,571
Reversal of revaluation reserve for land							(2,682)
Purchase of treasury stock							(5)
Net changes of items other than shareholders' equity	(6,250)	(27)	2,682	(19)	(3,614)	(14)	(3,628)
Total changes of items during the period	(6,250)	(27)	2,682	(19)	(3,614)	(14)	(3,744)
Balance at March 31, 2008	¥(1,973)	¥(33)	¥3,539	¥170	¥ 1,703	¥ 11	¥53,862

	Thousands of U.S.dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained Earnings	Treasury Stock	.otal shareholders' equity
Balance at March 31, 2007	$280,168	$200,679	$ 40,952	$(150)	$521,649
Changes of items during the period					
Net income (loss)			(26,769)		(26,769)
Reversal of revaluation reserve for land			25,661		25,661
Purchase of treasury stock				(50)	(50)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	(1,108)	(50)	(1,158)
Balance at March 31, 2008	$280,168	$200,679	$ 39,844	$(200)	$520,491

	Thousands of U.S.dollars						
	Valuation and translation adjustments						
	Valuation difference on availabe-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total Valuation and translation adjustments	Minority interests	Total Net Assets
Balance at March 31, 2007	$42,689	$ (60)	$ 8,554	$1,886	$ 53,069	$ 250	$574,968
Changes of items during the period							
Net income (loss)							(26,769)
Reversal of revaluation reserve for land							25,661
Purchase of treasury stock							(50)
Net changes of items other than shareholders' equity	(62,382)	(269)	26,769	(189)	(36,071)	(140)	(36,211)
Total changes of items during the period	(62,382)	(269)	26,769	(189)	(36,071)	(140)	(37,369)
Balance at March 31, 2008	$(19,693)	$(329)	$35,323	$1,697	$ 16,998	$ 110	$537,599

CONSOLIDATED STATEMENTS OF CASH FLOWS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥(11,890)	¥4,328	$43,198
Adjustment to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	4,166	4,456	44,475
Impairment loss	1,774	736	7,346
Increase (decrease) in allowance for doubtful accounts	21	1,013	10,111
Increase (decrease) in provision for retirement benefits	(174)	(373)	(3,723)
Interest and dividends income	(570)	(599)	(5,979)
Interest expense	3,174	3,284	32,778
Foreign exchange losses (gains)	173	360	3,593
Equity in (earnings) losses of affiliates	(173)	7	70
Loss (gain) on sales of property, plant and equipment	(193)	(100)	(998)
Loss (gain) on sales of investment securities	(5,391)	(53)	(529)
Loss on valuation of securities and investment securities	27	28	279
Loss (gain) on securities contribution to employees' retirement benefits trust	—	(3,069)	(30,632)
Change in assets and liabilities:			
Decrease (increase) in notes and accounts receivable-trade	(13,672)	(13,906)	(138,796)
Decrease (increase) in costs on uncompleted construction contracts	4,298	(600)	(5,989)
Decrease (increase) in real estate for sale and development projects in progress and other inventories	17,583	3,092	30,861
Increase (decrease) in notes and accounts payable-trade	2,919	5,233	52,231
Increase (decrease) in advances received on uncompleted construction contracts	4,436	(7,710)	(76,954)
Increase (decrease) in other provision	373	(191)	(1,906)
Other — net	1,793	(1,392)	(13,893)
Sub total	8,674	(5,456)	(54,457)
Interest and dividends income received	549	594	5,929
Interest expenses paid	(3,184)	(3,174)	(31,680)
Income taxes paid	(1,318)	(1,112)	(11,099)
Net cash provided by (used in) operating activities	4,721	(9,148)	(91,307)

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Cash flows from investing activities:			
Purchase of short-term investment securities	(112)	(3)	(30)
Proceeds from sales of short-term investment securities	202	103	1,028
Purchase of investment securities	(490)	(3,824)	(38,167)
Proceeds from sales of investment securities	6,946	35	349
Purchase of property, plant and equipment	(2,540)	(2,004)	(20,002)
Proceeds from sales of property, plant and equipment	763	1,304	13,015
Payments of loan s receivable	(69)	(792)	(7,905)
Collection of loans receivable	936	666	6,647
Other — net	(78)	(15)	(149)
Net cash provided by (used in) investing activities	5,558	(4,530)	(45,214)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(9,648)	22	220
Proceeds from long-term loans payable	23,253	30,246	301,886
Repayment of long-term loans payable	(38,854)	(31,633)	(315,730)
Cash dividends paid	(1)	(0)	(0)
Other — net	(421)	(389)	(3,883)
Net cash provided by (used in) financing activities	(25,671)	(1,754)	(17,507)
Effect of exchange rate change on cash and cash equivalents	(162)	(298)	(2,974)
Net increase (decrease) in cash and cash equivalents	(15,554)	(15,730)	(157,002)
Cash and cash equivalents at beginning of the period	64,678	49,124	490,308
Cash and cash equivalents at end of the period	¥49,124	¥33,394	$333,307

(Note):

Cash and cash equivalents are comprised as follows:

Cash and deposits	¥49,247	¥33,422	$333,586
Less-Time deposits with maturity over three months	(123)	(28)	(279)
Cash and cash equivalents (Note 3 (16))	¥49,124	¥33,394	$333,307

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries

1. Basis of preparation of consolidated financial statements

The accompanying consolidated financial statements of Penta-Ocean Construction Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The accounting principles and practices adopted by the overseas consolidated subsidiaries conform to those adopted by the Company.

The figures in these financial statements are shown in U.S. dollars at the conversion rate of U.S.$1=¥100.19, the exchange rate prevailing on March 31, 2008. This is solely for the convenience of readers outside Japan and does not mean that assets and liabilities originating in yen can be converted into or settled in dollars at the above rate.

2. Consolidation

(1) Scope of consolidation and application of equity method

The Company has twenty-five subsidiaries and two affiliated companies at March 31, 2008.

The Company consolidated all subsidiaries and applied the equity method to all affiliated companies.

(2) Consolidation date

The balance sheet date of overseas subsidiaries other than the Company, domestic subsidiaries and seven overseas subsidiaries including Penta-Ocean Dredging Panama whose balance sheet date is March 31, is December 31.

The Company compiled the consolidated financial statements using the financial statements of each company's closing date, and adjustments were made for any material difference incurred between the balance sheet date and the consolidation date.

(3) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of subsidiaries are recorded at fair value upon acquisition. The difference between fair value and book value is allocated to Net assets excluding minority interests and minority interests in proportion to their respective shareholdings.

