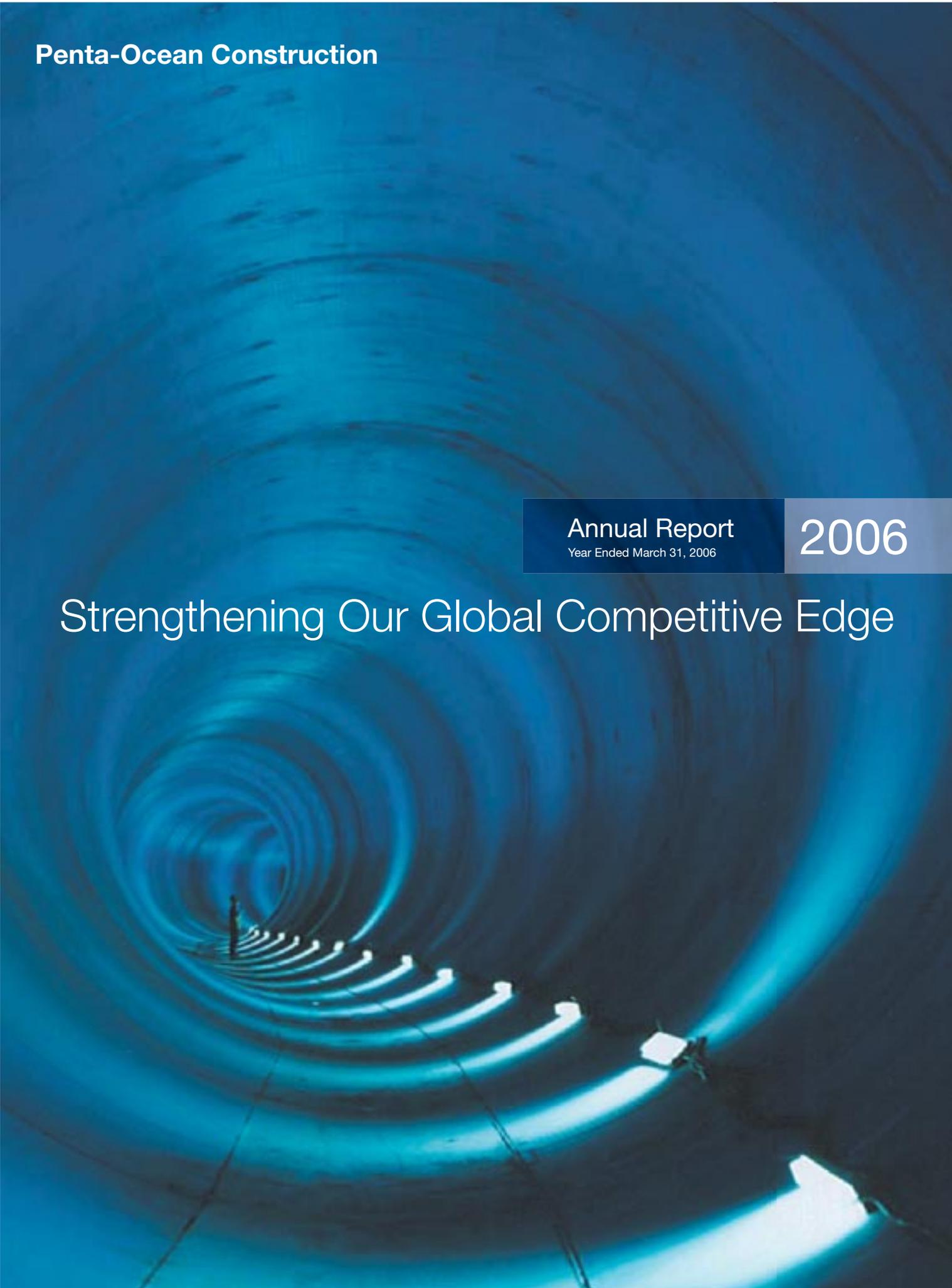


Penta-Ocean Construction

Annual Report
Year Ended March 31, 2006

2006

Strengthening Our Global Competitive Edge



Penta-Ocean Construction Co., Ltd. is one of Japan's leading comprehensive construction companies, with 27 subsidiaries and five affiliates comprising the Penta-Ocean Group worldwide. The Group develops advanced construction methods, materials and machinery for technologically and geologically challenging construction projects. During fiscal 2006, the Company's 110th business period, Penta-Ocean continued to strengthen its position in the highly competitive architectural engineering and civil engineering markets worldwide.



Cover:
**Deep Tunnel and Sewerage
Construction Project**

Singapore

Penta-Ocean designed and completed a 7 km section of the system containing culverts with an inside diameter of 6 meters. Penta-Ocean developed and patented the boring system employed in this project, which set new world records for both excavating speed, at 530 meters per month, and for distance, using a single earth pressure-balanced unit.

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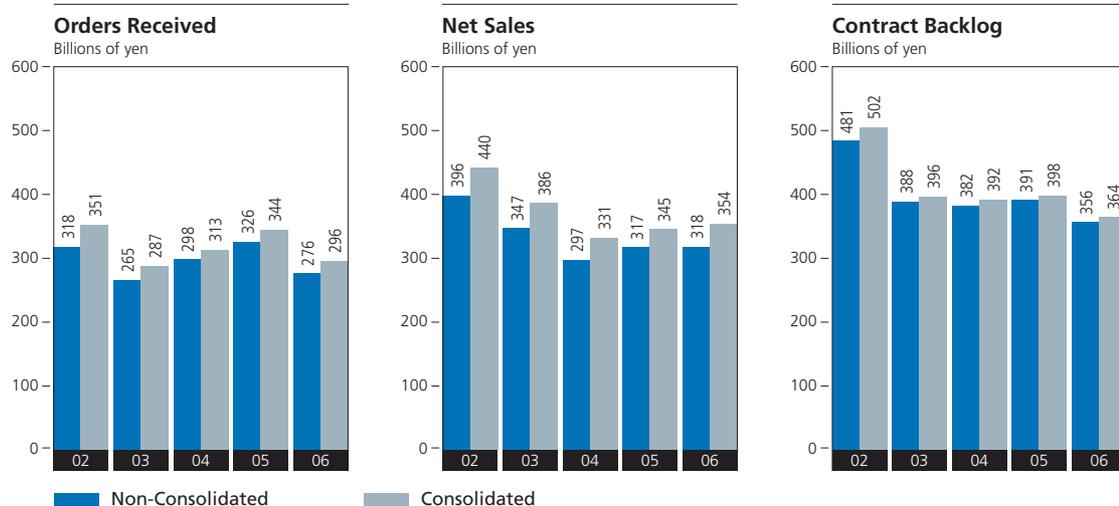
Consolidated Financial Highlights

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Orders received	¥344,716	¥296,046	\$2,520,184
Net sales	345,266	354,657	3,019,128
Contract backlog	398,369	364,407	3,102,128
Total assets	411,322	389,367	3,314,608
Shareholders' equity	47,640	66,891	569,430
Ordinary income	8,864	11,341	96,544
Income before income taxes	9,500	10,019	85,290
Net income	2,360	3,876	32,996
Cash dividends	—	—	—

Per share of common stock	Yen		U.S. dollars
Shareholders' equity	¥120.55	¥136.12	\$1.16
Net income	6.25	8.57	0.07
Cash dividends	—	—	—

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥117.47 per U.S.\$1, prevailing on March 31, 2006.



Fiscal 2005, the year ended March 31, 2006, marked Penta-Ocean's 56th business term. During this period, the Japanese economy showed signs of a gentle recovery, thanks to industry-wide increases in capital investment related projects, backed by favorable corporate earnings and improvement in the employment and income situations across the economy.

Despite the protracted downturn in public sector construction projects, once the main business area for the Group, Penta-Ocean found growth in projects in the private sector, where a trend of steady growth in corporate capital investment is underway. The steady growth in urban housing projects also helped to strengthen sales for the Group.

In the overseas construction market, sales were not as favorable as in the past, with a falloff in new construction occurring throughout the Southeast Asian region. Economic growth in the Chinese market, however, remained robust, and the Penta-Ocean Group continued to expand its project line-up in that burgeoning region. Business also continued to improve in the Middle East, promising a solid growth trend for the future.

Business Results for the Term under review

Under these circumstances, Penta-Ocean and its Consolidated Subsidiaries formulated a three-year mid-term management plan, "Evolution 21," that began in the term under review. Under the plan, all employees and company directors are endeavoring to reinforce profit-making capabilities in the Group's main business areas and strengthen its financial base, aiming at further development in the future. Owing to the dedication of every employee, the Group met its goals for the first year of the plan.

Consolidated net sales in fiscal 2005 amounted to ¥354,657 million (US\$3,019.1 million), a 2.7% increase from the previous term. Consolidated operating income increased by 18.1% year-on-year to ¥14,177 million (US\$120.7 million). Consolidated ordinary income also increased, by 27.9%, to ¥11,341 million (US\$96.5 million). Consolidated income before income taxes rose by 5.5% from the previous term, to ¥10,019 million (US\$85.3 million) and as a result of these increases, consolidated net income in the term under review produced profit of ¥3,876 million (US\$33.0 million), a year-on-year increase of 64.2%.

Regrettably, however, owing to the adverse conditions present in our operating environment, it was decided not to pay a dividend to shareholders again this year. It is our belief that priority should be given to increasing the Group's capital and retained earnings in order to solidify Penta-Ocean's financial base in order to secure future profits for our shareholders.

Future Prospects and Challenges

Efforts to reform the Group's tendering and contracting system for public works projects continued to be a top priority for Penta-Ocean during the term under review. Continued efforts were also made to expand private sector competitive bidding; to adopt a comprehensive evaluation system based on construction quality and advanced technological capabilities, rather than conventional bidding, which involved pricing only; and reinforce measures against unreasonably low price bidding by including revised penalty codes. The business environment surrounding the construction industry underwent substantial changes during the term under review, including the

revision and reinforcement of the Antimonopoly Law, in January 2006. Although severe competition continues to be an obstacle to growth and sustainable profitability, Penta-Ocean continues to believe that companies possessing advanced technological capabilities and effective management protocols will prevail over the long term.

The Group has already begun to restructure corporate systems in order to comply with revisions being made to the tendering and contracting requirements for public works projects. It is also strengthening and expanding its business areas, and continues to seek out new business opportunities in Japan and in overseas construction markets.

