## Consolidated Five-year Summary

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

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | **2009** | **2009** |
| Orders received | ¥344,716 | ¥296,046 | ¥368,262 | ¥395,083 | **¥334,236** | **$3,402,586** |
| Construction | 344,716 | 296,046 | 368,262 | 395,083 | **334,236** | **3,402,586** |
| Net sales | 345,266 | 354,657 | 323,265 | 352,809 | **398,486** | **4,056,663** |
| Construction | 334,802 | 338,842 | 311,389 | 337,476 | **384,824** | **3,917,581** |
| Development business and other | 2,368 | 4,488 | 1,447 | 4,436 | **1,209** | **12,308** |
| Other | 8,096 | 11,327 | 10,429 | 10,897 | **12,453** | **126,774** |
| Contract backlog | 398,369 | 364,407 | 428,218 | 481,870 | **411,536** | **4,189,514** |
| Construction | 398,369 | 364,407 | 428,218 | 481,870 | **411,536** | **4,189,514** |
| Total assets | 411,322 | 389,367 | 355,069 | 340,233 | **339,587** | **3,457,060** |
| Net assets excluding minority interests | 47,640 | 66,891 | 57,581 | 53,851 | **52,188** | **531,284** |
| Ordinary income | 8,864 | 11,341 | 2,078 | 5,097 | **7,073** | **72,004** |
| Income (loss) before income taxes and minority interests | 9,500 | 10,019 | (11,890) | 4,328 | **330** | **3,359** |
| Net income (loss) | 2,360 | 3,876 | (5,858) | 2,571 | **(3,337)** | **(33,971)** |
| Cash dividends | — | — | — | — | **—** | **—** |

| Per share of common stock: | Yen | | | | | U.S. dollars |
|---|---|---|---|---|---|---|
| Net assets excluding minority interests | ¥120.55 | ¥136.12 | ¥117.18 | ¥219.19 | **¥212.43** | **$2.16** |
| Net income (loss) | 6.25 | 8.57 | (11.92) | 10.46 | **(13.58)** | **(0.14)** |
| Cash dividends | — | — | — | — | **—** | **—** |
| Number of employees | 3,684 | 3,557 | 3,464 | 3,414 | **3,335** | |

Notes:
1. The amounts of orders received and contract backlog related to development business 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 ¥98.23 per U.S.$1, prevailing on March 31, 2009.

# FINANCIAL REVIEW

## Business Performance

The Group achieved significant growth in net sales during the consolidated fiscal year under review, recording ¥398,486 million (US$4,056.7 million), a year-on-year increase of ¥45,677 million (US$465.0 million) (12.9% increase). Operating income was ¥10,822 million (US$110.2 million), or an increase of ¥1,981 million (US$20.2 million) (22.4% increase) compared to the prior consolidated fiscal year. Ordinary income increased ¥1,977 million (US$20.1 million) year-on-year (38.8% increase), amounting to ¥7,073 million (US$72.0 million). However, the Group recorded extraordinary losses of ¥7,804 million (US$79.4 million), including a loss on valuation of investment securities in the amount of ¥5,767 million (US$58.7 million). These losses resulted in the Group recording a net loss for the current consolidated fiscal year of ¥3,337 million (US$34.0 million) (compared to net income of ¥2,571 million (US$26.2 million) for the prior consolidated fiscal year).

## Segment Information

The Group's main business line lies in the domestic construction market, which continued to experience cutbacks in public works investment both nationally and regionally. Accordingly, our construction business segment remained flat in general; however, segments for which prioritized budget allocations are made to strengthen international competitiveness, such as harbors, airports, and other major projects, have been performing well. The effects of the revised Building Standards Law on housing investment have mostly attenuated, yet the market continues to be stagnant due to factors that include a cool consumer sentiment. Under the pressure of poor corporate earnings, private non-housing construction projects have contracted, driving down capital investment. Overseas, the Group is focused mainly in Southeast Asia and the Middle East. Here, infrastructure projects for ports, roads, and schools, as well as investment in ODA projects, continue to be strong. As a result of these factors, construction revenues amounted to ¥384,823 million (US$3,917.6 million), or a year-on-year increase of ¥47,348 million (US$ 482.0 million) (14.0% increase). The Group recorded ¥10,822 million (US$110.2 million) in operating income, representing an increase of ¥1,981 million (US$20.2 million) (22.4% increase) compared to the prior consolidated fiscal year.

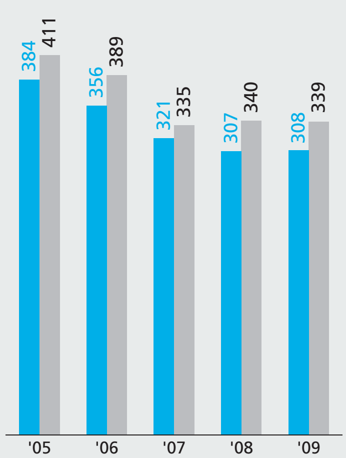
Circumstances surrounding the domestic real estate market continued to deteriorate during the current consolidated fiscal year. These conditions resulted in net sales for our Development Business segment experiencing a year-on-year decrease of ¥3,227 million (US$32.9 million) (72.7% decrease), amounting to ¥1,209 million (US$12.3 million). However, the Group was able to hold operating loss on par with the prior consolidated fiscal year, recording ¥401 million (US$4.1 million) (compared to an operating loss of ¥370 million (US$3.8 million) in the prior year).

The Group's Other Business segment consists primarily of shipbuilding, the sale/lease of construction materials and equipment, and the leasing of vessels. An increase in net sales in the Group's shipbuilding business contributed to segment net sales of ¥12,453 million (US$126.8 million), representing a year-on-year increase of ¥1,556 million (US$15.8 million) (14.3% increase). Higher materials costs resulted in operating income of ¥1,042 million (US$10.6 million), which represents a decrease of ¥162 million (US$1.6 million) (13.5% decrease) compared to the prior consolidated fiscal year.

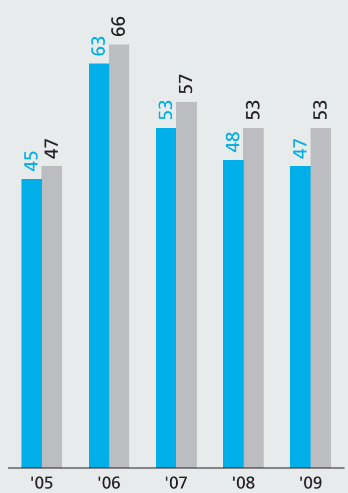
## Orders Received and Contract Backlog

Construction orders received experienced a 15.4% year-on-year

**Total Assets**
Billions of yen




**Total Net Assets**
Billions of yen




■ Non-Consolidated ■ Consolidated

decline. While domestic civil engineering projects grew 1.8% compared to the prior consolidated fiscal year, stagnation in the private construction market led to a 27.9% year-on-year decrease in domestic construction projects.