(4) Good will

Good will is amortized over five years by the straight-line method.

3. Summary of significant accounting policies

(1) Conversion method of foreign currency transactions of the Company and its domestic subsidiaries and affiliated companies

Transactions in foreign currencies are converted into yen at the exchange rate prevailing at the time of the transactions. Monetary receivables and payables denominated in foreign currencies including foreign cash are converted into yen at the exchange rate prevailing on the balance sheet date. Non-monetary items denominated in foreign currencies are converted into yen at the historical rate. Held-to-maturity bonds denominated in foreign currencies are translated into yen at the exchange rate prevailing on the balance sheet date, securities for purpose of sales and investment securities other than the above are converted into yen from the fair value based on foreign currencies at the exchange rate prevailing on the balance sheet date and stock of subsidiaries and affiliated companies at the exchange rate prevailing at the time of acquisition of the Company, and those are written down, when declined remarkably. The valuation amount of derivative financial instruments resulting from derivative transaction denominated in foreign currencies are translated at the exchange rate prevailing on the balance sheet date based on the fair value or the actual value estimated in foreign currencies excluding those applying hedge accounting. Exchange gains or losses, realized or unrealized, are included in current income.

(2) Conversion method of financial statements of overseas subsidiaries stated in foreign currency

Financial statements stated in foreign currency are translated into yen at the exchange rate prevailing on the balance sheet date except for the components of Net assets which are translated at the exchange rate prevailing at the time of acquisition of the Company and at the historical rate to their increase thereafter.

Exchange differences arising from conversion of balance sheet accounts are stated as foreign currency translation adjustment in Net assets.

(3) Recognition of contract revenue

The Company generally recognizes revenue upon the completed-contract method excluding the percentage of completion (POC) method to recognize revenue derived from large, long-term construction projects which conform to certain specified terms. Advances received in excess of revenue recognized based on POC method are shown as a current liability. Cost of uncompleted contracts is included in inventories.

(4) Investment securities

Held-to-maturity bonds are determined by the amortized cost method.

Discounts and premiums are amortized by the straight-line method.

Other securities with fair value are stated at fair value based on the market price at the closing date. Valuation differences are included in Net assets as valuation difference on available-for-sale securities, and cost of sales are determined by the moving average method.

Other investment securities with no fair value are stated at moving average cost.

(5) Derivative financial transactions

Derivative financial instruments are stated at fair value.

Hedge accounting is adopted for derivative financial instruments which conform to requirements of hedge accounting.

(6) Allowance for doubtful accounts

Allowance for doubtful accounts is accounted for using the estimated doubtful account ratio determined based on the past actual doubtful account losses to general credits and the individual estimated amount to any specific uncollectible receivables.

(7) Inventories

Inventories are stated at specific cost, except for raw materials and supplies which are determined by the first-in first-out method.

In the case that the net realizable value falls below the acquisition cost at the end of the period, inventories except for cost on uncompleted construction contracts are carried at the net realizable value on the balance sheet.

(8) Property, plant and equipment

Property, plant and equipment are stated at cost and for the Company and domestic subsidiaries depreciation is calculated using the declining balance method, except for buildings (other than equipment fixed inside buildings) acquired on and after April 1, 1998, which are calculated by the straight-line method. The straight-line method is applied to property, plant and equipment of overseas subsidiaries.

(Change of accounting method)

The Company and domestic subsidiaries have changed their depreciation method for fixed assets acquired on and after April 1, 2007 based on amendment in Corporation tax law.

As a result of this, operating income, ordinary income and income before income taxes and minority interests decreased by ¥94 million.

(Additional information)

Pursuant to amendment in Corporation tax law, for fixed assets acquired prior to March 31, 2007 and depreciated to 5 % of acquisition cost, the Company and domestic subsidiaries depreciated the remaining cost on a straight-line basis over five years stipulated by the Corporation tax law.

As a result of this, operating income, ordinary income and income before income taxes and minority interests decreased by ¥195 million.

(9) Research and development costs, and computer software

Research and development costs are charged to income as incurred.

Computer software purchased for internal use is amortized assuming no scrap value by the straight-line method over five years, the estimated useful life.

(10) Accounting for finance lease

Finance lease transactions other than those which are deemed to transfer the ownership of the assets to the lessees, are accounted for as operating leases.

(11) Provision for retirement benefits

The Company has a defined benefit pension plan and a lump-sum severance indemnity plan and the domestic consolidated subsidiaries have a lump-sum severance indemnity plan, as a retirement benefit plan. And further, in some cases, a special additional retirement payment is made to employees.

In addition, the Company has established the financial trust to cover retirement benefit obligations for employees.

The overseas consolidated subsidiaries do not have a retirement benefit plan.

Provision for retirement benefits is provided for on an accrual basis based on the estimated amounts of retirement benefit obligations and pension fund assets at end of the fiscal year.

Effects of the application of the new accounting standards for retirement benefits are equally amortized over fifteen years.

Prior service liabilities are recognized as an expense when incurred.

Actuarial gains or losses are equally amortized by the straight-line method over the average remaining employees' service years, which should be within 10 years and its amortization starts in the next year of the respective accrual years.

(12) Provision for loss on construction contracts
The Company provides provision for future losses from construction contracts outstanding at fiscal year-end.

(13) Provision for directors' retirement benefits
Some subsidiaries provide provision for retirement pay equal to the amount required if all directors and statutory auditors retired on the balance sheet date.
(Additional information)
The Company terminated a retirement benefit plan for directors including operating officers on June 28, 2007.

The amount granted prior to the termination date was transferred to other noncurrent liabilities.

(14) Net income per share
Primary net income per share is calculated by the weighted average number of outstanding common stocks during the period.

Net income per share assuming full dilution is not presented because there were no potential stocks as of March 31, 2008.

(15) Cash and cash equivalents
Cash and cash equivalents in the statements of cash flows, consist of cash, deposits which can be drawn out freely and easily converted into cash and short-term investments which have an original maturity of three months or less and are not exposed to significant valuation risks.

(16) Hedge accounting
1) Derivative transactions are accounted for primarily using deferral hedge accounting.

2) Hedge instruments and hedged items
Hedge instruments are interest rate swap agreements and forward exchange contracts.

Hedged items are interest on bank loans and monetary receivables and payables denominated in foreign currencies.

3) The Company enters into interest rate swap agreements and forward exchange contracts to hedge risk from fluctuations in interest rate and forward exchange rates, respectively.