During the term under review, Penta-Ocean continued to strengthen its financial position by enhancing capital strength and reducing interest-bearing debt. These measures will continue to ensure that the Group meets the goals it has set for both the mid-term and long-term future.

Further Corporate Compliance

As a basic policy, corporate compliance forms the basis for corporate social responsibility (CSR) and all members of the Penta-Ocean Group are required to adhere to high standards of conduct. In March 2006, however, an indictment was filed against one of our employees for tampering with a competitive bidding for a public works project ordered by Japan's Defense Facilities Administration Agency. Owing to the violation, Penta-Ocean has been suspended from tendering bids for federal and local government sponsored projects. As part of strenuous, ongoing efforts to ensure that this type of tampering does not occur again, the Company is improving transparency and establishing rigorous self-auditing practices.



On May 1, 2006, I replaced Kazujiro Tetsumura as President and Representative Director and shall do my very best to strengthen and develop the businesses of the Penta-Ocean Group in the challenging business environment surrounding the construction industry. In these efforts, I would like to take this opportunity to ask our shareholders for their continued support and patronage.

June 29, 2006

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

Yoshio Murashige,
President

In April 2005, Penta-Ocean established the Urban Development Divisions Group in the Architectural Headquarters. This reorganization aims at increasing opportunities to receive orders through positive efforts and arduous intellectual development in upstream areas of our business. We also focused on the development of Private Finance Initiative (PFI) businesses in redevelopment schemes in major metropolitan areas and other urban communities throughout Japan.

Urban Redevelopment Project “Tornare Nihonbashi Hamacho”



Construction work on the Tornare Nihonbashi Hamacho office and condominium was recently completed in the West Zone area of Nihonbashi Hamacho 3-chome, in central Tokyo. This mammoth undertaking represents a Class I urban redevelopment project, for which more than 100 stakeholders were involved and a myriad of ordinances and regulations had to be adhered to in the completion of the project. The project originated with the forming of an association town-forming research meeting, held first in May 1991. The comprehensive scheme took more than 14 years to complete.

This project represented a new approach to urban reconstruction projects, and took into consideration a wide range of consideration that has resulted in the creation of a totally new downtown district where residential and business facilities are seamlessly integrated to form a productive, yet pleasant environment for everyone concerned. Due consideration was given in design to earthquake resistance and fire prevention, long-term use and amenities that meet the needs of children and of the elderly, and countless other aspects of urban renewal that have made the Nihonbashi Hamacho district a model for inner city renewal.



Private Finance Initiative (PFI) Project “Tsukuda Group Home ”



Aioi-no-Sato, a group home for cognitively impaired elderly, was commissioned by the local government of Chuo Ward, in Tokyo under a new scheme, the Private Finance Initiative (PFI) and completed during the term under review.

The project adopted the Build-Transfer-Operate (BTO) system, in which a private sector consortium was selected from seven competitors in open bidding to plan, finance and construct the facility, then sell the facility back to the local government to be used as rental property. The PFI entrepreneur in this case was composed of six companies, including Penta-Ocean, and was represented by Japan Care Service Co., Ltd. The various phases of the project were divided among the members of the consortium and work was carried out without incident in record time. The technological prowess and managerial know-how the consortium brought to this large-scale project resulted in resounding success.

The Aioi-no-Sato facility is an 8-story, 1-basement SRC building with a total floor area of 7,364 m² and includes a 24-hour care unit that accommodates 80 residents, group homes and a helper station. An innovative feature of the building is its wall-surface greening utilizing rain water for assuring harmony with the natural environment.

Domestic Civil Engineering

Penta-Ocean is utilizing its technological capabilities for construction in coastal areas – developing brand technologies and expanding sales

Shikawa Dam Fukuyama City, Hiroshima



Public investment in domestic construction markets continued to remain depressed, while private sector capital investment increased steadily. The upturn in corporate profits owing to strong demand for housing in large urban areas supported construction investment during the term.

Against this backdrop, the Company and its consolidated subsidiaries formulated aggressive sales strategies for the coming fiscal period. In the domestic civil engineering field, the Company reinforced its strategic efforts to accommodate a new official overall evaluation system that will be introduced in public works and worked to expand the number of orders received for private civil engineering works. Technological development remained a cornerstone of Penta-Ocean's strength and a key factor in maintaining a competitive edge in both domestic and overseas construction markets during the fiscal period.



Kamaishi HBC Installation Project Kamaishi City, Iwate

Kamaishi Port Municipal Pier had a single quay side only and was always congested. In 2006, a peripheral facility was constructed when a new earthquake resistant pier was installed, in line with the "Kamaishi Port Wharf Construction Project."

Caissons were installed by use of a 3,000-ton hoisting crane. Although more than one typhoon hit the port during the project period and the crane vessels were removed to a safe location during each incidence, the project was successfully completed. Now 15,000-ton cargo carriers utilize the pier.

Ibi-Nagaragawa Bridge Aseismic Retrofit Project, Higashi-Meihan Expressway Kuwana City, Mie

This project encompassed aseismic retrofitting of piers supporting the Ibi-Nagaragawa Bridge on the Higashi-Meihan Expressway. The work was carried out by winding RC components around the supports. Since ten out of the 12 target piers were in the river, it was necessary to complete the work, which ranged from temporary cutoff to reinforcement, within a single drought period, and Penta-Ocean's NDR method was adopted to handle the cutoff procedures. The Group's steel casing materials and installation technology made it possible to complete the project in record time and at significantly reduced cost.

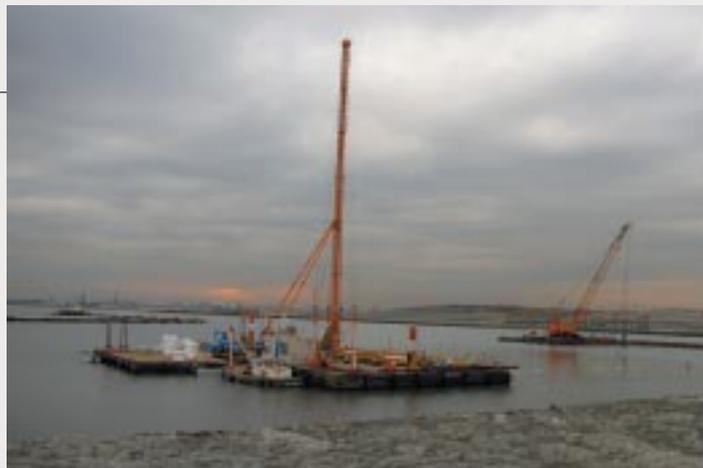


Land Reclamation Work – Aga Marino Polis Kure City, Hiroshima

This very-large-scale land reclamation project began in 1994 and was completed during the term under review under the theme of "Creating new land in a spirit of play, transport and creation." When the Great Marino Bridge and San-yo Expressway are connected to existing national highways, physical distribution capabilities will be greatly improved and this is expected to impact positively on local economies in the region.

New Sea Area Disposal Site Block C Life Extension **Test Work (by accelerating subsidence)** Metropolitan Tokyo

The New Sea Area Disposal Site was planned as part of the southern addition to the disposal site outside the Tokyo Bay Central Wharf. This project represented a step forward in efforts to extend the life of this solid waste facility. An innovative marine vacuum compression and draining method was developed by Penta-Ocean for the project, and resulted in significant construction cost savings and improvement in dredging techniques. Based on data collected from this project, Penta-Ocean plans to expand its business capabilities in this important area in order to make full use of its new vacuum compression and draining technology.



Domestic Architectural

Penta-Ocean continued to expand its presence in the Japanese construction market and focused on enhancing its earning power.

Lifelong Learning Center Hall Hioki City, Kagoshima



Although improved business earnings continued to spur steady increases in private sector capital investment in the domestic architectural market, the Company continued to shift its contract-based business format to proposal-based sales, reinforcing its competitive edge and avoiding price-lowering competition by offering customers comprehensive planning and design proposals.

In April 2005, the Urban Development Headquarters was newly established to strengthen Penta-Ocean's new proposal-based sales activities. New mid-and-long term orders will focus on redevelopment programs, PFI programs and condominium construction plans in local core cities.



Kagoshima People with Disabilities Occupational Skills Development School
Satsumasendai City, Kagoshima

This vocational training facility has been built in order to provide vocational training leading to independence for many people with disabilities. The ultimate goal is to assist these individuals in becoming productive, self-supporting members of their communities. The facility also acts as a forum for exchange between participants, staff members and the local community. Penta-Ocean participated in this project, by constructing the training facility buildings, including a multi-purpose lecture hall and a gymnasium, and fencing that surrounds the training facility together with the plaza at the front of the facility.



Crest Forme Tsurumi IV Yokohama City, Kanagawa

This 545 unit residential condominium was built along the Tsurumi River. Special consideration in design was given to landscaping and environmental esthetics of the immediate surrounding area, since the facility is located near an industrial zone. An abundance of flowers, shrubbery and trees were planted in patios and along pathways to create a more natural setting around the residence.



Grasia Towers Tokorozawa
Tokorozawa City, Saitama

This structure is the fifth condominium built under the Tokorozawa City High-rise Redevelopment Plan and is a twin tower comprising a 31 and 13-story buildings. Unlike conventional urban residential structures, these buildings adopted an out-frame method of construction that surrounds their exteriors with pure white temporary walls designed to camouflage the work being carried out inside.

Penta-Ocean has paid special attention to ensure safety in employing multi-layer climbing scaffoldings for installing and finishing exterior frames, and has succeeded in completing each floor in six days. This remarkable feat was accomplished without any construction-related accidents and the Company received an accommodation for its safety record over the course of the project.



Central and Southern Prefectural Clean Center
Isahaya City, Nagasaki



This hot-water clean center was recently completed by Penta-Ocean. The facility makes use of waste heat generated from an adjacent refuse disposal site. The ground floor has a

heated swimming pool, where guests can enjoy the atmosphere of a comfortable resort site in a spacious and luxurious setting. The Center is expected to increase tourism to the district.

Fukuyama Transporting Hiroshima Distribution Center
Hiroshima City, Hiroshima

This large scale distribution center was built for Fukuyama Transporting Co. and connects its headquarters with its main depots throughout Japan. It is also Aeon's distribution center for western Japan. This state-of-the-art facility encompassing 68,000m² of floor space was completed in a record time of 10 months.

Overseas Projects

Penta-Ocean continues to expand its global reach by successfully completing noteworthy architectural and civil engineering projects.