On a non-consolidated basis, domestic civil engineering projects grew 1.5% year-on-year. Domestic construction projects decreased by 28.1%, and overseas construction projects decreased by 16.5%. As a whole, non-consolidated construction orders received decreased 15.4% compared to the prior fiscal year.

## Financial Position

Group total assets decreased by ¥600 million (US$6.1 million) compared with the prior fiscal period, amounting to ¥339,600 million (US$3,457.2 million). Changes in revenue recognition standards for contracted construction resulted in a decrease in cost of uncompleted construction contracts, while the Group also experienced a decrease in deferred tax assets. However, the Group recorded offsetting increases in cash and deposits, as well as real estate for trade. The Group continued to decrease interest-bearing debt and long-term loans payable. At the same time, notes and accounts payable were at higher levels than the prior consolidated fiscal year. As a result, liabilities decreased by ¥600 million (US$6.1 million) compared to the prior consolidated fiscal year, amounting to ¥285,800 million (US$2,909.5 million). Given the consolidated net loss recorded, retained earnings decreased by ¥3,300 million (US$33.6 million). However, due to recording of a loss on valuation of investment securities as an extraordinary loss, valuation difference on available-for-sale securities increased by ¥1,700 million (US$17.3 million), which helped keep net assets on par with the prior consolidated fiscal year at ¥53,800 million (US$547.7 million).

## Cash flows

Cash flows from operating activities experienced a net increase of ¥23,900 million (US$243.3 million), resulting in a ¥33,000 million (US$335.9 million) increase compared with the prior consolidated fiscal year. The main factor behind this increase was the collection of funds related to the advanced outlays for completed contracts, primarily associated with large-scale projects won during the prior consolidated fiscal year.

Cash flows from investing activities experienced a year-on-year decrease of ¥6,000 million (US$61.1 million), due to net outlays of ¥10,600 million (US$107.9 million) for investments in capital equipment and in the Development Business segment.

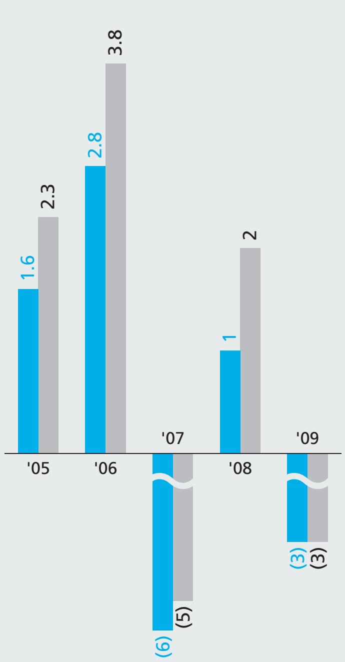
Free cash flow from combined operating and investing activities was a net positive ¥13,300 million (US$135.4 million). Cash flows from financing activities experienced a net decrease of ¥7,400 million (US$75.3 million) due mainly to decreasing interest-bearing debt.

Cash and cash equivalents at the end of the current consolidated fiscal year amounted to ¥38,300 million (US$389.9 million). As of the end of the current consolidated fiscal year, interest-bearing debt amounted to ¥105,100 million (US$1,069.9 million).

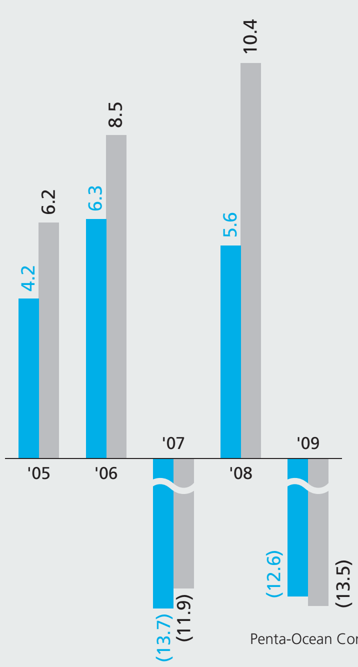
## Dividends

While ordinary income of ¥7,000 million (US$71.3 million) was recorded during the current fiscal year, the Company also recorded extraordinary losses of ¥7,500 million (US$76.4 million), including a ¥5,700 million (US$58.0 million) loss on valuation of investment securities due to the rapid decline in the stock market. Net loss for the year amounted to ¥3,100 million (US$31.6 million). Accordingly, the Company has made the decision for a second consecutive year to not pay dividends in an effort to build stronger internal reserves.

**Net Income (Loss)**
Billions of yen




**Net Income (Loss) per Share**
yen



# CONSOLIDATED BALANCE SHEETS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2008 and 2009

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| **Current assets:** | | | |
| Cash and deposits | ¥ 33,422 | **¥ 38,363** | **$ 390,543** |
| Short-term investment securities (Notes 3 (4), 4 and 5) | 102 | **94** | **957** |
| Trade receivables: | | | |
| Notes | 10,361 | **5,001** | **50,911** |
| Accounts | 145,523 | **153,524** | **1,562,903** |
| Inventories: (Note 3 (7)) | | | |
| Costs on uncompleted construction contracts | 29,379 | **15,802** | **160,867** |
| Real estate for sale and development projects in progress | 12,741 | **22,614** | **230,215** |
| Other | 4,136 | **2,467** | **25,115** |
| Deferred tax assets (Note 15) | 8,018 | **7,084** | **72,117** |
| Other | 2,868 | **3,265** | **33,238** |
| Allowance for doubtful accounts (Note 3 (6)) | (1,161) | **(1,125)** | **(11,453)** |
| Total current assets | 245,389 | **247,089** | **2,515,413** |
| **Investments and other assets:** | | | |
| Investment securities (Notes 3 (4), 4 and 5) | 14,464 | **13,014** | **132,485** |
| Long-term loans receivables | 3,988 | **526** | **5,355** |
| Deferred tax assets (Note 15) | 10,598 | **8,656** | **88,120** |
| Other | 10,556 | **15,424** | **157,019** |
| Allowance for doubtful accounts (Note 3 (6)) | (6,601) | **(4,421)** | **(45,007)** |
| Total investments and other assets | 33,005 | **33,199** | **337,972** |
| **Property, plant and equipment: (Note 3 (8))** | | | |
| Land (Note 5) | 36,024 | **35,934** | **365,815** |
| Buildings and structures (Note 5) | 31,259 | **31,665** | **322,356** |
| Machinery, equipment and vehicles | 18,183 | **18,939** | **192,802** |
| Dredgers and vessels | 52,259 | **49,891** | **507,900** |
| Construction in progress | 124 | **46** | **468** |
| Total property, plant and equipment | 137,849 | **136,475** | **1,389,341** |
| Less: accumulated depreciation | (76,578) | **(77,732)** | **(791,326)** |
| Property, plant and equipment - net | 61,271 | **58,743** | **598,015** |
| Other (Note 3 (10)) | 568 | **556** | **5,660** |
| **Total assets** | ¥340,233 | **¥339,587** | **$3,457,060** |