4) Control procedures for hedge transactions are executed according to the Company's Bylaw. The Examination Committee of Derivative Instruments and the Financial Division in the Company periodically evaluates the effectiveness of hedging.

(17) Income taxes
The Company and consolidated domestic subsidiaries declare corporation and other taxes on the basis of taxable income calculated under the provisions of the Corporation Tax Law and other tax regulations. Taxable income thus calculated is different from earnings in the account book.

Japanese corporation and other taxes applicable to the Company and consolidated domestic subsidiaries comprise (a) corporation tax of 30.0 percent on taxable income, (b) enterprise tax of 7.6 percent on taxable income after certain adjustments, and (c) prefectural and municipal taxes averaging 20.4 percent of corporation tax. When paid, enterprise tax is deductible for income tax purposes.

Foreign subsidiaries declare income taxes at the rate applicable in each country. Foreign tax credit related to the amount of income taxes paid to foreign tax offices by the Company directly or indirectly, is subject to certain limitations in accordance with Japanese tax regulations.

4. Securities

The composition of securities as of March 31, 2007 and 2008 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Securities due within one year:			
Held-to-maturity bonds	¥ 2	¥ 1	$ 10
Investment trust bills	101	101	1,008
Total	¥103	¥102	$1,018
Investment in securities:			
Held-to-maturity bonds	¥ 67	¥ 68	$ 679
Investment trust bills	270	135	1,347
Stocks	21,341	13,811	137,848
Others	202	450	4,492
Total	¥21,808	¥14,464	$144,366

5. Pledged assets

(1) The following assets are pledged for fulfillment of construction contracts at March 31, 2007 and 2008.

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Securities	¥ 2	¥ 1	$ 10
Investment in securities	531	411	4,102
Total	¥533	¥412	$4,112

(2) The following assets were pledged to secure short-term bank loans and long-term debt at March 31, 2007 and 2008.

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Land	¥ 35	¥ 67	$ 669
Building	101	98	978
Total	¥136	¥165	$1,647

6. Short-term and long-term debt

Short-term loans are represented primarily in the form of overdraft facility notes. The weighted average interest rates for the two fiscal years ended March 31, 2008 are 1.48% and 1.65%. Long-term loans as of March 31, 2007 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Long-term debt from banks and insurance companies maturing in 2013 (The weighted average interest rates is 3.09%.)	¥ 78,248	¥ 76,862	$ 767,162
Less: current portion of long-term debt	(31,632)	(30,952)	(308,933)
Net	¥ 41,616	¥ 45,910	$ 458,229

The aggregate annual maturity of long-term debt after March 31, 2008 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2008	2008
Years ending March 31,		
2009	¥30,952	$308,933
2010	27,903	278,501
2011	10,558	105,380
2012	5,348	53,378
2013 and after that	2,101	20,970
Total	¥76,862	$767,162

7. Non-operating income

The composition of Non-operating income - other for the two years ended March 31, 2008 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Real estate rent	¥217	¥199	$1,986
Equity in earnings of affiliates	173	—	—
Other	347	256	2,555
Total	¥737	¥455	$4,541

8. Non-operating expenses

The composition of Non-operating expenses — other for the two years ended March 31, 2008 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Equity in losses of affiliates	¥ —	¥ 7	$ 70
Foreign exchange losses	423	1,316	13,135
Other	610	481	4,801
Total	¥1,033	¥1,804	$18,006

9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2008 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Gain on prior period adjustment	¥ 212	¥ 195	$ 1,946
Gain on sales of noncurrent assets	224	140	1,397
Gain on securities contribution to employees' retirement benefits trust	—	3,069	30,632
Gain on sales of investment securities	5,423	—	—
Other	28	72	719
Total	¥5,887	¥3,476	$34,694

10. Extraordinary loss

The composition of Extraordinary loss for the two years ended March 31, 2008 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Loss on prior period adjustment	¥ 148	¥ 451	$ 4,501
Loss on sales of noncurrent assets	32	—	—
Loss on valuation of real estate for sale	7,956	—	—
Impairment loss *1	1,774	736	7,346
Loss on real estate development business	8,679	—	—
Provision of allowance for doubtful accounts	—	2,639	26,280
Other	1,266	425	4,242
Total	¥19,855	¥4,245	$42,369

*1 The Company recognized loss on impairment for the following group of assets in the current fiscal year ended March 31, 2008

Location	Classification	Impairment loss
Tohoku area	Idle assets (1 object)	Land ¥24 million ($240 thousand)
Kanto area	Common assets (1 object)	Buildings ¥249 million ($2,485 thousand)
Chugoku, Kyushu area	Idle assets (2 objects)	Land and other ¥165 million ($1,647 thousand)
	Sand production plant (1 object)	Machinery and other ¥298 million ($2,974 thousand)

The Company and consolidated subsidiaries classified the fixed assets by business control unit such as company, branch office, and business line, which controls its revenue and expenditure continuously.

Book values of above assets were written down to recoverable amounts with following reasons.

The Assets previously being classified as common assets such as land for site office, welfare facilities were written down due to assets being changed to idling status from this Financial Year and also no utilization plan exists for the future, or due to decision to sell the assets and no alternative investment plan exists.

The sand production plant was written down due to decision to stop sand product operation.

The impairment loss (¥736 million (U.S.$7,346 thousand)) has been accounted for as the extraordinary loss.

The recoverable amounts related to the idle assets and common assets were measured by net realizable amounts based on the estimated contract amounts or the land value assessed for tax purposes. Net realizable value related to the sand production plant were assessed to be zero.

11. Research and development costs

Research and development costs charged to income for the two fiscal years ended March 31, 2008 are ¥1,371 million and ¥927million (U.S. $9,252thousand), respectively.