Toa Payoh Redevelopment Project Singapore



During the term under review, the Penta-Ocean Group experienced a slight slowdown in business in Southeast Asian market, where the company is traditionally very active. The exception to this trend was, of course, The Peoples Republic of China, where construction projects continued to gain momentum. The Group's activities in the Middle East market also continued to expand during the term.

In other markets overseas, Penta-Ocean focused its sales activities on projects involving land reclamation work, dredging, and other large-scale and very-large-scale marine civil engineering projects, in addition to architectural engineering undertakings. These efforts are expected to result in the procurement of many new orders during the current term.

Toa Payoh Redevelopment Project Singapore

This project consisted of a high-rise residential complex containing a 40-story, 126m-high condominium with 926 units and was ordered by Singapore Housing Development Board. Precast components were utilized for 80% of the building's construction, and one of the four residential buildings adopted an all-weather automated execution system developed by Penta-Ocean. This format replaced conventional PC methods and resulted in a reduction in building frame construction cycle per floor by three days, thereby saving labor, enhancing safety and reducing stress to the environment.

Penta-Ocean received the Best Design Awards 2006 from the Singaporean Construction Bureau for its work on this large-scale project.



Kwai Chung Container Terminal No.9 Hong Kong

This project was ordered from Modern Terminals Ltd., a company that manages four berths at the Kwai Chung Container Terminal, a thriving, world class port hub.

Penta-Ocean constructed a 7-story headquarters building, a 4-story workshop, a steel-structured main gate at the newest terminal No.9 of the four berths. The Headquarters Building has received notoriety for its wavy steel roof and curtain walls.



Deep Tunnel and Sewerage Construction Project, T-02 Block Singapore

This project aims at meeting future projections for increases in the population and for improving the highly economical sewerage systems built into the project expected to be maintenance-free for 100 years. Penta-Ocean designed and completed a 7 km section of the system containing culverts with an inside diameter of six meters. The entire system is 48 km in length. Penta-Ocean developed and patented the boring system employed in this project, which set new world records for both excavating speed, at 530 meters per month, and for distance, using a single earth pressure-balanced unit.

R&D Technologies

R&D as a Business Strategy

The Penta-Ocean Group's mission is to contribute to the global community by developing, improving and expanding original technology that is cost effective, safe and environmentally responsible. In the consolidated fiscal term under review, the Group focused its resources on three areas of priority - technological development aiming at exploiting new markets, technological support for specific projects, and technological development and improvement for securing conventional markets for short-term, high yield results.

Approximately 80% of investment in research and development during the term was funneled into the development of next-generation recycling protocols, hazardous waste prevention and renewal, and into food, medical, health care and physical distribution systems. Total expenditures in this area in fiscal 2006 amounted to ¥1,442 million (US\$12.3 million).

The following is a list of technological achievements for the Group during the fiscal term.

T-BOSS (T-type basement Branch Off Shield System)

Method

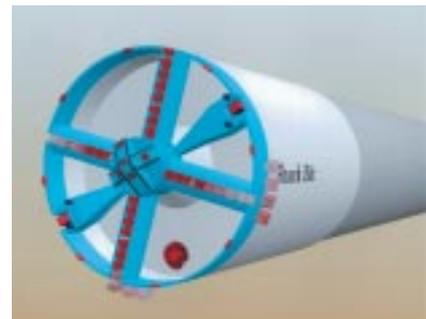
This method makes it possible to mechanically connect a new tunnel laterally to an existing tunnel without building a shaft. A drilling-reinforcing ring housed in a sealed machine grinds and penetrates directly into an existing tunnel and mechanically connects the new tunnel to it. This process conducts lateral side-connecting work underground in a safe, reliable process, even under high ground-water pressure conditions.

In applying this process, a "W" method, in which the drilling-reinforcing ring has a double structure, or an "S" method, in which it contains a single structure, can be employed, depending on the specific jointing requirements of the particular tunnel. This makes the T-Boss method suitable for a wide range of applications.



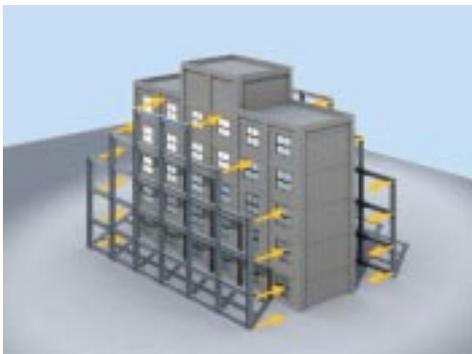
Shark Bit Method

In this method, tunnel-excavating sealed machine cutter bits are layered much like the teeth of a shark and so can be replaced any number of times automatically. Bits are replaced internally when a ring of new cutter bits is pushed toward the center of an internal periphery through a cutter spoke, one after another, worn cutter bits in the external periphery are pressed into the surrounding earth layers. This method dramatically improves excavation performances, shortening construction time and increasing cost efficiency. The process also increases safety during operation, since the need for dangerous operations such as manual facing is eliminated. This method was first applied to the construction of multipurpose underground conduits in Okayama City in 2005



Portal Grid Method

In January 2006, federal legislation addressing earthquake-resisting ground improvement and reconstruction was revised, raising the earthquake-resisting ratio of Japanese buildings and structures to 90%. Since many public school facilities were constructed in compliance with earlier standards and no effective countermeasures have been taken since that time, the Ministry of Education, Culture, Sports, Science and Technology has called for the reconstruction of many schools to meet the new safety standards. The Portal Grid Method is a new technology developed by Penta-Ocean to cope with this requirement. The Portal Grid aseismic retrofitting method entails the installation of steel framing to the external pillars and beams of existing buildings. Even when the braces that have conventionally been indispensable for reinforcing structures are omitted, this method achieves sufficient earthquake resistance to meet the new standards. Grid bracing does not cover windows or impair the natural lighting of existing buildings, and external facades can be constructed to camouflage the supports at the time the retrofitting work is done.



Hazard Analysis Critical Control Points

Establishing food safety protocols has become extremely important in recent years, and in the wake of these concerns, the Hazard Analysis Critical Control Point (HACCP) protocol has become crucial to achieving success in this area. HACCP is a control system for preventing three potential hazards during food processing, namely, the commingling of foreign matter into food products, microbial contamination, and tampering with chemical substances.

Penta-Ocean has developed a comprehensive service that encompasses protocols for zoning plans, conveyor lines and health control programs, designing and executing these along HACCP guidelines. It constructs distribution centers, as well as port facilities and has accumulated considerable experience in this field. Penta-Ocean has also constructed freezing facilities and frozen food distribution centers and in the food-processing field has constructed confectionery manufacturing facilities, repackaging centers and food-preparation facilities for every stage of food production - from the processing of raw materials to the processing of foods and final distribution to consumers.



On April 1, 2005, both the Corporate Social Responsibility (CSR) Promotion Committee and the CSR Promotion Office were established as organizations directly linked to the Office of the President of Penta-Ocean. The Committee is chaired by the Company's president and encompasses four sub-committees, of which all directors are members. The move was carried out to improve communication and decision making among top level management of the Penta-Ocean Group and is expected to also improve the Group's image with the general public.

Basic Policy of the CSR

The building of infrastructure is perhaps the most meaningful contribution a construction company can make to society and based on this premise, the Group continues to strive to improve its position for its shareholders, trading partners, customers, and employees. One way in which it achieves this is by focusing on environmental concerns and by developing innovative technologies that meet the challenges of a rapidly evolving global community.

1. Honorable Corporate Activities

Business activities must be in accordance with the law, socially acceptable, and morally just.

2. Coexistence with the Environment and Nature

- Construct environmental friendly structures and develop environmentally sound technologies that preserve earth's ecology.
- Develop comprehensive disaster prevention technology to produce structures that can withstand earthquakes and other naturally destructive forces.
- Implement rapid response support activities for times of emergency.

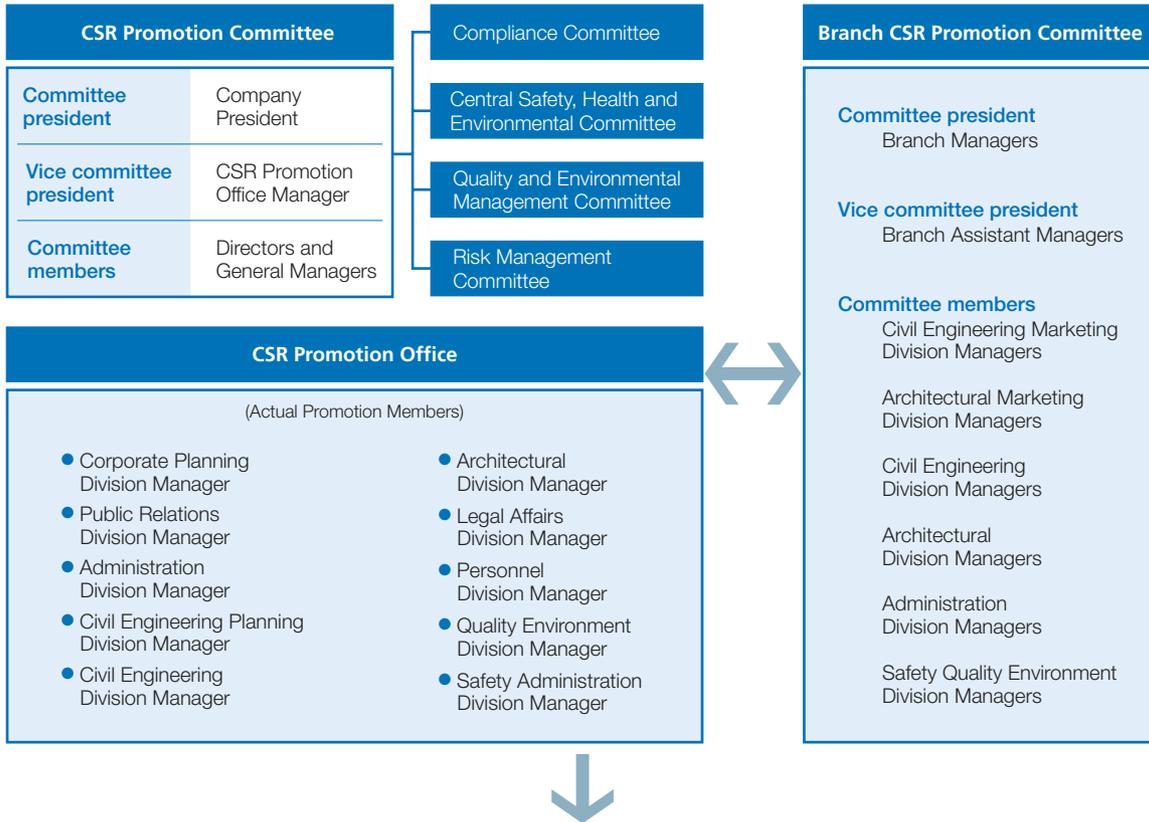
3. Respect for Humanity

- Respect the individuality of each employee and create a working environment where each person can demonstrate their abilities and be rewarded for their efforts.
- Respect for human rights and the diversity of all people connected with the Company.