See accompanying Notes to Consolidated Financial Statements.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| **Current liabilities:** | | | |
| Short-term loans payable (Note 6) | ¥ 32,237 | **¥ 31,862** | **$ 324,361** |
| Current portion of long-term loans payable (Note 6) | 30,952 | **37,795** | **384,760** |
| Trade payable: | | | |
| Notes | 30,785 | **26,786** | **272,687** |
| Accounts | 90,730 | **98,353** | **1,001,252** |
| Advance received on uncompleted construction contracts | 28,911 | **25,467** | **259,259** |
| Deposits received | 10,363 | **13,411** | **136,527** |
| Income taxes payable | 743 | **784** | **7,981** |
| Provision for loss on construction contracts (Note 3 (12)) | 715 | **618** | **6,292** |
| Provision for warranties for completed construction (Note 3 (13)) | 572 | **602** | **6,128** |
| Other provision | 1,679 | **1,624** | **16,533** |
| Other | 3,130 | **2,848** | **28,993** |
| Total current liabilities | 230,817 | **240,150** | **2,444,773** |
| **Noncurrent liabilities:** | | | |
| Long-term loans payable (Note 6) | 45,910 | **35,515** | **361,549** |
| Provision for retirement benefits (Notes 3 (11) and 19) | 1,109 | **592** | **6,027** |
| Provision for directors' retirement benefits (Note 3 (14)) | 213 | **172** | **1,751** |
| Provision for loss on development business (Note 3 (15)) | 0 | **1,020** | **10,384** |
| Deferred tax liabilities for land revaluation (Note 17 (2)) | 7,216 | **7,200** | **73,297** |
| Other | 1,106 | **1,110** | **11,300** |
| Total noncurrent liabilities | 55,554 | **45,609** | **464,308** |
| Total liabilities | 286,371 | **285,759** | **2,909,081** |
| **Net assets: (Note 18)** | | | |
| Shareholders' equity: | | | |
| Common stock | 28,070 | **28,070** | **285,758** |
| Authorized - 599,135,000 shares | | | |
| Issued shares | | | |
| March 31, 2009 245,763,910 shares | | | |
| March 31, 2008 245,763,910 shares | | | |
| Capital surplus (Note 17 (1)) | 20,106 | **20,106** | **204,683** |
| Retained Earnings | 3,992 | **678** | **6,902** |
| Less: Treasury Stock | (20) | **(22)** | **(224)** |
| Total shareholders' equity | 52,148 | **48,832** | **497,119** |
| Valuation and translation adjustments: | | | |
| Valuation difference on available-for-sale securities (Note 17 (3)) | (1,973) | **(225)** | **(2,291)** |
| Deferred gains (losses) on hedges | (33) | **(30)** | **(305)** |
| Revaluation reserve for land (Note 17 (2)) | 3,539 | **3,516** | **35,794** |
| Foreign currency translation adjustment (Note 3 (2)) | 170 | **95** | **967** |
| Total valuation and translation adjustments | 1,703 | **3,356** | **34,165** |
| Minority interests | 11 | **1,639** | **16,685** |
| Total net assets | 53,862 | **53,827** | **547,969** |
| **Total liabilities and net assets** | ¥340,233 | **¥339,586** | **$3,457,050** |
| **Commitments and contingent liabilities (Note 14)** | | | |

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF OPERATIONS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2009

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| **Construction business:** | | | |
| Net sales | ¥337,476 | **¥384,824** | **$3,917,581** |
| Cost of sales | 312,523 | **357,283** | **3,637,209** |
| Gross profit | 24,953 | **27,541** | **280,372** |
| **Development business and other:** | | | |
| Net sales | 15,333 | **13,662** | **139,082** |
| Cost of sales | 13,758 | **12,327** | **125,491** |
| Gross profit | 1,575 | **1,335** | **13,591** |
| **Total:** | | | |
| Total net sales | 352,809 | **398,486** | **4,056,663** |
| Total cost of sales | 326,281 | **369,610** | **3,762,700** |
| **Total gross profit** | 26,528 | **28,876** | **293,963** |
| **Selling, general and administrative expenses** | 17,688 | **18,054** | **183,793** |
| **Operating income** | 8,840 | **10,822** | **110,170** |
| **Non-operating income:** | | | |
| Interest and dividends | 599 | **500** | **5,090** |
| Other (Note 7) | 455 | **395** | **4,021** |
| | 1,054 | **895** | **9,111** |
| **Non-operating expenses:** | | | |
| Interest | 2,993 | **3,094** | **31,498** |
| Other (Note 8) | 1,804 | **1,550** | **15,779** |
| | 4,797 | **4,644** | **47,277** |
| **Ordinary income** | 5,097 | **7,073** | **72,004** |
| **Extraordinary gain (Note 9)** | 3,476 | **1,061** | **10,801** |
| **Extraordinary loss (Note 10)** | 4,245 | **7,804** | **79,446** |
| **Income (loss) before income taxes and minority interests** | 4,328 | **330** | **3,359** |
| **Income taxes: (Notes 3 (19) and 15)** | | | |
| Current | 899 | **816** | **8,307** |
| Deferred | 874 | **2,862** | **29,136** |
| | 1,773 | **3,678** | **37,443** |
| **Minority interests** | 16 | **11** | **113** |
| **Net income (loss)** | ¥ 2,571 | **¥ (3,337)** | **$ (33,971)** |

| | Yen | | U.S. dollars |
|---|---|---|---|
| **Net income (loss) per share of common stock (Note 3 (16))** | | | |
| Primary | ¥10.46 | **¥(13.58)** | **$(0.14)** |

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, 2009

| | 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 available-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 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Shareholders' equity | | | | |
| | Common stock | Capital surplus | Retained Earnings | Treasury Stock | Total shareholders' equity |
| **Balance at March 31, 2008** | ¥28,070 | ¥20,106 | ¥3,992 | ¥(20) | ¥52,148 |
| Changes of items during the period | | | | | |
| Net income (loss) | | | (3,337) | | (3,337) |
| Reversal of revaluation reserve for land | | | 23 | | 23 |
| Purchase of treasury stock | | | | (2) | (2) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the period | — | — | (3,314) | (2) | (3,316) |
| **Balance at March 31, 2009** | ¥28,070 | ¥20,106 | ¥ 678 | ¥(22) | ¥48,832 |