12. Summary of finance lease transactions

The Company has entered into finance lease contracts. They are summarized as follows:

(1) Estimated acquisition costs, accumulated depreciation and estimated value of assets leased by the Company are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Estimated acquisition costs			
Equipment	¥262	¥339	$3,384
Vehicles	61	53	529
	323	392	3,913
Less: accumulated depriciation	(233)	(250)	(2,495)
Less: accumulated impairment loss	—	(25)	(250)
Estimated value	¥ 90	¥117	$1,168

(2) Future lease payments and accumulated impairment loss on leased assets as of March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Within one year	¥44	¥ 52	$ 519
Over one year	50	82	818
Total	¥94	¥134	$1,337
Accumulated impairment loss on leased assets	¥—	¥ 14	$ 140

(3) Lease payments, reversal of accumulated impairment loss on leased assets, depreciation equivalents, interest expenses equivalents and impairment loss for the years ended March 31, 2007 and 2008:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Lease payments	¥104	¥62	$619
Reversal of accumulated impairment loss on leased assets	—	11	110
Depreciation equivalents	89	57	569
Interest expense equivalents	3	3	30
Impairment loss	—	25	250

(3) Lease payments, reversal of accumulated impairment loss on leased assets, depreciation equivalents, interest expenses equivalents and impairment loss for the years ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Lease payments	¥104	¥62	$619
Reversal of accumulated impairment loss on leased assets	—	11	110
Depreciation equivalents	89	57	569
Interest expense equivalents	3	3	30
Impairment loss	—	25	250

13. Derivative financial transactions

(1) Matters concerning derivative financial transactions

The Company and its consolidated subsidiaries have entered into interest rate swap agreements and forward exchange contracts only for hedging risks from fluctuation in interest rates and foreign exchange rates, not for speculative purposes.

The derivative financial transactions are mainly performed by the Company, and have been made in accordance with the Bylaw, which clearly describes purposes, execution and control for transaction.

(2) Matters concerning fair value

Hedge accounting is applied for all derivative financial transactions for the year ended March 31, 2007 and 2008 and accordingly fair value information is waived.

14. Commitments and contingent liabilities

As of March 31, 2008, the Company has liabilities for guarantee to bank loans made by customers amounting to ¥1,785 million (U.S. $17,816 thousand).

The Company also has the guarantee amounting to ¥430 million (U.S. $4,292 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

The Company has agreements on commitment line with 31 banks totaling ¥35,000 million for the purpose of flexible financing. There is no amount of loans using the line as of March 31, 2008.

15. Tax effect accounting

1. The significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Deferred tax assets			
Net operating loss carried forward	¥ 4,132	¥ 9,292	$ 92,744
Loss on valuation of real estate for sale	7,917	4,902	48,927
Allowance for doubtful accounts	1,993	1,792	17,886
Employees' retirement benefits trust	1,133	1,664	16,609
Provision for bonuses	709	685	6,837
Impairment loss	509	528	5,270
Provision for retirement benefits	2,525	307	3,064
Other	2,939	2,893	28,875
Total: deferred tax assets	21,857	22,063	220,212
Less : valuation allowance	(2,244)	(3,387)	(33,806)
Deferred tax assets	¥19,613	¥18,676	$186,406
Deferred tax liabilities			
Valuation difference on available-for-sale securities	¥ (2,763)	¥ —	$ —
Reduction for amendment of allowance for doubtful accounts	(22)	(17)	(170)
Other	(58)	(43)	(429)
Total: deferred tax liabilities	(2,843)	(60)	(599)
Net: deferred tax assets	¥16,770	¥18,616	$185,807

2. The principal details of the material differences between the statutory effective tax rate and the actual burden tax rate after application of tax-effect accounting

For the year ended March 31, 2008, a reconciliation is not disclosed because the difference is less than 5% of the normal effective statutory tax rate (40.69%).

16. Consumption tax

Consumption tax is usually levied at the rate of 5 percent on all transactions in connection with sales and purchases, except for tax-free transactions. Consumption tax is eliminated from sales and purchases stated in the statements of income.

17. Net assets

(1) Legal retained earnings and legal capital surplus

The Japanese Corporate Law requires to provide a legal retained earnings equal to 10 percent of cash out flow, that is, payment of dividends approved by the Shareholders' meeting every fiscal years, until the total amounts of legal retained earnings plus legal capital surplus or either of them reach 25 percent of common stock.

In the consolidated financial statements, those are included in retained earnings and capital surplus, respectively.

(2) Revaluation reserve for land

The Company revaluated lands used for business purposes on March 31, 2000 based on the Law concerning Land Revaluation (Law No.34, promulgated on March 31, 1998) and on the partial revision of the Law concerning Land Revaluation (Law No.24, promulgated on March 31, 1999). Relating to revaluation excess, the amounts corresponding to deferred tax on the tax effect accounting are accounted for as a long-term deferred tax liabilities and its remains are accounted for as revaluation reserve for land constituting net assets.

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
The difference between the appraisal value of land at end of the current fiscal year and the book value	¥(12,314)	¥(12,271)	$(122,477)

Fair values were determined on the basis of Article 2 No.4 and 5 of an Enforcement ordinance No.119 of the Law concerning Land Revaluation promulgated on March 31, 1998.

(3) Valuation difference on availabe-for-sale securities

Valuation difference on availabe-for-sale securities is based on the difference between fair market value and book value at March 31. This amounted to ¥ 1,973 million (U.S. $ 19,693 thousand) loss as of March 31, 2008.

(4) Restriction of dividends

It is regulated by the Japanese Corporate Law that the unrealized valuation difference from assets evaluated by fair value is not available for payment of dividends.

18. Authorized shares

The Articles of Incorporation provides that if retirement of shares is carried out, the corresponding number of shares must be deducted from authorized shares.

19. Retirement benefits

I. Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
a. Retirement benefit obligations	¥(36,223)	¥(34,260)	$(341,951)
b. Pension fund assets	18,740	20,948	209,083
c. Unfunded retirement benefit obligations	(17,482)	(13,312)	(132,868)
d. Amortization term of effects of the application of the new accounting standards for retirement benefits	10,414	9,112	90,947
e. Unrecognized actuarial gain or loss	859	3,443	34,365
f. Net retirement benefit obligations	(6,210)	(757)	(7,556)
g. Prepaid pension cost	367	352	3,513
h. Provision for retirement benefits	¥(6,577)	¥(1,109)	$(11,069)

II. Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
a. Service costs	¥1,333	¥1,284	$12,816
b. Interest costs	686	715	7,136
c. Expected return on pension fund assets	(590)	(655)	(6,538)
d. Amortization term of effects of the application of the new accounting standards for retirement benefits	1,302	1,302	12,995
e. Amortization of actuarial gain or loss	476	490	4,891
f. Recognition of prior service liabilities	—	117	1,168
g. Retirement benefit costs	¥3,207	¥3,253	$32,468

III. Calculation basis of retirement benefit obligations, etc.

a. Recognition method of the projected retirements benefit obligations	Straight-line method
b. Discount rate	2.00%
c. Expected return rate on pension fund assets	3.50%
d. Recognition term of prior service liabilities	Fully recognized as incurred
e. Amortization term of actuarial gain or loss	Actuarial gains or losses are amortized by the straight-line method over the average remaining employees' service years from the next year of the respective accrual years (almost 10 years)
f. Amortization term of effects of the application of the new accounting standards for retirement benefits	15 years

20. Segment information

(1) Business segment

Business segment is primarily composed of the followings:

Construction	Civil engineering, construction, etc.
Real estate development	Sale or rental of real estate
Other	Sale of construction materials, shipbuilding, etc.