4. Communication with Society

Strive for optimum communication with stakeholders (shareholders, customers, business partners, employees and the local community), and the timely and appropriate disclosure of information that demonstrates maximum accountability.

CSR Promotion System



Constant and Meaningful Communication with Stakeholders

Stakeholders of Penta-Ocean Construction Co., Ltd. and its subsidiaries include –

- | | |
|---|---|
| <ul style="list-style-type: none"> <li style="margin-bottom: 10px;">■ Customers and Consumers
Assurance of safety and quality and customer satisfaction <li style="margin-bottom: 10px;">■ Shareholders and Investors
Appropriate disclosure of information and data <li style="margin-bottom: 10px;">■ Trading Partners
Fair and impartial transactions <li style="margin-bottom: 10px;">■ Employees
Realization of optimum work environments and respect for human rights | <ul style="list-style-type: none"> <li style="margin-bottom: 10px;">■ Local Society
Increasing its contribution <li style="margin-bottom: 10px;">■ Ecology
Preservation of the environment <li style="margin-bottom: 10px;">■ NPO and NGO
Social contribution through collaboration <li style="margin-bottom: 10px;">■ Relevant Authorities
Compliance with laws, rules and regulations |
|---|---|

Reconstruction and damage repair projects following the Earthquake and Tsunami off Sumatra

The earthquake and Tsunami off Sumatra that occurred on December 26, 2004 struck many countries facing the Indian Ocean, resulting in unparalleled damage in both human and economic sectors. Penta-Ocean is contributing to the recovery of the region through disaster recovery reconstruction works.

Aceh Andalus Port, Indonesia

This port is located west to Banda Aceh City, which was most damaged by the earthquake and which lost its entire cement loading port. The port project includes the reconstruction of loading piers, removal of stranded ships and other debris and construction of tidal walls.



Stranded or upset vessels



Fishery facilities destroyed by the tsunami

Galle and Tangalle Fishery Ports, Sri Lanka

This area was struck by a tsunami from across the Indian Ocean, where piers and other coastal structures were damaged or destroyed, including fishery facilities. In reconstructing the ports, debris is first removed and piers, ship-winch space, refrigeration plants and other facilities are then rebuilt, and damaged breakwaters are also repaired.

Consolidated Financial Statements

Consolidated Five-year Summary

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

	Millions of yen					Thousands of U.S. dollars	
	2002	2003	2004	2005	2006	2006	
Orders received	¥351,331	¥287,101	¥313,751	¥344,716	¥296,046	\$2,520,184	
Construction	351,331	287,101	313,751	344,716	296,046	2,520,184	
Real estate development	—	—	—	—	—	—	
Other	—	—	—	—	—	—	
Net sales	440,662	386,861	331,170	345,266	354,657	3,019,128	
Construction	430,474	374,169	314,626	334,802	338,842	2,884,498	
Real estate development	2,149	3,560	6,240	2,368	4,488	38,205	
Other	8,039	9,132	10,304	8,096	11,327	96,425	
Contract backlog	502,980	396,657	392,377	398,369	364,407	3,102,128	
Construction	502,980	396,657	392,377	398,369	364,407	3,102,128	
Real estate development	—	—	—	—	—	—	
Other	—	—	—	—	—	—	
Total assets	509,541	472,849	443,193	411,322	389,367	3,314,608	
Shareholders' equity	51,685	33,682	39,860	47,640	66,891	569,430	
Ordinary income	8,351	1,846	7,440	8,864	11,341	96,544	
Income (loss) before income taxes and minority interests	6,519	(21,316)	6,624	9,500	10,019	85,290	
Net income (loss)	1,771	(16,261)	3,292	2,360	3,876	32,996	
Cash dividends	904	—	—	—	—	—	
Per share of common stock:							
	Yen					U.S. dollars	
Shareholders' equity	¥143.01	¥93.21	¥110.31	¥120.55	¥136.12	\$1.16	
Net income (loss)	4.90	(45.00)	9.11	6.25	8.57	0.07	
Cash dividends	2.50	—	—	—	—	—	
Number of employees	4,549	3,934	3,767	3,684	3,557		

Note: The amounts of orders received and contract backlog related to real estate development and other business is not stated on the above summary, because those amounts are small and do not have a

material effect to respective total amounts.

Figures in U.S. dollars are converted for convenience only, at the rate of ¥117.47 per U.S.\$1, prevailing on March 31, 2006.

Financial Review

Business Performance

Consolidated net sales for Penta-Ocean and its Consolidated Subsidiaries increased by 2.7% over the previous term to ¥354,657 million (US\$3,019.1 million). Consolidated operating income rose 18.1% to ¥14,177 million (US\$120.7 million) and consolidated ordinary income increased by 27.9% year-on-year to ¥11,341 million (US\$96.5 million). Income before income taxes also increased, by 5.5% to ¥10,019 million (US\$85.3 million). Consolidated net income increased substantially, by 64.2%, over the previous year to ¥3,876 million (US\$33.0 million).

Segment Information

Consolidated sales for the Construction Segment increased slightly by 1.2% over the previous term, to ¥338,842 million (US\$2,884.5 million), while consolidated operating income increased by 10.4% to ¥14,155 million (US\$120.5 million).

Consolidated sales for the Development Segment increased substantially, by 79.9% year-on-year, to ¥4,760 million (US\$40.5 million) thanks to the Company's strenuous efforts to promote real estate sales. No operating profit was recorded for the period. Consolidated sales losses in the term under review amounted to ¥188 million (US\$1.6 million), despite the considerable reduction from the loss of ¥685 million (US\$5.8 million) in the previous term.

In the Other Businesses Segment, which includes the Group's shipbuilding business, sales and leasing of construction materials and facilities, and the leasing of vessels, consolidated sales for the term increased by 24.3% to ¥18,807 million (US\$160.1 million). Operating income amounted to ¥180 million (US\$1.5 million), a substantial

improvement from the operating loss of ¥174 million (US\$1.5 million) in the previous term. This improvement was mainly attributable to reinforced shipbuilding facilities that led to remarkable improvements in production efficiency.

In reviewing business results by region, consolidated sales in Japan amounted to ¥314,258 million (US\$2,675.2 million), a year-on-year increase of 2.3%. Operating income also increased, by 0.4%, to ¥14,746 million (US\$125.5 million).

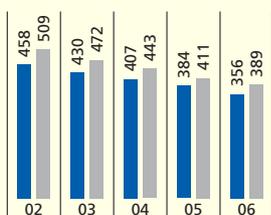
Consolidated net sales in the Southeast Asia region improved by 9.5% to ¥36,951 million (US\$314.6 million) and no operating profits were secured, which was the case in the previous term. However, consolidated losses shrank by 44.1% to ¥586 million (US\$5.0 million).

Consolidated sales for the Group's businesses in Bulgaria, Sri Lanka, and other countries amounted to ¥3,448 million (US\$29.4 million), declining by 17.9% from the previous term. Operating profit was ¥17 million (US\$145 thousand), substantially improved from the loss of ¥1,641 million (US\$14.0 million) in the previous term.

Orders Received and Contract Backlog

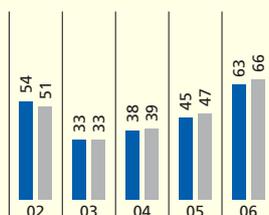
During the term under review, consolidated orders received by the Group amounted to ¥296,046 million (US\$2,520.2 million), an increase of 14.1%. While orders received from the domestic construction market shrank by 15.4% year-on-year to ¥276,497 million (US\$2,353.8 million). This amount includes overseas orders received, which accounted for 11.0% compared with 5.6% of the total in the previous term. Consolidated contract backlog decreased by 8.5% to ¥364,407 million (US\$3,102.1 million).

Total Assets
Billions of yen

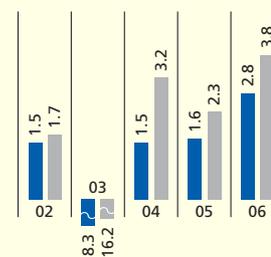


■ Non-Consolidated ■ Consolidated

Shareholders' Equity
Billions of yen



Net Income (Loss)
Billions of yen



Financial Position

Total assets belonging to Penta-Ocean and its Consolidated Subsidiaries decreased by 5.3%, or ¥21,955 million (US\$186.9 million), to ¥389,367 million (US\$3,314.6 million). This decline was attributable mainly to the reduction in payments for uncompleted works, due to revised standards for works under progress and a reduction in deferred income tax assets.

Liabilities were reduced by ¥41,210 million (US\$350.8 million), year-on-year, to ¥322,466 million (US\$2,745.1 million), owing to a reduction in short-term debt and amounts received from uncompleted works. Capital increased by ¥19,251 million (US\$163.9 million) to ¥66,891 million (US\$569.4 million), and this was due to increases by exercise of conversion rights of corporate bonds with subscription warrants.

Cash Flows

Cash flow generated by sales activities decreased by ¥12,101 million (US\$103.0 million) from the previous term, to a surplus of ¥9,772 million (US\$83.2 million), in the term under review. This was due to a reduction in impairment loss not involving loss in the cash flow and a reduction in the amount received from uncompleted works, in spite of increased income from the reduction in incomes and expenditures related to the uncompleted works.

Cash flow from investment activities declined by ¥3,446 million (US\$29.3 million) from the previous term, to a surplus of ¥2,320 million (US\$19.8 million), owing to a reduction in income from sales of tangible fixed assets. This was in spite of increases in income by collected loans receivable and refunded preferential fund certificates.

Cash flow from financial activities indicated an increased payment of ¥14,965 million (US\$127.4 million) thanks to a reduction in payments by ¥1,541 million (US\$13.1 million) year-on-year, including income of ¥15,000 million (US\$127.7 million), by issue of corporate bonds with subscription warrants, in spite of continued redemption of debts by ¥29,324 million (US\$249.6 million).

