

Opening a Path toward an Assured Future as the No. 1 Contractor in Coastal and Waterfront Areas



The Penta-Ocean Construction Co., Ltd. Group (Penta-Ocean Construction Group) is setting its vision on further growth as the No. 1 contractor in coastal and waterfront areas. Underpinned by its basic management policy of supporting business volume, building competitive strength, advancing into new fields, investing in productive capital and strengthening the Group's management base, the Penta-Ocean Construction Group is pressing forward to achieve the goals of the Medium-Term Management Plan (2012 – 2014).

The Japanese economy has undergone a number of changes in direction in the fiscal year ended March 31, 2013. Despite some signs of a rebound, prompted by demand related to recovery from the Great East Japan Earthquake, uncertainty continued to linger as the global economy slowed. With the inauguration of a new government, however, new economic measures and fiscal policies received a favorable reception. As the Japanese yen weakened and Japanese equities markets

surged, hopes of an economic recovery grew.

Conditions in the construction industry offered room for cautious optimism. Results in public-sector operations in Japan were solid, as recovery-related operations reached full speed and an auxiliary budget was disbursed. Residential investment found a recovery footing but activity was sluggish overall, while private-sector capital investment faltered amid caution over future prospects. Overseas, demand for construction was firm in Southeast Asia, the Group's principal market, paced by infrastructure projects.

Amid the economic environment described above, the Penta-Ocean Construction Group worked to achieve the targets of the Medium-Term Management Plan (2012 – 2014), aiming for further growth as the No. 1 contractor in coastal and waterfront areas.

Net sales increased 6.7% against the previous fiscal year to ¥349.8 billion (U.S.\$3,719.7 million) amid a steady trend in overseas projects in hand. In earnings, operating income declined 28.0% against the previous fiscal year to ¥6.5 billion (U.S.\$68.7 million) due to a decline in the gross margin on sales, although selling, general and administrative expenses were reduced. In spite of an improvement in non-operating profit and loss, ordinary income shrank 11.9% against the previous fiscal year to ¥6.6 billion (U.S.\$69.8 million). Thanks to a decline in income taxes, however, net income rose 25.1% over the previous fiscal year to ¥2 billion (U.S.\$21.6 million).

The Group's corporate message, "Going further," encapsulates the vision of the future we strive for and our determination to make that future a reality. Our aim is to be a compelling and attractive group of companies, building an assured future as a front-runner and the No. 1 contractor in coastal and waterfront areas, enhancing enterprise value and growing and developing sustainably in step with the communities in which we do business.

A handwritten signature in black ink that reads "Y. Murashige".

Yoshio Murashige
President, Chief Executive Officer and Representative Director

Questions and Answers with President Murashige

Q

What is your forecast for the business environment?

A

In Japan, we forecast a modest recovery in construction investment. Overseas, growth should continue to be strong in Southeast Asia, driven by infrastructure building.

In Japan, we expect to derive growth from both the public and private sectors. With respect to the public sector, we forecast robust implementation of major projects, where the Penta-Ocean Group can capitalize on its strengths. These include recovery projects in the wake of the Great East Japan Earthquake and the construction of a strategic international container port. Turning to private-sector operations, we anticipate that capital investment in Japan will turn to a recovery keynote against a background of improving business revenues. Overseas, construction of infrastructure as well as medical and educational facilities will continue to be brisk in Southeast Asia, notably in Singapore and Hong Kong.

Amid this business environment, the Penta-Ocean Group will move forward with a selective, targeted approach, shifting from a general-contractor model to an integrated core-operations model. As a result, we still aim to attain further growth as the No. 1 contractor in coastal and waterfront areas, as we work to achieve the targets of the current medium-term management plan (2012 – 2014).