	Millions of yen					
Year ended March 31, 2007	Construction	Development business	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥311,389	¥ 1,447	¥10,429	¥323,265	¥ —	¥323,265
Internal sales or transfer	—	262	8,378	8,640	(8,640)	—
Total	311,389	1,709	18,807	331,905	(8,640)	323,265
Operating expenses	307,334	1,671	18,218	327,223	(8,602)	318,621
Operating income	4,055	38	589	4,682	(38)	4,644
Assets	239,041	31,706	21,830	292,577	62,492	355,069
Depreciation	2,100	30	2,058	4,188	(22)	4,166
Impairment loss	—	—	1,774	1,774	—	1,774
Capital expenditures	2,257	23	459	2,739	(44)	2,695

	Millions of yen					
Year ended March 31, 2008	Construction	Development business	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥337,476	¥ 4,436	¥10,897	¥352,809	¥ —	¥352,809
Internal sales or transfer	68	189	7,441	7,698	(7,698)	—
Total	337,544	4,625	18,338	360,507	(7,698)	352,809
Operating expenses	329,574	4,996	17,133	351,703	(7,734)	343,969
Operating income (loss)	7,970	(371)	1,205	8,804	36	8,840
Assets	262,035	23,171	21,911	307,117	33,116	340,233
Depreciation	2,527	23	1,940	4,490	(34)	4,456
Impairment loss	438	—	298	736	—	736
Capital expenditures	1,538	—	576	2,114	—	2,114

	Thousands of U.S. dollars					
Year ended March 31, 2008	Construction	Development business	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	$3,368,360	$ 44,276	$108,763	$3,521,399	$ —	$3,521,399
Internal sales or transfer	679	1,886	74,269	76,834	(76,834)	—
Total	3,369,039	46,162	183,032	3,598,233	(76,834)	3,521,399
Operating expenses.	3,289,490	49,865	171,005	3,510,360	(77,193)	3,433,167
Operating income (loss)	79,549	(3,703)	12,027	87,873	359	88,232
Assets	2,615,381	231,271	218,694	3,065,346	330,532	3,395,878
Depreciation	25,222	230	19,363	44,815	(340)	44,475
Impairment loss	4,372	—	2,974	7,346	—	7,346
Capital expenditures	15,351	—	5,749	21,100	—	21,100

All operating expenses are allocated to the respective segments.

Assets which could not be allocated relate to the general administration division in the head office of the Company and subsidiaries and amount to ¥63,959 million at March 31, 2007 and ¥33,581 million (U.S. $335,173 thousand) at March 31, 2008.

These principally consisted of cash and time deposits, securities, investment in securities and sundry assets.

(2) Geographic segment

Geographic segment is primarily composed of the followings:

Japan
Southeast Asia .... Singapore, Hong Kong and Vietnam
Others .... Sri Lanka, Bulgaria and Romania

	Millions of yen					
Year ended March 31, 2007	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥269,725	¥46,624	¥ 6,916	¥323,265	¥ —	¥323,265
Internal sales or transfer	—	—	—	—	—	—
Total	269,725	46,624	6,916	323,265	—	323,265
Operating expenses	264,318	47,702	6,601	318,621	—	318,621
Operating income	5,407	(1,078)	315	4,644	—	4,644
Assets	242,823	35,742	12,545	291,110	63,959	355,069

	Millions of yen					
Year ended March 31, 2008	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥297,863	¥45,654	¥ 9,292	¥352,809	¥ —	¥352,809
Internal sales or transfer	—	—	—	—	—	—
Total	297,863	45,654	9,292	352,809	—	352,809
Operating expenses	290,444	44,386	9,149	343,979	(10)	343,969
Operating income	7,419	1,268	143	8,830	10	8,840
Assets	255,671	38,776	12,216	306,663	33,570	340,233

	Thousands of U.S. dollars					
Year ended March 31, 2008	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	$2,972,981	$455,674	$ 92,744	$3,521,399	$ —	$3,521,399
Internal sales or transfer	—	—	—	—	—	—
Total	2,972,981	455,674	92,744	3,521,399	—	3,521,399
Operating expenses	2,898,932	443,018	91,317	3,433,267	(100)	3,433,167
Operating income	74,049	12,656	1,427	88,132	100	88,232
Assets	2,551,861	387,025	121,928	3,060,814	335,064	3,395,878

All operating expenses are allocated to the respective segments.

Assets which could not be allocated relate to the general administration division in the head office of the Company and subsidiaries and amount to ¥63,959 million at March 31, 2007 and ¥33,581 million (U.S. $335,173 thousand) at March 31, 2008.

These principally consisted of cash and time deposits, securities, investment in securities and sundry assets.

(3) Overseas sales

For the year ended March 31, 2007	Millions of yen		
	Southeast Asia	Others	Total
Overseas sales	¥46,624	¥6,916	¥ 53,540
Consolidated sales			¥345,266
The proportion of overseas sales to consolidated sales	14.4%	2.1%	16.6%

For the year ended March 31, 2008	Millions of yen		
	Southeast Asia	Others	Total
Overseas sales	¥45,654	¥9,292	¥ 54,946
Consolidated sales			¥352,809
The proportion of overseas sales to consolidated sales	12.9%	2.6%	15.6%

For the year ended March 31, 2008	Thousands of U.S. dollars		
	Southeast Asia	Others	Total
Overseas sales	$455,674	$92,744	$ 548,418
Consolidated sales			$3,521,399
The proportion of overseas sales to consolidated sales	12.9%	2.6%	15.6%

Segments of countries or areas are set up on the basis of geographical closeness.

Principal countries and areas included in each category.
— Southeast Asia: Singapore, Hong Kong and Vietnam
— Others: U.A.E and Sri Lanka

21. Related party transactions

For the year ended March 31, 2007

None

For the year ended March 31, 2008

None

22. Amounts per share

1. Per share information is summarized as follows:

	Yen		U.S. dollars
	2007	2008	2008
Net assets per share	¥117.18	¥219.19	$2.19
Net income (loss) per share	(11.92)	10.46	0.10
Diluted net income per share	—	—	—

2. For the year ended March 31, 2007, diluted net income per share is not disclosed, because the dilutive potential of shares of common stock is none and net loss per share is recorded.
   For the year ended March 31, 2008, diluted net income per share is not disclosed, because the dilutive potential of shares of common stock is none.