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Valuation and translation adjustments | | | | | | |
| | Valuation difference on available-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, 2008** | ¥(1,973) | ¥(33) | ¥3,539 | ¥170 | ¥1,703 | ¥ 11 | ¥53,862 |
| Changes of items during the period | | | | | | | |
| Net income (loss) | | | | | | | (3,337) |
| Reversal of revaluation reserve for land | | | | | | | 23 |
| Purchase of treasury stock | | | | | | | (2) |
| Net changes of items other than shareholders' equity | 1,748 | 3 | (23) | (75) | 1,653 | 1,628 | 3,281 |
| Total changes of items during the period | 1,748 | 3 | (23) | (75) | 1,653 | 1,628 | (35) |
| **Balance at March 31, 2009** | ¥ (225) | ¥(30) | ¥3,516 | ¥ 95 | ¥3,356 | ¥1,639 | ¥53,827 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Shareholders' equity | | | | |
| | Common stock | Capital surplus | Retained Earnings | Treasury Stock | Total shareholders' equity |
| **Balance at March 31, 2008** | $285,758 | $204,683 | $40,639 | $(204) | $530,876 |
| Changes of items during the period | | | | | |
| Net income (loss) | | | (33,971) | | (33,971) |
| Reversal of revaluation reserve for land | | | 234 | | 234 |
| Purchase of treasury stock | | | | (20) | (20) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the period | — | — | (33,737) | (20) | (33,757) |
| **Balance at March 31, 2009** | $285,758 | $204,683 | $ 6,902 | $(224) | $497,119 |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Valuation and translation adjustments | | | | | | |
| | Valuation difference on available-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, 2008** | $(20,086) | $(336) | $36,028 | $1,731 | $17,337 | $ 112 | $548,325 |
| Changes of items during the period | | | | | | | |
| Net income (loss) | | | | | | | (33,971) |
| Reversal of revaluation reserve for land | | | | | | | 234 |
| Purchase of treasury stock | | | | | | | (20) |
| Net changes of items other than shareholders' equity | 17,795 | 31 | (234) | (764) | 16,828 | 16,573 | 33,401 |
| Total changes of items during the period | 17,795 | 31 | (234) | (764) | 16,828 | 16,573 | (356) |
| **Balance at March 31, 2009** | $ (2,291) | $(305) | $35,794 | $ 967 | $34,165 | $16,685 | $547,969 |

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2009

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| **Cash flows from operating activities:** | | | |
| Income (loss) before income taxes and minority interests | ¥ 4,328 | **¥ 330** | **$ 3,359** |
| Adjustment to reconcile income (loss) before income taxes and minority interests to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 4,456 | **4,697** | **47,816** |
| Impairment loss | 736 | **35** | **356** |
| Increase (decrease) in allowance for doubtful accounts | 1,013 | **(2,217)** | **(22,569)** |
| Increase (decrease) in provision for retirement benefits | (373) | **(517)** | **(5,263)** |
| Interest and dividends income | (599) | **(500)** | **(5,090)** |
| Interest expense | 3,284 | **3,340** | **34,002** |
| Foreign exchange losses (gains) | 360 | **913** | **9,295** |
| Equity in (earnings) losses of affiliates | 7 | **(4)** | **(41)** |
| Loss (gain) on sales of property, plant and equipment | (100) | **(580)** | **(5,905)** |
| Loss (gain) on sales of investment securities | (53) | **0** | **0** |
| Loss on valuation of securities and investment securities | 28 | **5,767** | **58,709** |
| Loss (gain) on securities contribution to employees' retirement benefits trust | (3,069) | **—** | **—** |
| Change in assets and liabilities: | | | |
| Decrease (increase) in notes and accounts receivable-trade | (13,906) | **(8,355)** | **(85,055)** |
| Decrease (increase) in costs on uncompleted construction contracts | (600) | **13,572** | **138,166** |
| Decrease (increase) in real estate for sale and development projects in progress and other inventories | 3,092 | **2,086** | **21,236** |
| Increase (decrease) in notes and accounts payable-trade | 5,233 | **3,908** | **39,784** |
| Increase (decrease) in advances received on uncompleted construction contracts | (7,710) | **(3,431)** | **(34,928)** |
| Increase (decrease) in other provision | (191) | **869** | **8,847** |
| Other, net | (1,392) | **7,561** | **76,972** |
| Subtotal | (5,456) | **27,474** | **279,691** |
| Interest and dividends income received | 594 | **579** | **5,894** |
| Interest expenses paid | (3,174) | **(3,317)** | **(33,768)** |
| Income taxes paid | (1,112) | **(811)** | **(8,256)** |
| Net cash provided by (used in) operating activities | (9,148) | **23,925** | **243,561** |
| **Cash flows from investing activities:** | | | |
| Purchase of short-term investment securities | (3) | **(301)** | **(3,064)** |
| Proceeds from sales of short-term investment securities | 103 | **310** | **3,156** |
| Purchase of investment securities | (3,824) | **(2,847)** | **(28,983)** |
| Proceeds from sales of investment securities | 35 | **11** | **112** |
| Purchase of property, plant and equipment | (2,004) | **(2,499)** | **(25,440)** |
| Proceeds from sales of property, plant and equipment | 1,304 | **925** | **9,417** |
| Payments of loans receivable | (792) | **(1,179)** | **(12,002)** |
| Collection of loans receivable | 666 | **101** | **1,028** |
| Payments for acquisition of other securities of subsidiaries resulting in the change of consolidation scope | — | **(258)** | **(2,626)** |
| Payments for investment to development business | — | **(4,750)** | **(48,356)** |
| Other, net | (15) | **(120)** | **(1,223)** |
| Net cash provided by (used in) investing activities | (4,530) | **(10,607)** | **(107,981)** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term loans payable | 22 | **(3,275)** | **(33,340)** |
| Proceeds from long-term loans payable | 30,246 | **27,400** | **278,937** |
| Repayment of long-term loans payable | (31,633) | **(30,952)** | **(315,097)** |
| Cash dividends paid | (0) | **(0)** | **(0)** |
| Other, net | (389) | **(594)** | **(6,047)** |
| Net cash provided by (used in) financing activities | (1,754) | **(7,421)** | **(75,547)** |
| **Effect of exchange rate change on cash and cash equivalents** | (298) | **(954)** | **(9,712)** |
| **Net increase (decrease) in cash and cash equivalents** | (15,730) | **4,943** | **50,321** |
| **Cash and cash equivalents at the beginning of the period** | 49,124 | **33,394** | **339,957** |
| **Cash and cash equivalents at the end of the period** | ¥33,394 | **¥38,337** | **$390,278** |
| **(Notes) (1) Cash and cash equivalents are comprised as follows:** | | | |
| Cash and deposits | ¥33,422 | **¥38,363** | **$390,543** |
| Less-Time deposits with maturity over three months | (28) | **(26)** | **(265)** |
| Cash and cash equivalents (Note 3 (17)) | ¥33,394 | **¥38,337** | **$390,278** |