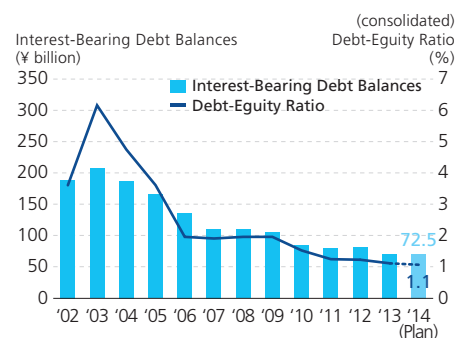
Q

The Penta-Ocean Group is reducing its balance of outstanding interest-bearing debt in a bid to reinforce its financial position. What specific targets do you have?

A

Our goal for the fiscal year ending in March 31, 2014 is to reduce our balance of outstanding interest-bearing debt to ¥72.5 billion on a consolidated basis, achieving a Debt-Equity Ratio of 1.1%

Maritime public-works projects require investment in special equipment such as work vessels. Because such capital investment is typically conducted using funds borrowed from financial institutions, the Group's ratio of interest-bearing debt to total assets is at its highest level ever. We must urgently improve our financial position by unwinding interest-bearing debt and expanding owned capital. To achieve a solid financial position, the Penta-Ocean Group is working hard to reduce that balance of interest-bearing debt. Our specific targets are a balance of outstanding interest-bearing debt of ¥72.5 billion (U.S.\$770.9 million) on a consolidated basis and a Debt-Equity Ratio of 1.1% at the end of the fiscal year ending in March 31, 2014.



Q

Please explain your policy on capital investment.

A

We are continuing to carry out the capital investment we need to bolster our operational capability.

The Group's core operations consist of maritime public-works projects in Japan and overseas. To strengthen our operational capability, we require capital investment to construct and improve the function of special ships, such as large dredgers and soil-stabilization vessels.

In 2010 the Group commissioned a cement deep mixing vessel, the POCM-No.12, and a self-propelled multi-purpose working vessel, the CP-5001 in 2012. Currently we are building a large-scale self-propelling dredger in Singapore, scheduled for commissioning in 2014. As a result of these projects, the Penta-Ocean Group's capital-investment bill has been exceptionally high in recent years: Capital investment in the fiscal year ending March 31, 2014 is expected to reach ¥14.5 billion (U.S.\$154.2 million).

The Group will continue to conduct capital investment as necessary to fortify its operational capabilities and enhance its technological competitiveness.



The self-propelled multi-purpose working vessel, "CP-5001"

Medium-Term Management Plan Basic Policies

Target Firm Image

"No. 1 Contractor in Coastal and Waterfront Areas"

Transition from general contractor model to core business-integrated model

Basic Management Policies

1. Maintain business volume
2. Build competitiveness
3. Further improve quality of operations
4. Enter new fields, undertake capital investment
5. Strengthen the operating base

Earnings Targets under Our Management Plan

Medium-Term Management Plan (2012 – 2014)

(¥ billion)

	2012 Actual		2013 Actual		2014 Plan	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Earnings Targets						
Construction Orders Received	—	¥ 286.5	—	¥ 280.3	—	¥ 320.0
Net Sales	¥ 328.0	308.6	¥ 349.8	329.5	¥ 357.0	332.0
Gross Profit	24.2	22.6	21.1	20.4	24.3	22.5
SG&A	15.2	13.8	14.7	13.3	15.3	14.0
Operating Income	9.0	8.8	6.5	7.1	9.0	8.5
Ordinary Income	7.4	7.6	6.6	6.4	7.5	7.0
Net Income	1.6	2.1	2.0	2.3	2.6	2.5
Earnings Per Share (¥)	5.67	—	7.10	—	9.00	—
Consolidated Financial Targets						
Interest-Bearing Debt (¥ billion)	¥ 81.2		¥ 70.9		¥ 72.5	
Debt-Equity Ratio (%)	1.3%		1.1%		1.1%	
Equity Ratio (%)	20.0%		21.9%		21.3%	

Shareholder Dividend

- Stable shareholder dividend
- Planned 2014 dividend: ¥2 per share

Major Targets (Consolidated)

- 2014: Ordinary Income: ¥7.5 billion
- Debt-Equity Ratio: 1.1%

Major Operating Trends/Projection (Consolidated)