3. The Company's Board of Directors resolved to revise the articles of incorporation to provide for a reverse stock split and change of unit of shares system on May 18, 2007. This resolution was approved by the general shareholders at the meeting held on June 28, 2007.

(1) Summary of reserve stock split

a. Method of reverse stock split
   Each two shares are combined to one share for all issued common stock.

b. Per share date assuming a reverse stock split had been made at the beginning of fiscal year 2007 is as follows:

	Yen	U.S. dollars
	2007	2007
Net assets per share	¥234.35	$ 1.99
Net income (loss) per share	(23.84)	(0.20)

Report of Independent Auditor

The Board of Directors
PENTA-OCEAN CONSTRUCTION CO., LTD.

We have audited the accompanying consolidated balance sheets of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries at March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

June 27, 2008

Ernst & Young Shinnihon

ERNST & YOUNG SHINNIHON

Non-Consolidated Five-year Summary

Penta-Ocean Construction Co., Ltd.
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2004	2005	2006	2007	2008	2008
Orders received	¥298,079	¥326,909	¥276,497	¥347,389	¥375,945	$3,752,321
Civil engineering	151,789	197,567	135,405	149,595	205,839	2,054,486
Architectural engineering	140,086	126,542	139,057	193,416	167,756	1,674,380
Development business and other	6,204	2,800	2,035	4,378	2,350	23,455
Net sales	297,389	317,359	318,960	289,270	317,857	3,172,543
Civil engineering	168,438	158,300	171,437	152,937	167,482	1,671,644
Architectural engineering	123,124	156,360	142,864	134,636	145,045	1,447,699
Development business and other	5,827	2,699	4,659	1,697	5,330	53,200
Contract backlog	382,317	391,032	356,623	420,384	474,371	4,734,714
Civil engineering	237,238	275,937	246,554	248,469	283,685	2,831,470
Architectural engineering	142,257	112,172	109,771	168,935	190,686	1,903,244
Development business and other	2,822	2,923	298	2,980	0	0
Total assets	407,119	384,089	356,148	321,606	307,211	3,066,284
Net assets	38,533	45,574	63,772	53,574	48,710	486,176
Ordinary income	6,640	7,649	9,585	466	3,081	30,752
Income (loss) before income taxes	5,587	7,811	7,786	(13,503)	2,810	28,047
Net income (loss)	1,548	1,616	2,855	(6,744)	1,390	13,874
Cash dividends	—	—	—	—	—	—
Per share of common stock:	Yen					U.S. dollars
Net assets	¥106.64	¥115.33	¥129.77	¥109.02	¥198.26	$1.98
Net income (loss)	4.28	4.28	6.31	(13.72)	5.66	0.06
Cash dividends	—	—	—	—	—	—
Number of employees	3,043	2,965	2,880	2,838	2,778	

Note:
1. Figures in U.S. dollars are converted for convenience only, at the rate of ¥100.19 per U.S.$1, prevailing on March 31, 2008.

NON-CONSOLIDATED BALANCE SHEETS

Penta-Ocean Construction Co., Ltd.
March 31, 2007 and 20068

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Current assets:			
Cash and deposits	¥41,157	¥24,960	$249,127
Short-term investment securities	102	102	1,018
Trade receivables:			
Notes	6,964	8,405	83,891
Accounts	121,193	137,554	1,372,931
Subsidiaries and affiliates	4,546	4,712	47,031
Inventories:			
Costs on uncompleted construction contracts	26,577	26,668	266,174
Real estate for sale and development projects in progress	17,556	11,842	118,195
Raw materials and supplies	569	833	8,314
Deferred tax assets	9,406	7,818	78,032
Other	2,897	2,360	23,555
Allowance for doubtful accounts	(905)	(981)	(9,791)
Total current assets	230,062	224,273	2,238,477
Investments and other assets:			
Stock of and long-term loans receivable from subsidiaries and affiliates	2,139	1,602	15,990
Investment securities	21,639	14,287	142,599
Long-term loans receivable	3,464	3,571	35,642
Deferred tax assets	6,916	10,167	101,477
Other	12,949	10,074	100,549
Allowance for doubtful accounts	(5,621)	(6,340)	(63,280)
Total investments and other assets	41,486	33,361	332,977
Property, plant and equipment:			
Land	33,242	34,267	342,020
Buildings and structures	30,034	29,249	291,936
Machinery, equipment and vehicles	13,335	13,117	130,921
Dredgers and vessels	26,004	25,198	251,502
Construction in progress	35	101	1,008
Total property, plant and equipment	102,650	101,932	1,017,387
Less accumulated depreciation	(53,098)	(52,860)	(527,598)
Property, plant and equipment — net	49,552	49,072	489,789
Other	506	505	5,041
Total assets	¥321,606	¥307,211	$3,066,284

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Current liabilities:			
Short-term loans payable			
Bank	¥ 30,112	¥ 30,113	$ 300,559
Current portion of long-term loans payable	30,414	29,837	297,804
Trade payable:			
Notes	26,921	20,192	201,537
Accounts	74,235	83,595	834,365
Subsidiaries and affiliates	5,664	6,388	63,759
Advance received on uncompleted construction contracts	32,710	24,986	249,386
Deposits received	9,203	10,046	100,270
Income taxes payable	426	397	3,962
Provision for loss on construction contracts	836	672	6,707
Other provision	1,948	1,977	19,733
Other	2,303	2,189	21,848
Total current liabilities	214,772	210,392	2,099,930
Noncurrent liabilities:			
Long-term loans payable	39,288	39,697	396,217
Provision for retirement benefits	6,305	713	7,117
Provision for directors' retirement benefits	167	—	—
Deferred tax liabilities for land revaluation	7,259	7,216	72,023
Other	241	483	4,821
Total noncurrent liabilities	53,260	48,109	480,178
Total liabilities	268,032	258,501	2,580,108
Net assets:			
Capital stock	28,070	28,070	280,168
Authorized — 599,135,000 shares			
Issued and outstanding shares			
March 31, 2008 245,763,910 shares			
March 31, 2007 491,527,820 shares			
Capital surplus			
Legal capital surplus	10,000	10,000	99,810
Other capital surplus	10,106	10,106	100,869
Total capital equity	20,106	20,106	200,679
Retained earnings			
General reserve	4,000	—	—
Retained Earnings brought forward	(3,714)	(1,006)	(10,041)
Total retained earnings	286	(1,006)	(10,041)
Less: Treasury stock	(15)	(20)	(200)
Valuation difference on available-for-sale securities	4,276	(1,972)	(19,683)
Deferred gains (losses) on hedges	(6)	(7)	(70)
Revaluation reserve for land	857	3,539	35,323
Total net assets	53,574	48,710	486,176
Total liabilities and net assets	¥321,606	¥307,211	$3,066,284

