

Medium-term Management Plan (FY2011 - FY2013)

May 2011



■ Recognition of Business Environment and Construction Market Outlook

Recognition of business environment

● Japanese society

- Declining birthrate and ageing population, declining population
- Lack of a growth strategy
- Domestic de-industrialization, high unemployment rate
- Devastating earthquake, global warming, extraordinary weather

● Japanese economy

- Critical deterioration of national, local finances
- Long-term slow growth and deflation
- Globalization of economic activities
- Local economic failure, rising disparity among regions
- Effect of recent major earthquake

● Construction industry

- Continuing contraction of domestic market
- Qualitative change to maintenance and repair and projects without government participation
- Oversupply, little progress in shakeout and reorganization
- Required overseas strategy, breakaway from contract work
- Contribution to earthquake relief, recovery and restoration

Construction market outlook

● Short-term outlook

- Public works: Declining trend; selection and concentration; heavy allocation to sectors related to public comfort and safety such as disaster prevention and national land conservation
- Private sector demand: Signs of economic recovery, but dampened again because of the major earthquake
- Large-scale projects: Haneda Airport Expansion projects completed in FY2010; FY2011 and FY2012 will be slow periods for large-scale projects
- Overseas: Southeast Asia will continue growing at a brisk pace, with projects such as the MRT in Singapore and 10 major projects in Hong Kong

● Medium-term outlook

- Public works: Declining trend will ease, but cannot expect growth; further selection and concentration of activities
- Private sector demand: Gradual economic recovery, growing capital investment and recovery of residential housing market, but with disparities among, industries, companies and regions
- Large-scale projects: Progress in activities such as hub conversion of airports and harbors, preservation of remote islands, the Linear Chuo Shinkansen project and environmental-related works
- Overseas: Singapore and Hong Kong will continue growing steadily; Southeast and South Asia will also offer new business opportunities



An era of technology competition/price competition in which only company with superior technological capabilities and project planning skills can survive.

■ Basic Management Policies (1)

Target firm image

“No. 1 Contractor in Coastal and Waterfront Areas”

Transition from general contractor model to core business integrated model

Corporate message

“Going Further”

Since being established in Kure City, Hiroshima Prefecture in 1896, Penta-Ocean has grown with society by contributing to society with an enterprising, up-and-coming spirit and leading-edge construction technologies. Today, more than 100 years after our founding, a mentality of continually seeking challenges in new fields remains part of our corporate DNA. A spirit of accepting challenges that never varies, even as times change, and the power of flexible self-innovation to respond to the needs of each new era. At Penta-Ocean, we are never satisfied with things as they are, and we continue to move steadily forward, step by step.

Basic management policies

1. Maintain business volume
 - Maintain the present level of business, do not slip into a diminishing equilibrium
2. Build competitiveness
 - Beat the competition and expand market share
3. Further improve the quality of operations
 - Quality is the starting point of firm management
4. Push into new fields, undertake capital investments
 - Continue to invest for growth
5. Strengthen operating base
 - Lay the foundations for further growth

Major earthquake restoration and recovery

- Mission of the construction industry
- Preserve Japan’s lands, and protect the safety and comfort of Japan’s citizens, by building the infrastructure that is essential for people’s daily activities
- Policy of the Penta-Ocean Group
- To fulfill the mission of the construction industry, the Penta-Ocean Group will devote its full capabilities to recovery and restoration from the recent large earthquake

■ Basic Management Policies (2)

1 Maintain business volume (scale and orientation)

1) Business volume

- Maintain present level of business
- Do not slip into a diminishing equilibrium

2) Business orientation

- Marine civil engineering works (domestic, overseas)
 - Maximize earnings, establish Penta-Ocean brand
 - Proactive approach to future large projects
- Land civil engineering works (domestic, overseas)
 - Narrow down regions and sectors
 - Secure stable business volume and earnings
- Building construction (domestic)
 - Narrow sectors, build organization capable of winning competition
 - Secure stable business volume and earnings
- Overseas
 - Gradual expansion centered on countries with branch offices (Singapore, Hong Kong, Vietnam)
- Development, property
 - Implement new investment on a limited basis (regions, business volume)
- New sectors
 - Begin commercializing feasible sectors by FY2013
 - Identify and develop seeds for future

2 Build competitiveness

- 1) Build competitiveness through technology
 - Position sales, construction and technologies in new sectors as core of competitiveness
 - Position the Technology Strategy Office as the group to promote technological development, and unify formulation and promotion of strategies within the office
 - Increase the number of technology development-related employees
- 2) Build competitiveness by upgrading construction capabilities
 - Enhance construction completion capacity through continuous capital investment (work vessels etc.)
 - Build cost competitive organizations and construction capabilities at construction-related group companies
 - Promote competitive purchasing operations through group-wide procurement (across divisions, regions, and countries) of materials and equipment
- 3) Build organization that is undefeatable in total cost competition
 - Reduce expenditures
 - Revise ratio of direct and indirect expenses, further shrink controllable costs
 - FY2013 (non-consolidated): Administrative expense ratio of 4.4% or less
 - Improve non-operating loss
 - FY2013 (non-consolidated): Non-operating loss of 2.0 billion yen or less

