

MESSAGE FROM THE PRESIDENT

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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 breach 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

A handwritten signature in black ink that reads "Y. Murashige". The signature is written in a cursive, flowing style.

Yoshio Murashige,
President and Representative Director