NON-CONSOLIDATED STATEMENTS OF INCOME

Penta-Ocean Construction Co., Ltd.
For the two years ended March 31, 2008

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Construction contracts:			
Net sales	¥287,573	¥312,527	$3,119,343
Cost of sales	266,943	289,297	2,887,484
Gross profit	20,630	23,230	231,859
Development business and other:			
Net sales	1,697	5,329	53,189
Cost of sales	1,712	5,864	58,528
Gross profit (loss)	(15)	(535)	(5,339)
Total net sales	289,270	317,856	3,172,532
Total cost of sales	268,655	295,161	2,946,012
Total gross profit	20,615	22,695	226,520
Selling, general and administrative expenses	17,321	15,915	158,849
Operating income	3,294	6,780	67,671
Non-operating income:			
Interest and dividends income	533	566	5,649
Interest and dividends income from subsidiaries and affiliates	83	69	689
Other	456	367	3,663
	1,072	1,002	10,001
Non-operating expenses:			
Interest expenses	2,831	2,996	29,903
Other	1,069	1,705	17,017
	3,900	4,701	46,920
Ordinary income	466	3,081	30,752
Extraordinary gain	5,765	3,280	32,738
Extraordinary loss	19,734	3,551	35,443
Income (loss) before income taxes	(13,503)	2,810	28,047
Income taxes:			
Current	490	364	3,633
Deferred	(7,249)	1,056	10,540
	(6,759)	1,420	14,173
Net income (loss)	¥ (6,744)	¥ 1,390	$ 13,874

Net income (loss) per share of common stock	Yen		U.S. dollars
Primary	¥(13.72)	¥5.66	$0.06
Assuming full dilution	—	—	—

COMPANY DATA

(As of March 31, 2008)

Company Outline

Company Name	Penta-Ocean Construction Co., Ltd.
Established	April 1896
Head Office	2-8, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8576, Japan
	Tel: 81-3-3817-7181
	Fax: 81-3-3817-7642
Paid-in Capital	¥28,070 million (US$280.2 million)
Employees	2,778
Website	www.penta-ocean.co.jp

Board of Directors and Auditors

(As of June 27, 2008)

President and Representative Director	Yoshio Murashige
Representative Directors	Kazuyuki Kawakami
	Hayuru Tsuda
Directors	Kiyoshi Ida
	Kosuke Kondo
	Yoshihisa Takimoto
	Masafumi Saito
	Kunihiko Sasaki
	Yoshihisa Tomoda
Corporate Auditors	Hirosuke Kawamoto
	Kaoru Kurokawa
	Takaaki Komatsu
	Masatami Sasano

Penta-Ocean Construction Network

1 HEAD OFFICE
2-8, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8576, Japan
Tel: 81-3-3817-7181 Fax: 81-3-3817-7642

2 SINGAPORE OFFICE
1 Kim Seng Promenade #13-01/02, Great World City, East Tower, Singapore 237994
Tel: 65-6338-8966 Fax: 65-6337-0987

3 HONG KONG OFFICE
Unit 601, K Wah Center, 191 Java Road, North Point, Hong Kong
Tel: 852-2833-1098 Fax: 852-2572-4080

4 INDONESIA OFFICE
Mid Plaza II, 24th Floor, JL. Jenderal Sudirman Kav. 10-11, Jakarta 10220, Indonesia
Tel: 62-21-570-5484 Fax: 62-21-570-5485

5 MALAYSIA OFFICE
508, 5th Floor, Block A, Kelana Business Centre 97, Jalan SS 7/2, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Tel: 60-3-7492-2208 Fax: 60-3-7492-2209

6 EGYPT OFFICE
27 El Falah Street, off Shehab Street, Flat No. 5, 2nd Floor, Mohandeseen, Giza, Egypt
Tel: 20-2-3345-3207 Fax: 20-2-3345-3206

7 COLOMBO OFFICE
P.O. Box 383, No. 3-2, CBM House No. 2A, Lake Drive, Colombo 8, Sri Lanka
Tel: 94-11-2690316

8 MANILA OFFICE
Unit A1, 2nd Floor Almeda Arcade, 1014 Pasay Road, Makati City, Philippines
Tel: 63-2-752-8997 Fax: 63-2-752-8996

9 BANGKOK OFFICE
11th Floor, Room 1106, Vanit II Bldg. 1126/2, New Petchburi Road, Makkasan Rajthevee, Bangkok 10400, Thailand
Tel: 66-2-655-2183 Fax: 66-2-655-2185

10 HANOI OFFICE
4th Floor, 18 Tran Hung Dao Street, Hanoi, Vietnam
Tel: 84-4-824-1360 Fax: 84-4-824-1444

11 PHNOM PENH OFFICE
P. O. Box 2422, Phnom Penh III, No. F20, France Street, Norodom Road, Borei Chamkamorn, Khan Chamkamorn, Phnom Penh, Cambodia
Tel: 855-23-360463 Fax: 855-23-360462

12 DUBAI OFFICE
P.O. Box 118791, #612, Al Khaleej Centre, Bur Dubai, Dubai, United Arab Emirates
Tel: 971-4-359-8677 Fax: 971-4-359-8678