**(2) Breakdown of Assets and Liabilities for the company which became a new Subsidiary by obtaining equity**

Breakdown of Assets and Liabilities, at the beginning of the consolidation, for the company which became a new Subsidiary and the relation between acquisition cost for this subsidiary's equity and "Payments for acquisition of other securities of subsidiaries resulting in the change of consolidation scope" are comprised as follows:

| | | |
|---|---|---|
| Current Assets | **¥6,207** | **$63,184** |
| Current Liabilities | **(3,713)** | **(37,801)** |
| Minority Interests | **(1,647)** | **(16,763)** |
| Subtotal | **847** | **8,620** |
| Balance of equity on Consolidated BS when this company was affiliated company before becoming subsidiary | **(246)** | **(2,501)** |
| Acquisition cost for additional equity | **601** | **6,119** |
| Cash and cash equivalents of new Subsidiary | **(343)** | **(3,493)** |
| Deduction: Payments for acquisition of other securities of subsidiaries resulting in the change of consolidation scope | **258** | **2,626** |

## 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=¥98.23, the exchange rate prevailing on March 31, 2009. 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-seven subsidiaries and three affiliated companies at March 31, 2009.

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

**(2) Consolidation date**

Consolidation date is March 31.

Closing date for the Company, eleven domestic subsidiaries and seven overseas subsidiaries including Penta-Ocean Dredging Panama is March 31.

Closing date for other eight overseas subsidiaries 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 closing date and the consolidation date.

Also the closing date for one domestic subsidiary is November 30 and the financial statements for this subsidiary were temporarily made based on 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.

**(4) Good will and Negative good will**

Good will and Negative good will are 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 closing 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 closing 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 closing 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 closing 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 closing 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 recognizes revenue by applying the percentage-of-completion method for the construction projects with condition that the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction project, method to calculate the percentage of the cost incurred to the estimated total cost (= cost proportion method) shall be applied. For other construction projects, the completed-contract method shall be applied.

(Change of accounting method-2009)

The Company previously recognized revenue by the percentage-of-completion method for the construction projects with condition that the contract amount was more than ¥100 million and also the contract period was over 1 year, and by the completed-contract method for other construction projects.

However since Accounting Standard Board of Japan Statement No.15 "Accounting Standard for Construction Contracts" and Accounting Standard Board of Japan Guidance No.18 "Guidance on Accounting Standard for Construction Contracts" both issued December 27, 2007 are able to apply for fiscal years before April 1, 2009, the Company made an early adoption for these Accounting Standards from the current fiscal year and for the construction contracts commencing from the current fiscal year, the percentage-of-completion method shall be applied for construction projects, if the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, cost proportion method shall be applied. For other construction projects, the completed-contract method shall be applied.

As a result of this change, Net sales has increased by ¥18,031 million and operating income, ordinary income and income before income taxes and minority interests increased by ¥1,220 million compare with previous accounting method.

Advances received in excess of revenue recognized based on the percentage-of-completion method are shown as current liabilities. Cost of uncompleted contracts is included in inventories.

The financial impact of this change on each segment is described in 20. Segment information.

### (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 historical cost at the end of the period, inventories except for cost on uncompleted construction contracts are carried at the net realizable value on the closing date.

### (8) Property, plant, equipment and Depreciation (Excluding Leased Assets)

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.

The Company and domestic subsidiaries primarily use the number of useful lives and the residual value in accordance with the Corporation tax law.

(Change of accounting method-2008)

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 change, operating income, ordinary income and income before income taxes and minority interests decreased by ¥94 million. The financial impact of this change on each segment is described in 20. Segment information.

(Additional information-2008)

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 change, operating income, ordinary income and income before income taxes and minority interests decreased by ¥195 million. The financial impact of this change on each segment is described in 20. Segment information.

**(9) Leased Assets**

For Leased Assets with Finance lease that transfer ownership, the depreciation expense shall be calculated based on the same depreciation method as is applied to fixed assets owned by the Company and subsidiaries.

For Leased Assets with Finance lease that do not transfer ownership, the depreciation expense shall be calculated under the straight-line method based on the assumption that the useful life equals to the lease term and the residual value equals to zero.

(Change of accounting method-2009)

Leased Assets with Finance lease that do not transfer ownership were previously accounted for in a manner similar to accounting treatment for ordinary rental transactions, however from the current fiscal year, Accounting Standard Board of Japan Statement No.13 "Accounting Standard for Lease Transactions" and Accounting Standard Board of Japan Guidance No.16 "Guidance on Accounting Standard for Lease Transactions" both revised on March 30, 2007 have been adopted and the transactions are accounted for in a similar manner with ordinary sale and purchase transactions.

For lease transactions whose commencement day falls prior to the first year of implementation of this accounting standard, the method similar to that used for ordinary operating lease transactions shall continue to be used.

The effect of this change to operating income, ordinary income and income before income taxes was not material.

**(10) 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 by the straight-line method over five years, the estimated useful life.

**(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 warranties for completed construction**

The Company provides provision for the costs of repairs for damages related to completed construction works based on business results in the past in consideration of estimated amount of compensation in the future.

**(14) 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 closing date.

(Additional information-2008)

The Company terminated a retirement benefit plan for directors including operating officers in June 2007.

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

**(15) Provision for loss on development business**

The Company provides provision for accrued estimated losses on development business of subsidiaries and affiliates by considering contents and business plans and other aspects for each subsidiary and affiliates.

**(16) 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, 2009.

**(17) 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.

**(18) 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) Evaluation of the effectiveness of hedge accounting
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.

**(19) 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. Enterprise tax paid 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.

**(20) Reclassifications**

Certain amounts in prior year's consolidated financial statements and related footnotes have been reclassified to conform to the presentation in the current year.

## 4. Investment securities

The composition of securities as of March 31, 2008 and 2009 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| Securities due within one year: | | | |
| Held-to-maturity bonds | ¥ 1 | **¥ 1** | **$ 10** |
| Investment trust bills | 101 | **93** | **947** |
| Total | ¥ 102 | **¥ 94** | **$ 957** |
| Investment securities: | | | |
| Held-to-maturity bonds | ¥ 68 | **¥ 69** | **$ 702** |
| Investment trust bills | 135 | **183** | **1,863** |
| Stocks | 13,811 | **12,762** | **129,920** |
| Other | 450 | **—** | **—** |
| Total | ¥14,464 | **¥13,014** | **$132,485** |

## 5. Pledged Assets

**(1) The following assets are pledged for fulfillment of construction contracts at March 31, 2008 and 2009.**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| Securities | ¥ 1 | **¥ 1** | **$ 10** |
| Investment securities | 411 | **179** | **1,822** |
| Total | ¥412 | **¥180** | **$1,832** |

**(2) The following assets are in pledge to short-term bank loans at March 31, 2008 and 2009.**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| Real estate for sale and development projects in progress (Trust beneficiary right) | ¥ — | **¥4,685** | **$47,694** |
| Land | 67 | **67** | **682** |
| Buildings | 98 | **96** | **977** |
| Total | ¥165 | **¥4,848** | **$49,353** |

