

# Message from the President

I would like to extend my sincere appreciation to all shareholders for your understanding and support.

Being the vice-president at the time of president Hideaki Kato's passing, I succeeded as president in December of last year. We are now embarking on a new chapter in our history as we ended the medium-term management program "Challenge 21" and begin the new management program, "Evolution 21". "Challenge 21" was implemented to resuscitate the company during the time when the construction market had slumped. Because of everyone's dedication, we exceeded the profit and financial targets set forth in the program. We could not have made this happen were it not for the understanding of the shareholders and other concerned parties, and the unyielding perseverance of our directors and employees. Thank you very much.

The Japanese economy in the year ended March 2005 grew rapidly, which also led to a steady improvement in corporate business results. Private sector capital investment growth and strong urban residential demand boosted investment in the construction industry. Public works investment, however, continued to decline. In Asia, our principal overseas market, capital investment in China has expanded rapidly, but has become sluggish in other markets.

In response to these market conditions, we have restructured the company to regain profitability and competitive edge. As a result of this, consolidated sales for fiscal year ended March 2005 increased 4.3% over the previous term to ¥345.2 billion. Operating income also increased 11.8% to ¥11.9 billion, and ordinary income also increased 19.1% to ¥8.8 billion. However, due to increases in corporate taxes adjustments and other factors, net income plunged 28.3% to ¥2.3 billion.

At Penta-Ocean, we live by the philosophy of "The construction of superior infrastructure is our best contribution to society". As such, by providing reliable quality backed by advanced technology and regard for safety and the environment, we aim to continue advancing as a company that stands out not only to shareholders, customers, business partners, and employees, but as a model corporation respected by society. To instill this corporate culture, we established management principles and a medium-term vision that focuses on CSR (Corporate Social Responsibility) in April 2005. We created this new medium-term management program, called "Evolution 21", with the core strategies of "Challenge 21". This program is designed to increase our earning potential, stabilize the business, and set us in position to evolve to an even advanced construction entity. Specifically, this program will leverage our status as the number one marine engineering company capitalizing in our technological superiority, securing our share of the domestic civil engineering market, steadily expanding domestic architectural engineering business with emphasis on profitability, and generating earnings in the overseas market as the leading global marine contractor.

When this program ends in the year ending March 2008, we estimate the consolidated sales of ¥355.0 billion, ordinary income of ¥13.5 billion, and net income of ¥5.0 billion. While this is only a slight increase in actual sales over the fiscal year ended March 2005, it represents a significant increase in net income. Surplus capital can be secured if the second issuance of ¥15.0 billion in unsecured bonds issued in May 2005 is converted into stock. What we want to achieve by the final term is a more robust and efficient business condition as expressed by an equity ratio of over 20%, and a debt to total assets ratio under 30% resulting from an approximate ¥55.0 billion decrease in interest bearing liabilities.

The construction industry in the year ending March 2006 is expected to see continued increases in private sector investment, but with no change in the sluggish public works sector, it will prove to be another difficult year for the industry. The "Act for Promoting Quality Assurance in Public Works" goes into effect in April 1, 2005, putting an end to conventional price wars, and instead, shifting the industry to a total value-oriented system based on price and quality. The private sector will also begin expecting a more quality-focused approach with sound management and technology-backed reliability. In order to persevere in this intense competition, we must strive even further to create a company with superior technology and management. Group financial targets for the year ending March 2006 are: increase of 4.3% in total sales over the previous term to ¥360 billion, increase of 30.7% in ordinary income to ¥11.5 billion, and a 52.2% increase in net income to ¥3.5 billion.

In closing, I would like to mention that our fundamental policy is to always provide long-term and stable dividends to all our shareholders. Our current focus is building a surplus of internal reserves, which regrettably, forces us to suspend dividend payments for the third consecutive term. All of us will continue to do what it takes to ensure that "Evolution 21", the new medium-term management program, leads us to the road of rapid resumption in dividend payment. I would like to thank our shareholders for your continued understanding and support.



A handwritten signature in black ink, appearing to read "K. Tetsumura". The signature is stylized and fluid.

President Kazujiro Tetsumura