Penta-Ocean Construction Group

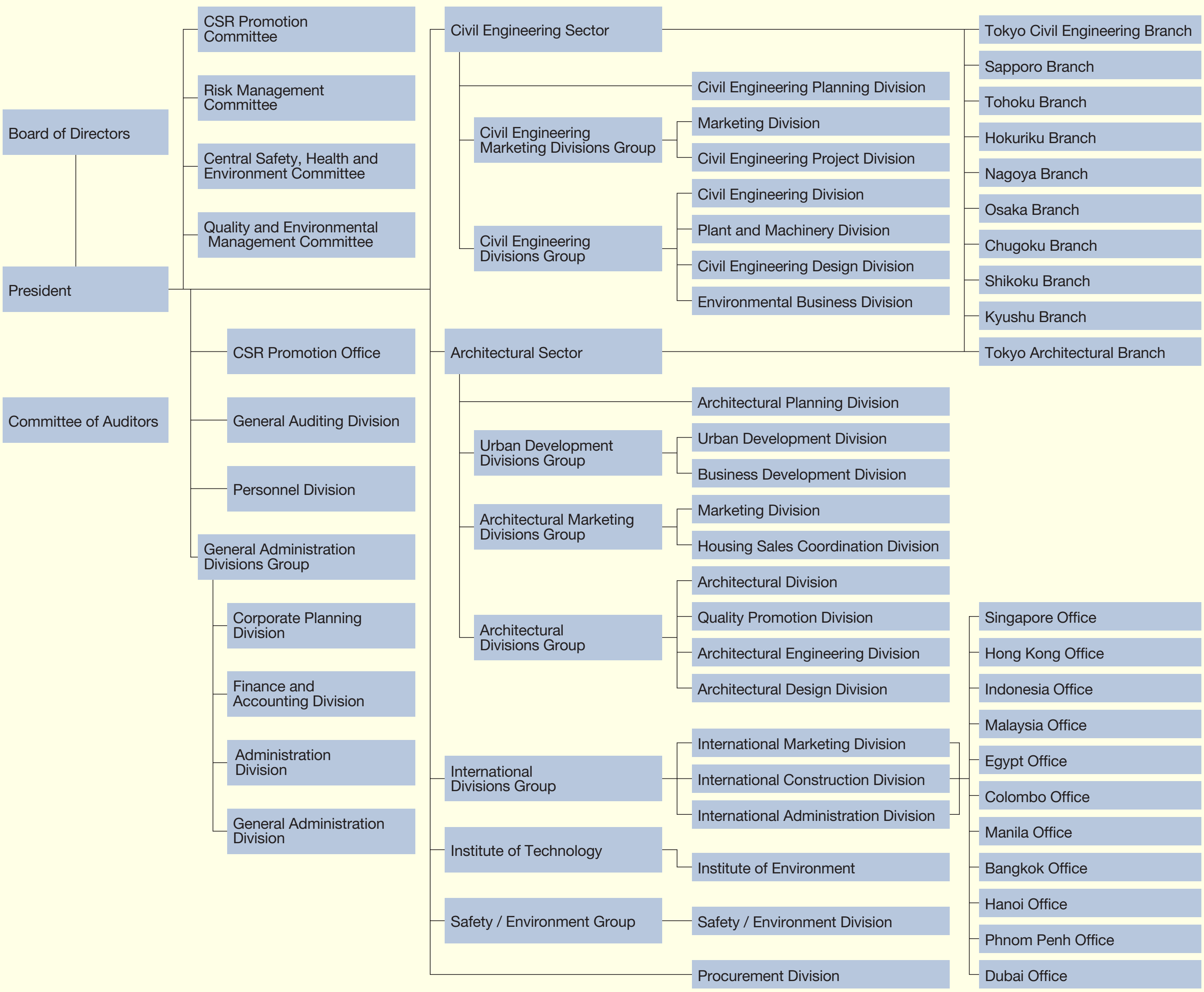
Consolidated Subsidiaries

Penta-Ocean Dredging Co., Ltd.	Koto-ku, Tokyo, Japan
Yoshin Construction Co., Ltd.	Hiroshima, Japan
Kyushu Yoshin Construction Co., Ltd.	Fukuoka, Japan
Penta Builders Corporation	Shinjuku-ku, Tokyo, Japan
Obama Marine Co., Ltd.	Unzen, Nagasaki, Japan
Kegoya Dock Co., Ltd.	Kure, Hiroshima, Japan
Penta Techno Service Co., Ltd.	Nasushiobara, Tochigi, Japan
Sand Techno Co., Ltd.	Ichikawa, Chiba, Japan
Domi Environmental Solutions	Bunkyo-ku, Tokyo, Japan
Penta Insurance Service Co., Ltd.	Chiyoda-ku, Tokyo, Japan
Penta-Ocean Construction (Malaysia) SDN. BHD.	Malaysia
Siam Goyo Co., Ltd.	Thailand
Thai Penta-Ocean Co., Ltd.	Thailand
Penta-Ocean Construction (Hong Kong) Ltd.	Hong Kong
Nicosia Co., Ltd.	Hong Kong
Brichwood Co., Ltd.	Hong Kong
Penta-Ocean Dredging Panama Inc.	Panama
Cosmo Transport Panama Inc.	Panama
Gloria Transport Inc.	Panama
Reina Del Mar Transport Inc.	Panama
Viento Del Mar Transport Inc.	Panama
Belleza Del Mar Transport Inc.	Panama
Sol Del Mar Transport Inc.	Panama
Angkutlaut Ltd.	Malaysia
Penta-Ocean Technology Information Advisory (Shenzhen) Ltd.	China

Consolidated Affiliates

Jiwat Co., Ltd.	Sendai, Miyagi, Japan
Haneda Airport International Airline Apron PFI	Shinjuku-ku, Tokyo, Japan

Organization Chart



(As of April 1, 2008)

Investor Information

(As of March 31, 2008)

Head Office
Penta-Ocean Construction Co., Ltd.
2-8, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8576, Japan
Telephone: 81-3-3817-7181
Facsimile: 81-3-3817-7642

Established
April 1896

Financial Year
April 1 to March 31

Common Stock
Authorized: 599,135,000
Issued: 245,763,910

Stock Listing
Tokyo, Nagoya and Osaka Stock Exchanges, First Section

Shareholders
50,871

Transfer Agency
Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku,
Tokyo 103-8670, Japan

Major Shareholders

Shareholders	Shares held (thousands)	Voting right ratio (%)
Mizuho Corporate Bank, Ltd.	7,059	2.9
Japan Trustee Service Bank, Ltd. (Trust Account)	6,731	2.7
Meiji Yasuda Life Insurance Co.	6,656	2.7
Sompo Japan Insurance Inc.	6,113	2.5
The Master Trust Bank of Japan (Trust Account)	5,048	2.1
Bank of New York GCM Client Accounts JPRD ISG (FE-AC)	4,603	1.9
Shoei Co., Ltd.	4,119	1.7
Tokyo Marine & Nichido Fire Insurance Co., Ltd.	3,934	1.6
Mizuho Trust & Banking Co., Ltd.	3,470	1.4
Japan Trustee Services Bank, Ltd. (Trust Account)	3,250	1.3

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Penta-Ocean Construction Annual Report 2008

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Printed in Japan