## 6. Short-term and long-term loans payable

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, 2009 are 1.65% and 1.74%, respectively. Long-term loans as of March 31, 2008 and 2009 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| Long-term loans from banks and insurance companies maturing in 2013 | ¥76,862 | **¥73,310** | **$746,310** |
| (The weighted average interest rate is 3.20%. ) | | | |
| Less: current portion of long-term loans | (30,952) | **(37,795)** | **(384,760)** |
| Net | ¥45,910 | **¥35,515** | **$361,550** |

The aggregate annual maturity of long-term loans after March 31, 2009 is as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2009** | **2009** |
| Year ending March 31, | | |
| 2010 | **¥37,795** | **$384,760** |
| 2011 | **19,488** | **198,392** |
| 2012 | **10,717** | **109,101** |
| 2013 | **4,214** | **42,899** |
| 2014 and after that | **1,097** | **11,168** |
| Total | **¥73,310** | **$746,310** |

## 7. Non-operating income

The composition of Non-operating income - other for the two years ended March 31, 2009 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Real estate rent | ¥199 | ¥ 75 | $ 763 |
| Equity in earnings of affiliates | — | 4 | 41 |
| Other | 256 | 316 | 3,217 |
| Total | ¥455 | ¥395 | $4,021 |

## 8. Non-operating expenses

The composition of Non-operating expenses - other for the two years ended March 31, 2009 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Equity in losses of affiliates | ¥ 7 | ¥ — | $ — |
| Foreign exchange losses | 1316 | 640 | 6,515 |
| Other | 481 | 910 | 9,264 |
| Total | ¥1,804 | ¥1,550 | $15,779 |

## 9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2009 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Gain on prior period adjustment | ¥ 153 | ¥ 26 | $ 265 |
| Gain on sales of noncurrent assets | 140 | 603 | 6,139 |
| Gain on insurance adjustment | 0 | 122 | 1,242 |
| Gain on securities contribution to employees' retirement benefits trust | 3,069 | — | — |
| Reversal of allowance for doubtful accounts | 42 | 220 | 2,239 |
| Other | 72 | 90 | 916 |
| Total | ¥3,476 | ¥1,061 | $10,801 |

## 10. Extraordinary loss

The composition of Extraordinary loss for the two years ended March 31, 2009 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Loss on prior period adjustment | ¥ 451 | ¥ 41 | $ 417 |
| Loss on valuation of investment securities | 28 | 5,767 | 58,709 |
| Impairment loss ∗1 | 736 | 35 | 356 |
| Loss on development business | — | 1,020 | 10,384 |
| Provision of allowance for doubtful accounts | 2,633 | 653 | 6,648 |
| Other | 397 | 288 | 2,932 |
| Total | ¥4,245 | ¥7,804 | $79,446 |

∗1 The Company recognized impairment loss for the following group of assets in the current fiscal year ended March 31, 2009

| Location | Classification | Impairment loss |
|---|---|---|
| Hokkaido area | Lease assets (1 object) | Land ............................. ¥23 million ($231 thousand) |
| Kanto area | Common assets (1 object) | Land ............................. ¥10 million ($108 thousand) |
| Chubu area | Common assets (1 object) | Land and others ........... ¥2 million ($19 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 lease assets were written down due to assets being changed to idling status from this Financial Year. The Assets previously being classified as common assets such as welfare facilities were written down due to decision to sell the assets and no alternative investment plan exists.

The impairment loss (¥35 million (U.S.$355 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.

## 11. Research and development costs

Research and development costs charged to income for the two fiscal years ended March 31, 2009 are ¥927 million and ¥940 million (U.S. $9,569 thousand), respectively.

## 12. Summary of finance lease transactions

The Company has entered into finance lease contracts on and before March 31, 2008. The finance lease transactions other than those where a title is transferred to the lessee are summarized as follows:

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| Estimated acquisition costs | | | |
| Equipment | ¥339 | **¥111** | **$1,130** |
| Vehicles | 53 | **36** | **366** |
| | 392 | **147** | **1,496** |
| Less: accumulated depreciation | (250) | **(68)** | **(692)** |
| Less: accumulated impairment loss | (25) | **—** | **—** |
| Estimated value | ¥117 | **¥ 79** | **$ 804** |

**(2) Future lease payments and accumulated impairment loss on leased assets as of March 31, 2008 and 2009 are as follows:**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| Within one year | ¥ 52 | **¥31** | **$316** |
| Over one year | 82 | **50** | **509** |
| Total | ¥134 | **¥81** | **$825** |
| Accumulated impairment loss on leased assets | ¥ 14 | **¥ —** | **$ —** |

**(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, 2008 and 2009**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| Lease payments | ¥62 | **¥53** | **$540** |
| Reversal of accumulated impairment loss on leased assets | 11 | **14** | **143** |
| Depreciation equivalents | 57 | **49** | **499** |
| Interest expense equivalents | 3 | **2** | **20** |
| Impairment loss | 25 | **—** | **—** |

## 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, 2008 and 2009 and accordingly fair value information is waived.

## 14. Commitments and contingent liabilities

As of March 31, 2009, the Company has liabilities for guarantee to bank loans made by customers amounting to ¥1,631 million (U.S. $16,604 thousand).

The Company also has the guarantee amounting to ¥548 million (U.S. $5,579 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

The Company has agreements on commitment line with 30 banks totaling ¥36,000 million for the purpose of flexible financing. There is no amount of loans using the line as of March 31, 2009.

## 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 |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| **Deferred tax assets** | | | |
| Net operating loss carried forward | ¥ 9,292 | **¥ 7,816** | **$ 79,569** |
| Loss on valuation of real estate for sale | 4,902 | **5,090** | **51,817** |
| Allowance for doubtful accounts | 1,792 | **995** | **10,129** |
| Employees' retirement benefits trust | 1,664 | **1,712** | **17,428** |
| Provision for bonuses | 685 | **662** | **6,739** |
| Impairment loss | 528 | **586** | **5,966** |
| Provision for retirement benefits | 307 | **240** | **2,443** |
| Other | 2,893 | **4,060** | **41,332** |
| Total: deferred tax assets | 22,063 | **21,161** | **215,423** |
| Less : valuation allowance | (3,387) | **(5,084)** | **(51,756)** |
| Deferred tax assets | ¥18,676 | **¥16,077** | **$163,667** |
| **Deferred tax liabilities** | | | |
| Prepaid pension cost | ¥ — | **¥ (274)** | **$ (2,789)** |
| Reduction for amendment of allowance for doubtful accounts | (17) | **(13)** | **(132)** |
| Other | (43) | **(49)** | **(499)** |
| Total: deferred tax liabilities | (60) | **(336)** | **(3,420)** |
| Net: deferred tax assets | ¥18,616 | **¥15,741** | **$160,247** |

**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 statutory effective tax rate (40.69%).

| | 2009 |
|---|---|
| The statutory effective tax rate | **40.69%** |
| (Adjustments) | |
| Permanent differences (expense) | **276.29%** |
| Permanent differences (income) | **(136.43%)** |
| Per capita levy on inhabitant tax | **101.32%** |
| Consolidated adjustments | **100.81%** |
| Increase in valuation allowance | **783.54%** |
| Other | **(52.27%)** |
| Actual burden tax rate after the application of tax effect accounting | **1113.95%** |

## 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 |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| The difference between the appraisal value of land at the end of the current fiscal year and the book value | ¥(12,271) | **¥(10,765)** | **$(109,590)** |

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 available-for-sale securities**

Valuation difference on available-for-sale securities is based on the difference between fair market value and book value at March 31. This amounted to ¥225 million (U.S. $2,291 thousand) loss as of March 31, 2009.