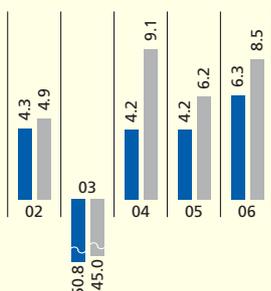
The amount of consolidated cash and cash equivalents reported by the Group at the end of the term decreased by 5.3%, year-on-year, or ¥3,597 million (US\$30.6 million), to ¥64,678 million (US\$550.6 million). The balance of interest-bearing liabilities at term end amounted to ¥135,699 million (US\$1,155.2 million), including those held by Penta-Ocean, to ¥123,845 million (US\$1,054.3 million).

Dividends

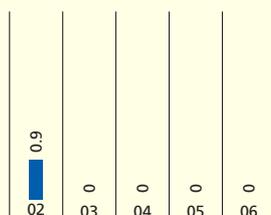
It is Penta-Ocean's basic policy to pay dividends to its shareholders in a consistent manner, while at the same time endeavoring to expand corporate profits and maintain sound management and a strong financial base. Internal reserves thus accumulated are allocated to reinforce its financial position and future development of its businesses, research and development activities, and capital investment.

Owing to prevailing market conditions and the financial results of the Group in fiscal 2005, however, it was decided, regrettably, to withhold payment of a dividend to shareholders.

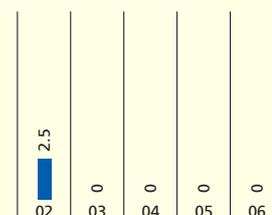
Net Income (Loss)
per Share
Yen



Cash Dividends
Billions of yen



Cash Dividends
per Share
Yen



Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current assets:			
Cash and deposits (Note 5)	¥ 70,381	¥ 64,873	\$ 552,252
Securities (Notes 3(4), 4 and 5)	84	91	775
Trade receivables:			
Notes	9,969	9,302	79,186
Accounts	113,632	121,246	1,032,144
Inventories: (Note 3(7))			
Cost of uncompleted contracts	47,342	33,077	281,578
Real estate for trade and real estate in progress	37,226	36,459	310,369
Other inventories	3,253	3,096	26,356
Deferred tax assets (Note 15)	9,017	5,779	49,195
Other current assets	7,551	4,813	40,972
Allowance for doubtful accounts (Note 3(6))	(1,145)	(1,038)	(8,836)
Total current assets	297,310	277,698	2,363,991
Investments and non-current assets:			
Investment in securities (Notes 3(4), 4 and 5)	22,981	29,103	247,748
Long-term loans and accounts receivables	5,071	4,687	39,900
Sundry investments	14,943	13,680	116,455
Deferred tax assets (Note 15)	5,827	1,384	11,782
Allowance for doubtful accounts (Note 3(6))	(6,553)	(5,689)	(48,429)
Total investments and non-current assets	42,269	43,165	367,456
Property, plant and equipment (Note 3 (8)):			
Land (Note 5)	36,395	36,017	306,606
Buildings and structures (Note 5)	34,604	33,806	287,784
Machinery, equipment and vehicles	19,679	19,308	164,365
Dredgers and vessels	52,099	51,905	441,858
Construction in progress	15	94	800
Other property, plant and equipment	792	788	6,708
Total property, plant and equipment	143,584	141,918	1,208,121
Less accumulated depreciation	(72,385)	(73,947)	(629,497)
Property, plant and equipment — net	71,199	67,971	578,624
Other assets (Note 3 (9))	544	533	4,537
Total assets	¥411,322	¥389,367	\$3,314,608

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current liabilities:			
Short-term debt (Note 6)	¥ 63,418	¥ 41,862	\$ 356,363
Current portion of long-term debt (Note 6)	51,091	38,842	330,655
Trade payable:			
Notes	36,252	35,150	299,225
Accounts	85,995	80,327	683,809
Advance on contracts in progress	40,254	30,689	261,250
Deposits received	11,662	11,250	95,769
Accrued income taxes	1,496	1,275	10,854
Accrued expenses	2,232	2,286	19,460
Allowance for losses on construction works (Note 3(13))	687	427	3,635
Other current liabilities	3,824	6,486	55,214
Total current liabilities	296,911	248,594	2,116,234
Long-term liabilities:			
Long-term debt (Note 6)	50,728	54,995	468,162
Reserve for retirement benefits (Notes 3(12) and 19)	6,514	6,752	57,479
Reserve for directors' and statutory auditors' retirement pay (Note 3(14))	441	451	3,839
Deferred tax liabilities for land revaluation excess (Note 17(2))	3,270	7,274	61,922
Consolidation adjustments	480	—	—
Other long-term liabilities	5,332	4,400	37,456
Total long-term liabilities	66,765	73,872	628,858
Minority interests	6	10	86
Shareholders' equity:			
Common stock	20,570	28,070	238,955
Authorized — 599,135,000 shares			
Issued and outstanding shares			
March 31, 2006 491,527,820 shares			
March 31, 2005 395,264,852 shares			
Capital surplus (Note 17(1))	12,606	20,106	171,158
Earned surplus (Note 2(5))	6,132	9,939	84,609
Land revaluation excess — net (Note 17(2))	4,767	879	7,483
Unrealized valuation gain on other securities — net (Note 17(3))	3,412	7,724	65,753
Cumulative foreign currency translation adjustments (Note 3(2))	162	186	1,583
Less: Treasury stock	(9)	(13)	(111)
Total shareholders' equity	47,640	66,891	569,430
Total liabilities, minority interests and shareholders' equity	¥411,322	¥389,367	\$3,314,608

Commitments and contingent liabilities (Note 14)

Consolidated Statements of Income

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2006

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Construction business:			
Net sales	¥334,802	¥338,842	\$2,884,498
Cost of sales	302,467	305,346	2,599,353
Gross profit	32,335	33,496	285,145
Real estate and other:			
Net sales	10,464	15,815	134,630
Cost of sales	10,761	15,052	128,135
Gross profit (loss)	(297)	763	6,495
Total net sales	345,266	354,657	3,019,128
Total cost of sales	313,228	320,398	2,727,488
Total gross profit	32,038	34,259	291,640
Selling, general and administrative expenses	20,038	20,082	170,954
Operating income	12,000	14,177	120,686
Other income:			
Interest and dividends	445	777	6,614
Other (Note 7)	1,012	1,013	8,624
	1,457	1,790	15,238
Other expenses:			
Interest	3,731	3,412	29,046
Other (Note 8)	862	1,214	10,334
	4,593	4,626	39,380
Ordinary income	8,864	11,341	96,544
Extraordinary gain (Note 9)	13,491	388	3,303
Extraordinary loss (Note 10)	12,855	1,710	14,557
Income before income taxes and minority interests	9,500	10,019	85,290
Income taxes (Notes 3 (18) and 15):			
Current	1,492	1,366	11,629
Income taxes deferred	5,648	4,776	40,657
	7,140	6,142	52,286
Minority interests	0	(1)	(8)
Net income	¥ 2,360	¥ 3,876	\$ 32,996
Income per share of common stock (Note 3 (15))			
	Yen		U.S. dollars
Primary	¥6.25	¥8.57	\$0.07
Assuming full dilution	—	—	—

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2006

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Common stock:			
Balance at the beginning of the period	¥18,070	¥20,570	\$175,109
Exercise of subscription right	2,500	7,500	63,846
Balance at the end of the period	20,570	28,070	238,955
Capital surplus (Note 17 (1)):			
Balance at the beginning of the period	10,106	12,606	107,312
Exercise of subscription right	2,500	7,500	63,846
Balance at the end of the period	12,606	20,106	171,158
Earned surplus (Note 2 (5)):			
Balance at the beginning of the period	889	6,132	52,201
Transferred from (to) land revaluation excess — net	2,883	(69)	(588)
Net income	2,360	3,876	32,996
Balance at the end of the period	6,132	9,939	84,609
Land revaluation excess — net (Note 17 (2)):			
Balance at the beginning of the period	7,650	4,767	40,581
Transferred from (to) earned surplus	(2,883)	69	587
Transferred from deferred tax liabilities for land revaluation excess	—	(3,957)	(33,685)
Balance at the end of the period	4,767	879	7,483
Unrealized valuation gain on other securities — net (Note 17 (3)):			
Balance at the beginning of the period	2,982	3,412	29,046
Net change	430	4,312	36,707
Balance at the end of the period	3,412	7,724	65,753
Cumulative foreign currency translation adjustments (Note 3 (2)):			
Balance at the beginning of the period	168	162	1,379
Net change	(6)	24	204
Balance at the end of the period	162	186	1,583
Treasury stock:			
Balance at the beginning of the period	(5)	(9)	(77)
Purchases of treasury stock	(4)	(4)	(34)
Sales of treasury stock	—	—	—
Balance at the end of the period	¥ (9)	¥ (13)	\$ (111)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2006

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥9,500	¥10,019	\$85,290
Adjustment to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	4,622	4,160	35,413
Loss on impairment of fixed assets	8,324	286	2,435
Amortization of consolidation adjustments	(484)	(480)	(4,086)
Increase (decrease) in allowance for doubtful accounts	(166)	(971)	(8,266)
Increase (decrease) in reserve for retirement benefits	(1,215)	238	2,026
Interest and dividends receivable	(445)	(777)	(6,614)
Interest expense	4,095	3,745	31,880
Foreign exchange loss (gain)	531	666	5,670
Equity loss (gain)	(57)	220	1,873
Loss (gain) on sales and disposals of property, plant and equipment	705	(35)	(298)
Loss (gain) on sales of investment in securities	9	0	0
Write-down of securities and investment in securities	20	83	707
Change in assets and liabilities:			
(Increase) decrease in trade receivables	4,102	(7,291)	(62,067)
(Increase) decrease in cost of uncompleted contracts	3,007	14,265	121,435
(Increase) decrease in real estate for trade and real estate in progress and other inventories	1,029	3,877	33,004
Increase (decrease) in trade payables	4,345	(5,177)	(44,071)
Increase (decrease) in advance on contracts in progress	(11,055)	(8,354)	(71,116)
Increase (decrease) in accrued expenses	(3,656)	(239)	(2,035)
Other — net	3,380	(202)	(1,720)
Sub total	26,591	14,033	119,460
Interest and dividends received	388	792	6,742
Interest paid	(4,102)	(3,631)	(30,910)
Income taxes paid	(1,004)	(1,422)	(12,105)
Net cash provided by (used in) operating activities	21,873	9,772	83,187