■ Basic Management Policies (3)

3 Further improve quality of operations

- 1) Strengthen technological prowess
 - Strengthen technologies in individual sectors and enhance integrated capabilities (planning, surveys, design, R&D, estimating, proposals, construction, maintenance etc.)
- 2) Revitalize in-house employee training and organization
 - Foster professionals and management leaders in each sector
 - Create and steadily utilize the PDCA system for operations
- 3) Improve operating effectiveness and revise direct, indirect expense ratio through integration of back-office sections
 - Strengthen direct division personnel
- 4) Strengthen managerial systems for overseas risk
 - Establish World Operations Center (April, 2011) as organization to manage all operations, from tenders to construction, across each country
 - Thorough application of local currency costing
 - Enhance construction capabilities by securing materials and equipment
 - Expand pair check system by both domestic, overseas divisions
 - Train PM and other highly specialized employee groups

4 Push into new fields, undertake capital investments

- 1) Expand from the construction and contract business into peripheral sectors
 - Aim for continuous growth
 - Peripheral sectors: Environmental services business (land-related business), maintenance repair management operations, etc.
 - Establish a 2020 Business Office as the strategic division for business sector expansion (April 2011)
- 2) Implement continuous capital investment to bolster construction capabilities
- 3) Actively cooperate with different industries, research laboratories
 - Environment, maintenance and repair management etc.

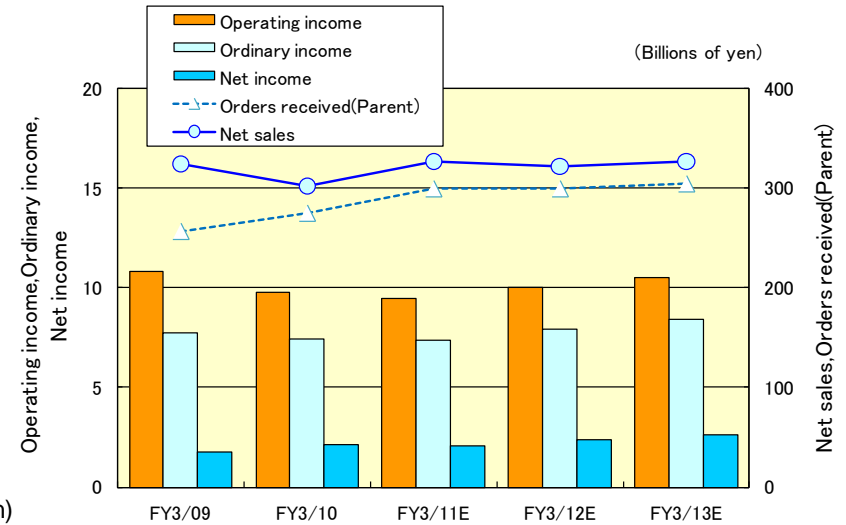
5 Strengthen the operating base

- 1) Increase equity ratio
 - FY2013 (consolidated): Equity ratio of 23% or more
- 2) Effectively utilize and steadily sell asset holdings
- 3) Continuously reduce interest-bearing debt, and diversify and stabilize funding sources
 - FY2013 (consolidated): Interest-bearing debt of 67.2 billion yen or less

Key Management Objectives

- Shareholder dividends
 - Stable shareholder dividends
 - FY2011: Planned per-share dividend of 2.0 yen
- Key numerical targets (consolidated)
 - FY2011: Ordinary income 7.4 bil. yen or more
D/E ratio 1.2 or less
 - FY2013: Ordinary income 8.4 bil. yen or more
D/E ratio 1.0 or less

Consolidated



(Billions of yen)

Medium-Term Management Plan (FY2011~FY2013)

	FY2011		FY2013	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated

Earning Targets

Construction orders received		300.0		305.0
Net sales	327.0	306.0	327.0	306.0
Gross profit	24.6	22.8	25.3	23.5
SG&A	15.1	13.8	14.8	13.5
Operating income	9.5	9.0	10.5	10.0
Ordinary income	7.4	7.0	8.4	8.0
Net income	2.1	2.0	2.6	2.5
Earnings Per Share	7yen or greater		9yen or greater	

Consolidated Financial Targets

Equity ratio	22% or greater		23% or greater	
Interest-bearing debt	772 or less		672 or less	
D/E ratio	1.2 × or less		1.0 × or less	