**(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 benefits obligations

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| a. Retirement benefit obligations | ¥(34,260) | **¥(32,189)** | **$(327,690)** |
| b. Pension fund assets | 20,948 | **17,343** | **176,555** |
| c. Unfunded retirement benefit obligations | (13,312) | **(14,846)** | **(151,135)** |
| d. Amortization term of effects of the application of the new accounting standards for retirement benefits | 9,112 | **7,810** | **79,507** |
| e. Unrecognized actuarial gain or loss | 3,443 | **7,118** | **72,463** |
| f. Net retirement benefit obligations | (757) | **82** | **835** |
| g. Prepaid pension cost | 352 | **674** | **6,862** |
| h. Provision for retirement benefits | ¥ (1,109) | **¥ (592)** | **$ (6,027)** |

### II. Retirement benefit costs

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| a. Service costs | ¥1,284 | **¥1,162** | **$11,829** |
| b. Interest costs | 715 | **677** | **6,892** |
| c. Expected return on pension fund assets | (655) | **(733)** | **(7,462)** |
| d. Amortization term of effects of the application of the new accounting standards for retirement benefits | 1,302 | **1,302** | **13,255** |
| e. Amortization of actuarial gain or loss | 490 | **798** | **8,124** |
| f. Recognition of prior service liabilities | 117 | **—** | **—** |
| g. Retirement benefit costs | ¥3,253 | **¥3,206** | **$32,638** |

### III. Calculation basis of retirement benefit obligations, etc.

| | |
|---|---|
| a. Recognition method of the projected retirements benefit obligations | Straight-line method |
| b. Discount rate | 2.10% |
| 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.

Development business ........ Sale or rental of real estate

Others ........ Sale of construction materials, leasing, shipbuilding, etc.

| Year ended March 31, 2008 | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 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 |

| Year ended March 31, 2009 | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Construction | Development business | Others | Total | Eliminations and/or addition | Consolidated |
| Net sales: | | | | | | |
| Customers | ¥384,824 | ¥ 1,209 | ¥12,453 | ¥398,486 | ¥ — | ¥398,486 |
| Internal sales or transfer | 161 | 266 | 7,633 | 8,060 | (8,060) | — |
| Total | 384,985 | 1,475 | 20,086 | 406,546 | (8,060) | 398,486 |
| Operating expenses | 374,809 | 1,876 | 19,043 | 395,728 | (8,064) | 387,664 |
| Operating income (loss) | 10,176 | (401) | 1,043 | 10,818 | 4 | 10,822 |
| Assets | 251,278 | 30,346 | 19,289 | 300,913 | 38,674 | 339,587 |
| Depreciation | 2,760 | 17 | 1,946 | 4,723 | (26) | 4,697 |
| Impairment loss | 25 | — | 10 | 35 | — | 35 |
| Capital expenditures | 2,128 | — | 511 | 2,639 | — | 2,639 |

| Year ended March 31, 2009 | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | Construction | Development business | Others | Total | Eliminations and/or addition | Consolidated |
| Net sales: | | | | | | |
| Customers | $3,917,581 | $ 12,308 | $126,774 | $4,056,663 | $ — | $4,056,663 |
| Internal sales or transfer | 1,639 | 2,708 | 77,705 | 82,052 | (82,052) | — |
| Total | 3,919,220 | 15,016 | 204,479 | 4,138,715 | (82,052) | 4,056,663 |
| Operating expenses | 3,815,627 | 19,098 | 193,861 | 4,028,586 | (82,093) | 3,946,493 |
| Operating income (loss) | 103,593 | (4,082) | 10,618 | 110,129 | 41 | 110,170 |
| Assets | 2,558,058 | 308,928 | 196,366 | 3,063,352 | 393,708 | 3,457,060 |
| Depreciation | 28,097 | 173 | 19,811 | 48,081 | (265) | 47,816 |
| Impairment loss | 255 | — | 102 | 357 | — | 357 |
| Capital expenditures | 21,663 | — | 5,202 | 26,865 | — | 26,865 |

Notes

(1) 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¥33,581 million at March 31, 2008 and ¥39,260 million (U.S. $399,674 thousand) at March 31, 2009.

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

(2) Change of Accounting Method-2008

As described in 3. Summary of significant accounting policies (8), 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 change, in Construction segment, operating expenses has increased by ¥88 million and operating income has decreased by ¥88 million, in Others segment, operating expense has increased by ¥6 million and operating income has decreased by ¥6 million compared with previous accounting method.

Change of Accounting Method-2009

As described in 3.Summary of significant accounting policies (3), the Company previously recognized revenue by the percentage-of-completion method for the construction projects with condition that the contract amount was more than ¥100 million and also the contract period was over 1 year, and by the completed-contract method for other construction projects.

However since Accounting Standard Board of Japan Statement No.15 "Accounting Standard for Construction Contracts" and Accounting Standard Board of Japan Guidance No.18 "Guidance on Accounting Standard for Construction Contracts" both issued December 27, 2007 are able to apply for fiscal years before April 1, 2009, the Company made an early adoption for these Accounting Standards from the current fiscal year and for the construction contracts commencing from the current fiscal year, the percentage-of-completion method shall be applied for construction projects, if the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, cost proportion method shall be applied. For other construction projects, the completed-contract method shall be applied.

As a result of this change, in Construction segment, net sales has increased by ¥15,166 million (U.S. $154,394 thousand) and operating income has increased by ¥946 million (U.S. $9,638 thousand), in Other segment, net sales has increased by ¥2,864 million (U.S. $29,166 thousand) and operating income has increased by ¥273 million (U.S. $2,785 thousand) compared with previous accounting method.