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash flows from investing activities:			
Purchases of securities	(1)	(1)	(9)
Proceeds from sales of securities	201	64	545
Purchases of investment in securities	(631)	(383)	(3,260)
Proceeds from sales of investment in securities	616	1,108	9,432
Purchases of property, plant and equipment	(1,384)	(1,691)	(14,395)
Proceeds from sales of property, plant and equipment	9,107	380	3,235
Loans made	(968)	(93)	(792)
Collection of loans receivable	622	1,133	9,645
Other — net	(1,796)	1,803	15,349
Net cash provided by (used in) investing activities	5,766	2,320	19,750
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(7,996)	(21,542)	(183,383)
Borrowings	21,140	43,823	373,057
Repayment of long-term debt	(34,599)	(51,605)	(439,304)
Proceeds from issue bond with subscription right	5,000	15,000	127,692
Cash dividends paid	(2)	(1)	(8)
Other — net	(49)	(640)	(5,448)
Net cash provided by (used in) financing activities	(16,506)	(14,965)	(127,394)
Difference resulting from conversion of foreign cash and cash equivalents to yen			
	(559)	(724)	(6,164)
Net increase (decrease) in cash and cash equivalents	10,574	(3,597)	(30,621)
Cash and cash equivalents at beginning of the period	57,701	68,275	581,213
Cash and cash equivalents at end of the period	¥68,275	¥64,678	\$550,592
(Notes):			
(1) Cash and cash equivalents are comprised as follows:			
Cash and deposits	¥70,381	¥64,873	\$552,252
Less-Time deposits with maturity over three months	(2,106)	(195)	(1,660)
Cash and cash equivalents (Note 3 (16))	¥68,275	¥64,678	\$550,592
(2) Content of significant non-cash transaction:			
Increase in common stock resulting from exercise of subscription right	¥ 2,500	¥ 7,500	\$ 63,846
Increase in capital surplus resulting from exercise of subscription right	2,500	7,500	63,846
Decrease in bonds with subscription rights resulting from exercise of subscription right	¥ 5,000	¥15,000	\$127,692

Notes to Consolidated Financial Statements

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries

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 Securities 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=¥117.47, the exchange rate prevailing on March 31, 2006. 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 five affiliated companies at March 31, 2006.

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

(2) Consolidation date

The balance sheet date of overseas subsidiaries other than the Company, domestic subsidiaries and seven overseas subsidiaries including Penta-Ocean Dredging Panama whose balance sheet date is March 31, 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 balance sheet date and 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 shareholders' equity and minority interest in proportion to their respective shareholdings.

(4) Consolidation adjustments

Consolidation adjustments are amortized over five years by the straight-line method.

(5) Appropriation of retained earnings or deficit

Appropriation of retained earnings or deficit approved at the shareholders' meeting held during the current fiscal year, is reflected in the consolidated financial statements.

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 balance sheet 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 balance sheet date, securities for purpose of sales and investment in securities other than the above are converted into yen from the fair value based on foreign currencies at the exchange rate prevailing on the balance sheet date and investments in subsidiaries and affiliated companies at the exchange rate prevailing at the time of acquisition of the Company.

Also, securities denominated in foreign currencies are translated at the exchange rate prevailing on the balance sheet date based on the fair value or the actual value estimated in foreign currencies, 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 balance sheet 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 foreign currency of overseas subsidiaries

Financial statements stated in foreign currency are translated into yen at the exchange rate prevailing on the balance sheet date except for the components of shareholders' equity 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 cumulative foreign currency translation adjustments in shareholders' equity.

(3) Recognition of contract revenue

The Company generally recognizes revenue upon the completed-contract method excluding the percentage of completion method to recognize revenue derived from large, long-term construction projects which conform to a certain specified term. Advances received in excess of revenue incurred on long-term contracts are shown as a current liability. Cost of uncompleted contracts is included in inventories.

(The change of accounting policy)

The Company changed the scope of contracts for application of the percentage of completion method from those with ¥1,000 million and above and the construction period of 2 years or longer or the fiscal term of 3 terms or longer to those with ¥100 million and above and the construction period exceeding 1 year. This change has been made due to amounts of orders received being smaller in size because of change of economic conditions, which is likely to continue.

As a result of this change of the accounting policy, sales for year ended March 31, 2006 increased by ¥21,643 million compared to what would have been recorded under the previous accounting policy. Consequently, gross profit, operating income, ordinary income and income before income taxes for the year ended March 31, 2006 increased by ¥2,084 million each, as compared to those recorded under the previous accounting policy.

(4) 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 Shareholders' equity as unrealized valuation gain on other securities-net, and sales costs are determined by the moving average method.

Other 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 receivables

Allowance for doubtful accounts is accounted for using the estimated bad debt ratio determined based on the past actual bad debt 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.

(8) Property, plant and equipment

Property, plant and equipment of the Company and domestic subsidiaries are stated at cost and 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.

(9) 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 assuming no scrap value by the straight-line method over five years based on the estimated useful life of internal use.

(10) Stock issue cost and bond issue cost

Stock issue cost and bond issue cost are amortized fully when incurred.

(11) Accounting for finance lease

Finance lease transactions other than those which are deemed to transfer the ownership of the assets to the lessees, are accounted for as operating leases.

(12) Reserve 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 defined retirement benefit plan. And further, in some cases, a special additional retirement payment are 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.

Reserve 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 amendments on 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.

(13) Allowance for losses on construction works

The Company prepares reasonable estimated amount for future losses from construction works outstanding at fiscal year-end.

(14) Reserve for directors' and statutory auditors' retirement pay

The Company provides reserve for retirement pay equal to the amount required if all directors and statutory auditors retired on the balance sheet date.

(15) 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, 2006.

(16) 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.

(17) 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) 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.

(18) 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. When paid, enterprise tax 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.

4. Securities

The composition of securities as of March 31, 2005 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Securities due within one year:			
Held-to-maturity bonds	¥ 84	¥ 91	\$ 775
Total	¥ 84	¥ 91	\$ 775
Investment in securities:			
Held-to-maturity bonds	¥ 70	¥ 39	\$ 332
Investment trust bills	415	361	3,073
Stocks	21,296	28,503	242,641
Others	1,200	200	1,702
Total	¥22,981	¥29,103	\$247,748

5. Pledged assets

(1) The following assets are pledged for fulfillment of construction contracts at March 31, 2005 and 2006.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Securities	¥ 71	¥ 41	\$ 349
Investment in securities	2,096	535	4,554
Total	¥2,167	¥576	\$4,903

(2) The following assets were pledged to secure short-term bank loans and long-term debt at March 31, 2005 and 2006.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deposits	¥200	¥ —	\$ —
Investment in securities	5	—	—
Land	101	102	868
Buildings	106	103	877
Total	¥412	¥205	\$1,745

6. Short-term and long-term debt

Short-term bank loans are represented primarily in the form of overdraft facility notes. The weighted average interest rates for the two fiscal years ended March 31, 2006 are 1.98% and

1.48%. Long-term debts as of March 31, 2005 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
1.71 percent bonds due September 2005	¥ 200	¥ —	\$ —
Long-term debt from banks and insurance companies maturing in 2013 (The weighted average interest rates is 2.64%.)	101,619	93,837	798,817
Less: current portion of long-term debt	(51,091)	(38,842)	(330,655)
Net	¥ 50,728	¥ 54,995	\$ 468,162

The aggregate annual maturity of long-term debt after March 31, 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2006	2006
Years ending March 31,			
2007	¥38,842		\$330,655
2008	24,207		206,070
2009	14,556		123,912
2010	13,886		118,209
2011 and after that	2,346		19,971
Total	¥93,837		\$798,817

7. Other income

The composition of Other income — other for the two years ended March 31, 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Rental received from real estate	¥ 212	¥ 255	\$2,171
Amortization of consolidation adjustments	484	480	4,086
Equity gain	57	—	—
Other	259	278	2,367
Total	¥1,012	¥1,013	\$8,624

8. Other expenses

The composition of Other expenses — other for the two years ended March 31, 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Equity loss of affiliates	¥ —	¥ 220	\$ 1,837
Exchange loss	461	257	2,188
Other	401	737	6,273
Total	¥862	¥1,214	\$10,334

9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Prior period adjustments	¥ 169	¥ 46	\$ 392
Gain on sales of fixed assets	197	145	1,234
Gain on dissolution of the welfare pension fund	12,502	—	—
Reversal of reserve for retirement benefits	357	—	—
Reversal of allowance for doubtful accounts	—	141	1,200
Other	266	56	477
Total	¥13,491	¥388	\$3,303

10. Extraordinary loss

The composition of Extraordinary loss for the two years ended March 31, 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Prior period adjustments	¥ 201	¥ 118	\$ 1,005
Loss on sales of fixed assets	902	110	936
Write-down of real estate for trade	—	559	4,759
Loss on impairment of fixed assets*	8,324	286	2,435
Loss on real estate development business of an affiliated company	2,152	—	—
Other	1,276	637	5,422
Total	¥12,855	¥1,710	\$14,557

* The Company recognized loss on impairment for the following group of assets in the current fiscal year ended March 31, 2006

Location	Kanto area
Classification of group	Company dormitory (1 object)
Loss on impairment	Land..... ¥81 million (U.S.\$690 thousand)
	Buildings ¥205 million (U.S.\$1,745 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 the above assets were written down to the recoverable amounts, because the Company decided to sell

the Company's dormitory classified as a common property. The impairment losses (¥286 million (U.S.\$2,435 thousand)) is accounted for as the extraordinary loss.

The recoverable amounts are measured by net realizable amounts based on the estimated contract amounts.

11. Research and development costs

Research and development costs charged to income for the two fiscal years ended March 31, 2006 are ¥1,480 million and

¥1,443million (U.S.\$12,284 thousand), respectively.

12. Summary of finance lease transactions

The Company has entered into finance lease contracts. They are summarized as follows:

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

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Estimated acquisition costs			
Equipment	¥880	¥783	\$6,666
Vehicles	108	110	936
	988	893	7,602
Accumulated depreciation	(760)	(724)	(6,163)
Estimated value	¥228	¥169	\$1,439

(2) Future lease payments as of March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Within one year	¥117	¥101	\$ 860
Over one year	136	84	715
Total	¥253	¥185	\$1,575

(3) Lease payments, depreciation equivalents and interest expenses equivalents for the year ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Lease payments	¥169	¥132	\$1,124
Depreciation equivalents	150	115	979
Interest expense equivalents	11	6	51

13. 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.