**(2) Geographic segment**

Geographic segment is primarily composed of the followings:

Japan

Southeast Asia ............................................. Singapore, Hong Kong and Vietnam

Others ........................................................... U.A.E and Sri Lanka

| | 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 |

| Year ended March 31, 2009 | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Japan | Southeast Asia | Others | Total | Eliminations and/or addition | Consolidated |
| Net sales: | | | | | | |
| Customers | ¥313,997 | ¥77,240 | ¥7,249 | ¥398,486 | ¥ — | ¥398,486 |
| Internal sales or transfer | — | — | — | — | — | — |
| Total | 313,997 | 77,240 | 7,249 | 398,486 | — | 398,486 |
| Operating expenses | 305,433 | 74,686 | 7,555 | 387,674 | (10) | 387,664 |
| Operating income | 8,564 | 2,554 | (306) | 10,812 | 10 | 10,822 |
| Assets | 241,681 | 53,307 | 5,340 | 300,328 | 39,259 | 339,587 |

| Year ended March 31, 2009 | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | Japan | Southeast Asia | Others | Total | Eliminations and/or addition | Consolidated |
| Net sales: | | | | | | |
| Customers | $3,196,549 | $786,318 | $73,796 | $4,056,663 | $ — | $4,056,663 |
| Internal sales or transfer | — | — | — | — | — | — |
| Total | 3,196,549 | 786,318 | 73,796 | 4,056,663 | — | 4,056,663 |
| Operating expenses | 3,109,366 | 760,318 | 76,911 | 3,946,595 | (102) | 3,946,493 |
| Operating income | 87,183 | 26,000 | (3,115) | 110,068 | 102 | 110,170 |
| Assets | 2,460,358 | 542,675 | 54,362 | 3,057,395 | 399,665 | 3,457,060 |

Notes

(1) 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¥33,581 million at March 31, 2008 and ¥39,260 million (U.S. $399,674 thousand) at March 31, 2009.
These principally consisted of cash and time deposits, securities, investment in securities and sundry assets.

(2) Change of Accounting Method-2008
As described in 3. Summary of significant accounting policies (8), 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 change, in Japan Segment, operating expenses has increased by ¥49 million and operating income has decreased by ¥49 million, in Southeast Asia Segment, operating expense has increased by ¥26 million and operating income has decreased by ¥26 million and in Others Segment, operating expense has increased by ¥18 million and operating income has decreased by ¥18 million compared with previous accounting method.
Change of Accounting Method-2009
As described in 3.Summary of significant accounting policies (3), the Company previously recognized revenue by the percentage-of-completion method for the construction projects with condition that the contract amount was more than ¥100 million and also the contract period was over 1 year, and by the completed-contract method for other construction projects.
However since Accounting Standard Board of Japan Statement No.15 "Accounting Standard for Construction Contracts" and Accounting Standard Board of Japan Guidance No.18 "Guidance on Accounting Standard for Construction Contracts" both issued December 27, 2007 are able to apply for fiscal years before April 1, 2009, the Company made an early adoption for these Accounting Standards from the current fiscal year and for the construction contracts commencing from the current fiscal year, the percentage-of-completion method shall be applied for construction projects, if the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, cost proportion method shall be applied. For other construction projects, the completed-contract method shall be applied.
As a result of this change, in Japan Segment, net sales has increased by ¥16,654 million (U.S. $169,548 thousand) and operating income has increased by ¥1,321 million (U.S. $13,450 thousand), in Others Segment, net sales has increased by ¥1,376 million (U.S. $14,012 thousand) and operating income has decreased by ¥100 million (U.S. $1,026 thousand) compared with previous accounting method.

### (3) Overseas sales

| Year ended March 31, 2008 | Millions of yen | | |
|---|---|---|---|
| | Southeast Asia | Others | Total |
| Overseas sales | ¥45,654 | ¥9,292 | ¥ 54,946 |
| Consolidated sales | | | ¥352,809 |
| Proportion of overseas sales to consolidated sales | 12.9% | 2.6% | 15.6% |

| Year ended March 31, 2009 | Millions of yen | | |
|---|---|---|---|
| | Southeast Asia | Others | Total |
| Overseas sales | ¥77,240 | ¥7,249 | ¥ 84,849 |
| Consolidated sales | | | ¥398,486 |
| Proportion of overseas sales to consolidated sales | 19.4% | 1.8% | 21.2% |

| Year ended March 31, 2009 | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Southeast Asia | Others | Total |
| Overseas sales | $786,318 | $73,796 | $ 860,114 |
| Consolidated sales | | | $4,056,663 |
| Proportion of overseas sales to consolidated sales | 19.4% | 1.8% | 21.2% |

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

Change of Accounting Method-2009
As described in 3.Summary of significant accounting policies (3), the Company previously recognized revenue by the percentage-of-completion method for the construction projects with condition that the contract amount was more than ¥100 million and also the contract period was over 1 year, and by the completed-contract method for other construction projects.
However since Accounting Standard Board of Japan Statement No.15 “Accounting Standard for Construction Contracts” and Accounting Standard Board of Japan Guidance No.18 “Guidance on Accounting Standard for Construction Contracts” both issued December 27, 2007 are able to apply for fiscal years before April 1, 2009, the Company made an early adoption for these Accounting Standards from the current fiscal year and for the construction contracts commencing from the current fiscal year, the percentage-of-completion method shall be applied for construction projects, if the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, cost proportion method shall be applied. For other construction projects, the completed-contract method shall be applied.
As a result of this change, Overseas sales for Others has increased by ¥1,376 million (U.S. $14,012 thousand), and Overseas Sales Total has increased by ¥1,376 million (U.S. $14,012 thousand) compare with previous accounting method.

## 21. Related party transactions

For the year ended March 31, 2008

None

For the year ended March 31, 2009

None

## 22. Amounts per share

1. Per share information is summarized as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| | 2008 | **2009** | **2009** |
| Net assets per share | ¥219.19 | **¥212.43** | **$2.16** |
| Net income (loss) per share | 10.46 | **(13.58)** | **(0.14)** |
| Diluted net income per share | — | **—** | **—** |

2. 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.

For the year ended March 31, 2009, 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.

## 23. Significant subsequent event

For the year ended March 31, 2008

None

For the year ended March 31, 2009

The Company's client, Joint Corporation Co,Ltd., has applied for Corporate Reorganization Law to Tokyo District Court on May 29, 2009 and the application has been accepted.

The Company's amount of claim to this company was ¥20 million on the same date.

In the next fiscal year, the Company will book the allowance for doubtful account to the uncollectible amount of the claim.

Currently the Company has two on going construction projects for Joint Corporation and the amounts of the sales of the projects have not been fixed.

Regarding these construction projects, the Company shall take necessary actions to preserve these project claims.

# Report of Independent Auditors

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, 2009 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 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, 2009 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.

**Supplemental Information**

As described in Note 3 (3), effective the year ended March 31, 2009, the Company adopted a new accounting standard for the construction contracts.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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 26, 2009

Ernst & Young ShinNihon LLC

Ernst & Young ShinNihon LLC