14. Commitments and contingent liabilities

As of March 31, 2006, the Company had liabilities for guarantee to bank loans made by customers amounting to ¥2,041 million (U.S.\$17,375 thousand).

The Company also had the guarantee amounting to ¥1,172 million (U.S.\$9,977 thousand) to purchasers concerning deposits

for purchase of the condominium apartments.

The Company has agreements on commitment line with 22 banks totaling ¥20,000 million for the purpose of flexible financing. There is no amount of loans as of March 31, 2006.

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
	2005	2006	2006
Deferred tax assets			
Write-down of real estate for trade	¥ 2,960	¥ 3,110	\$ 26,475
Net operating loss carried forward	—	1,432	12,190
Allowance for doubtful accounts	1,898	1,827	15,553
Loss on establishment of financial trust in respect of retirement benefit obligations	1,109	1,119	9,526
Reserve for retirement benefits	2,474	2,746	23,376
Reserve for bonuses	660	718	6,112
Provision for loss on real estate development business of affiliates	3,570	—	—
Impairment of fixed assets	3,881	3,430	29,199
Other	5,142	3,086	26,270
Total: deferred tax assets	21,694	17,468	148,701
Less : valuation allowance	(4,380)	(4,917)	(41,857)
Deferred tax assets	¥17,314	¥12,551	\$106,844
Deferred tax liabilities			
Unrealized valuation gain on other securities	¥(2,346)	¥(5,301)	\$(45,127)
Reduction for amendment of allowance for doubtful accounts	(28)	(24)	(204)
Other	(95)	(63)	(536)
Total: deferred tax liabilities	(2,469)	(5,388)	(45,867)
Net: deferred tax assets	¥14,845	¥ 7,163	\$ 60,977

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

	2005	2006
The statutory effective tax rate	40.69%	40.69%
(Adjustments)		
Permanent differences	9.29%	10.95%
Tax free income	(0.37%)	(0.39%)
Per capita levy on inhabitant tax	6.17%	4.92%
Consolidated adjustments not to have recognized tax-effect	(2.07%)	(1.18%)
Increase in valuation allowance	15.75%	5.83%
Other	5.70%	0.48%
Actual burden tax rate after the application of tax effect accounting	<u>75.16%</u>	<u>61.30%</u>

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. Shareholders' equity

(1) Earned surplus reserve and capital surplus reserve

The Japanese Commercial Code requires to provide an earned surplus reserve over 10 percent of cash out flow, that is, payment of dividends and/or directors' and statutory auditors' bonuses approved by the Shareholders' meeting every fiscal years, until the total amounts of earned surplus reserve plus capital surplus reserve or either of them reach 25 percent of common stock.

In the consolidated financial statements, those are included in earned surplus and capital surplus, respectively.

(2) Land revaluation excess

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 was accounted for as a long-term deferred tax liabilities and its remains were accounted for as land revaluation excess-net constituting shareholders' equity.

The Company reduced the deferred tax asset for land revaluation excess by ¥3,957 million (U.S.\$33,685 thousand) for which there is negative evidence for future realization of the tax benefit in accordance with guidance of Japanese Institute of Certified Public Accountants published on February 22, 2006. As a result, land revaluation excess - net in shareholders' equity decreased by ¥3,957 million (U.S.\$33,685 thousand) and deferred tax liabilities for land revaluation excess in long-term liabilities increased by the same amounts.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
The difference between the appraisal value of land at end of the current fiscal year and the book value	¥10,356	¥11,438	\$97,370

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) Unrealized valuation gain on other securities-net

Unrealized valuation gain on other securities is based on the difference between fair market value and book value at March 31. This amounted to ¥7,724 million (U.S.\$65,753 thousand) gain after application of tax effect accounting as of March 31, 2006.

The related deferred tax liabilities amounted to ¥5,301 million (U.S.\$45,127 thousand).

(4) Restriction of dividends

It is regulated by the Japanese Commercial Code 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 their number must be deducted from authorized shares if retirement of shares will be

carried out.

19. Retirement benefits

I. Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
a. Retirement benefit obligations	¥(36,214)	¥(36,532)	\$(310,990)
b. Pension fund assets	12,151	16,871	143,620
c. Unfunded retirement benefit obligations	(24,063)	(19,661)	(167,370)
d. Unrecognized effects of the amendments on the application of the new accounting standards for retirement benefits	13,017	11,715	99,727
e. Unrecognized actuarial gain or loss	4,532	1,194	10,164
f. Net retirement benefit obligations	(6,514)	(6,752)	(57,479)
g. Reserve for retirement benefits	¥ (6,514)	¥ (6,752)	\$ (57,479)

II. Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
a. Service costs	¥ 1,415	¥1,309	\$11,143
b. Interest costs	831	716	6,095
c. Expected return on pension fund assets	(170)	(161)	(1,371)
d. Amortization of effects of the amendments on the application of the new accounting standards for retirement benefits	1,316	1,302	11,084
e. Amortization of actuarial gain or loss	755	736	6,266
f. Recognition of prior service liabilities	(357)	—	—
g. Retirement benefit costs	3,790	3,902	33,217
h. Gain on dissolution of the welfare pension fund	(12,502)	—	—
Total	¥ (8,712)	¥3,902	\$33,217

III. Calculation basis of retirement benefit obligations, etc.

a. Recognition method of the projected retirement benefit obligations	Straight-line method
b. Discount rate	1.90%
c. Expected return rate on pension fund assets	1.00%~1.50%
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 amendments on the application of 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.
Real estate development	Sale or rental of real estate
Other	Sale of construction materials, shipbuilding, etc.

Year ended March 31, 2005	Millions of yen					
	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥334,802	¥ 2,368	¥ 8,096	¥345,266	¥ —	¥345,266
Internal sales or transfer	—	278	7,036	7,314	(7,314)	—
Total	334,802	2,646	15,132	352,580	(7,314)	345,266
Operating expenses	321,977	3,331	15,306	340,614	(7,348)	333,266
Operating income (loss)	12,825	(685)	(174)	11,966	34	12,000
Assets	248,570	52,802	26,685	328,057	83,265	411,322
Depreciation	2,293	59	2,304	4,656	(34)	4,622
Loss on impairment of fixed assets	117	—	8,207	8,324	—	8,324
Capital expenditures	884	15	597	1,496	—	1,496

Year ended March 31, 2006	Millions of yen					
	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥338,842	¥ 4,488	¥11,327	¥354,657	¥ —	¥354,657
Internal sales or transfer	—	272	7,480	7,752	(7,752)	—
Total	338,842	4,760	18,807	362,409	(7,752)	354,657
Operating expenses	324,687	4,948	18,627	348,262	(7,782)	340,480
Operating income (loss)	14,155	(188)	180	14,147	30	14,177
Assets	232,931	45,639	24,681	303,251	86,116	389,367
Depreciation	2,036	32	2,118	4,186	(26)	4,160
Loss on impairment of fixed assets	286	—	—	286	—	286
Capital expenditures	1,196	9	601	1,806	—	1,806

Year ended March 31, 2006	Thousands of U.S. dollars					
	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	\$2,884,498	\$ 38,205	\$ 96,425	\$3,019,128	\$ —	\$3,019,128
Internal sales or transfer	—	2,315	63,676	65,991	(65,991)	—
Total	2,884,498	40,520	160,101	3,085,119	(65,991)	3,019,128
Operating expenses	2,763,999	42,121	158,568	2,964,688	(66,246)	2,898,442
Operating income (loss)	120,499	(1,601)	1,533	120,431	255	120,686
Assets	1,982,898	388,516	210,105	2,581,519	733,089	3,314,608
Depreciation	17,332	272	18,030	35,634	(221)	35,413
Loss on impairment of fixed assets	2,435	—	—	2,435	—	2,435
Capital expenditures	10,181	77	5,116	15,374	—	15,374

All operating expenses are allocated to the respective segments.

Assets which could not be allocated relate to the general control division in the head office of the Company and subsidiaries and amount to ¥84,833 million at March 31, 2005 and

¥87,594 million (U.S.\$745,671 thousand) at March 31, 2006.

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

(2) *Geographic segment*

Geographic segment is primarily composed of the followings:

Japan

Southeast Asia Singapore, Hong Kong and Vietnam

Others Sri Lanka, Bulgaria and Romania

Year ended March 31, 2005	Millions of yen				Eliminations and/or addition	Consolidated
	Japan	Southeast Asia	Others	Total		
Net sales:						
Customers	¥307,326	¥33,741	¥4,199	¥345,266	¥ —	¥345,266
Internal sales or transfer	—	—	—	—	—	—
Total	307,326	33,741	4,199	345,266	—	345,266
Operating expenses	292,635	34,791	5,840	333,266	—	333,266
Operating income (loss)	14,691	(1,050)	(1,641)	12,000	—	12,000
Assets	280,195	41,700	4,594	326,489	84,833	411,322

Year ended March 31, 2006	Millions of yen				Eliminations and/or addition	Consolidated
	Japan	Southeast Asia	Others	Total		
Net sales:						
Customers	¥314,258	¥36,951	¥3,448	¥354,657	¥ —	¥354,657
Internal sales or transfer	—	—	—	—	—	—
Total	314,258	36,951	3,448	354,657	—	354,657
Operating expenses	299,512	37,537	3,431	340,480	—	340,480
Operating income (loss)	14,746	(586)	17	14,177	—	14,177
Assets	255,128	42,699	3,946	301,773	87,594	389,367

Year ended March 31, 2006	Thousands of U.S. dollars				Eliminations and/or addition	Consolidated
	Japan	Southeast Asia	Others	Total		
Net sales:						
Customers	\$2,675,219	\$314,557	\$29,352	\$3,019,128	\$ —	\$3,019,128
Internal sales or transfer	—	—	—	—	—	—
Total	2,675,219	314,557	29,352	3,019,128	—	3,019,128
Operating expenses	2,549,689	319,546	29,207	2,898,442	—	2,898,442
Operating income (loss)	125,530	(4,989)	145	120,686	—	120,686
Assets	2,171,856	363,489	33,592	2,568,937	745,671	3,314,608

All operating expenses are allocated to the respective segments.

Assets which could not be allocated relate to the general control division in the head office of the Company and subsidiaries and amount to ¥84,833 million at March 31, 2005 and

¥87,594 million (U.S.\$745,671 thousand) at March 31, 2006.

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

(3) Overseas sales

For the year ended March 31, 2005	Millions of yen		
	Southeast Asia	Others	Total
Overseas sales	¥33,741	¥4,199	¥ 37,940
Consolidated sales			¥345,266
The proportion of overseas sales to consolidated sales	9.8%	1.2%	11.0%

For the year ended March 31, 2006	Millions of yen		
	Southeast Asia	Others	Total
Overseas sales	¥36,951	¥3,448	¥ 40,399
Consolidated sales			¥354,657
The proportion of overseas sales to consolidated sales	10.4%	1.0%	11.4%

For the year ended March 31, 2006	Thousands of U.S. dollars		
	Southeast Asia	Others	Total
Overseas sales	\$314,557	\$29,352	\$ 343,909
Consolidated sales			\$3,019,128
The proportion of overseas sales to consolidated sales	10.4%	1.0%	11.4%

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: Sri Lanka, Bulgaria and Romania

21. Related party transactions

For the year ended March 31, 2005

None

For the year ended March 31, 2006

Attribution	Affiliated company
Name of the company	Green Port Co., Ltd.
Address	Natori-shi, Miyagi
Common stock	¥50 million
Principal business	Real estate development
Percentage of voting right	25% directly
Relationship	
Number of interlocking directors and corporate auditors	2
Operating relation	Orders received of construction

Transactions	Amounts	Millions of yen	
		Account	Ending balance
Debt forgiveness (Note)	¥8,723	—	—

Notes:

Transaction details

1. The Company forgave the debt for the completion of liquidation of Green Port Co., Ltd. in the current fiscal year.
2. Transaction amounts of debt forgiveness of the above table includes the amounts ¥8,704 million.

3. The amounts had been already accounted for as equity loss or provision for loss on liquidation of affiliated company in the prior fiscal year.

Report of Independent Auditor

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, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, 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 consolidated 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, 2005 and 2006, 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.

As described in Note 3 (3), from the year ended March 31, 2006, the Company changed the scope of contracts, for which the percentage of completion method is applied.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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 29, 2006



ERNST & YOUNG SHINNIHON

See Notes to the consolidated financial statements which explain the basis of preparation of the consolidated financial statements of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries under Japanese accounting principles and practices.

Non-Consolidated Financial Statements

Non-Consolidated Five-year Summary

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

	Millions of yen					Thousands of U.S. dollars	
	2002	2003	2004	2005	2006	2006	
Orders received	¥318,174	¥265,605	¥298,079	¥326,909	¥276,497	\$2,353,767	
Civil engineering	191,157	140,578	151,789	197,567	135,405	1,152,677	
Architectural engineering	124,860	118,852	140,086	126,542	139,057	1,183,766	
Real estate and other	2,157	6,175	6,204	2,800	2,035	17,324	
Net sales	396,743	347,176	297,389	317,359	318,960	2,715,246	
Civil engineering	238,582	206,779	168,438	158,300	171,437	1,459,411	
Architectural engineering	155,649	136,512	123,124	156,360	142,864	1,216,174	
Real estate and other	2,512	3,884	5,827	2,699	4,659	39,661	
Contract backlog	481,621	388,128	382,317	391,032	356,623	3,035,864	
Civil engineering	336,254	259,832	237,238	275,937	246,554	2,098,867	
Architectural engineering	145,212	125,851	142,257	112,172	109,771	934,460	
Real estate and other	154	2,445	2,822	2,923	298	2,537	
Total assets	458,078	430,632	407,119	384,089	356,148	3,031,821	
Shareholders' equity	54,013	33,918	38,533	45,574	63,772	542,879	
Ordinary income	7,250	1,478	6,640	7,649	9,585	81,595	
Income (loss) before income taxes	5,571	(24,117)	5,587	7,811	7,786	66,281	
Net income (loss)	1,557	(18,388)	1,548	1,616	2,855	24,304	
Cash dividends	904	—	—	—	—	—	
Per share of common stock:			Yen			U.S. dollars	
Shareholders' equity	¥149.46	¥93.86	¥106.64	¥115.33	¥129.77	\$1.10	
Net income (loss)	4.31	(50.88)	4.28	4.28	6.31	0.05	
Cash dividends	2.50	—	—	—	—	—	
Number of employees	3,655	3,121	3,043	2,965	2,880		

U.S.\$1=¥117.47 as at March 31, 2006

NON-Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd.
As of March 31, 2005 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current assets:			
Cash and deposits	¥ 64,065	¥ 58,064	\$ 494,288
Securities	84	91	775
Trade receivables:			
Notes	7,501	6,207	52,839
Accounts	106,752	116,784	994,160
Subsidiaries and affiliates	14,825	4,308	36,673
Inventories:			
Cost of uncompleted contracts	44,627	29,436	250,583
Real estate for trade and real estate in progress	35,995	35,183	299,506
Raw materials and supplies	634	537	4,571
Deferred tax assets	8,638	5,518	46,974
Other current assets	4,652	4,303	36,631
Allowance for doubtful accounts	(910)	(838)	(7,134)
Total current assets	286,863	259,593	2,209,866
Investments and non-current assets:			
Investments in and loans to subsidiaries and affiliates	3,153	2,808	23,904
Investment in securities	22,476	28,784	245,033
Long-term accounts receivable	4,692	4,290	36,520
Sundry investments	14,348	13,072	111,279
Deferred tax assets	5,157	1,029	8,760
Allowance for doubtful accounts	(6,523)	(5,637)	(47,987)
Total investments and non-current assets	43,303	44,346	377,509
Property, plant and equipment:			
Land	34,468	34,065	289,989
Buildings and structures	32,246	31,507	268,213
Machinery, equipment and vehicles	14,034	13,631	116,038
Dredgers and vessels	24,858	24,679	210,088
Construction in progress	13	84	715
Other property, plant and equipment	792	788	6,708
Total property and equipment	106,411	104,754	891,751
Less accumulated depreciation	(52,981)	(53,018)	(451,332)
Property and equipment — net	53,430	51,736	440,419
Other assets	493	473	4,027
Total assets	¥384,089	¥356,148	\$3,031,821

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current liabilities:			
Short-term debt			
Bank	¥ 61,108	¥ 39,782	\$ 338,657
Current portion of long-term debt	48,345	37,614	320,201
Trade payable:			
Notes	26,268	25,159	214,174
Accounts	79,595	73,360	624,500
Subsidiaries and affiliates	4,433	8,397	71,482
Advance on contracts in progress	36,991	27,645	235,337
Deposits received	11,373	10,897	92,764
Accrued income taxes	1,285	616	5,244
Provision for loss on real estate development business of affiliates	8,704	—	—
Accrued expenses	1,789	2,019	17,187
Allowance for losses on construction works	687	383	3,260
Other current liabilities	2,212	2,239	19,060
Total current liabilities	<u>282,790</u>	<u>228,111</u>	<u>1,941,866</u>
Long-term liabilities:			
Long-term debt	40,954	46,449	395,412
Reserve for retirement benefits	6,302	6,516	55,470
Reserve for directors' and statutory auditors' retirement pay	229	207	1,762
Deferred tax liabilities for land revaluation excess	3,270	7,274	61,922
Other long-term liabilities	4,970	3,819	32,510
Total long-term liabilities	<u>55,725</u>	<u>64,265</u>	<u>547,076</u>
Shareholders' equity:			
Common stock			
Authorized — 599,135,000 shares			
Issued and outstanding share			
March 31, 2006 491,527,820 shares			
March 31, 2005 395,264,852 shares			
Capital surplus			
Capital surplus reserve	2,500	10,000	85,128
Other capital surplus	10,106	10,106	86,031
Total capital surplus	<u>12,606</u>	<u>20,106</u>	<u>171,159</u>
Earned surplus			
General reserve	—	4,000	34,051
Unappropriated retained earnings	4,223	3,009	25,615
Total earned surplus	<u>4,223</u>	<u>7,009</u>	<u>59,666</u>
Land revaluation excess — net	4,767	879	7,483
Unrealized valuation gain on other securities — net	3,417	7,721	65,727
Less: Treasury stock	(9)	(13)	(111)
Total shareholders' equity	<u>45,574</u>	<u>63,772</u>	<u>542,879</u>
Total liabilities and shareholders' equity	<u>¥384,089</u>	<u>¥356,148</u>	<u>\$3,031,821</u>

Company Data

(As of June 29, 2006)

Company Outline

Company Name	Penta-Ocean Construction Co., Ltd.
Established	April 1896
Head Office	2-8, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8576, Japan Telephone: 81-3-3817-7181 Facsimile: 81-3-3817-7642
Paid-in Capital	¥28,070 million (US\$238.9 million)
No. of Employees	2,880 (As of March 31, 2006)
Website	www.penta-ocean.co.jp

Board of Directors and Auditors

President	Yoshio Murashige*
Directors	Kazuyuki Kawakami* Hayuru Tsuda* Junichi Kamise Toshinori Tajimi Kosuke Kondo Yoshihisa Takimoto Masafumi Saito Yoshihisa Tomoda
Corporate Auditors	Hirosuke Kawamoto Kaoru Kurokawa Keiji Yokooji Yoshiteru Iwasaki

*Representative Director
(As of June 29, 2006)

Penta-Ocean Construction Network



1 Head Office

2-8 Koraku 2-chome, Bunkyo-ku
Tokyo 112-8576, Japan
Telephone: 81-3-3817-7181
Facsimile: 81-3-3817-7642

2 Singapore Office

1 Kim Seng Promenade, #13-01/02
Great World City, East Tower,
Singapore 237994
Telephone: 65-6338-8966
Facsimile: 65-6337-0987

3 Hong Kong Office

Unit 601, K Wah Center
191 Java Road, North Point
Hong Kong
Telephone: 852-2833-1098
Facsimile: 852-2572-4080

4 Indonesia Office

Mid Plaza II, 15th Floor, JL.
Jenderal Sudirman Kav.
10-11 Jakarta 10220, Indonesia
Telephone: 62-21-570-5484
Facsimile: 62-21-570-5485

5 Malaysia Office

508 5th Floor, Block A, Kelana
Business Centre 97, Jalan SS 7/2,
Kelana Jaya, 47301 Petaling Jaya,
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Telephone: 60-3-7492-2208
Facsimile: 60-3-7492-2209

6 Egypt Office

27 El Falah Street off Shehab
Street, Flat No. 5, 2nd Floor
Mohandeseen, Giza, Egypt
Telephone: 20-2-345-3207
Facsimile: 20-2-345-3206

7 Colombo Office

P.O. Box 383, Kochchi-Kade,
Gate No. 6 Colombo Port,
Colombo 13, Sri Lanka
Telephone: 94-112-449-978
Facsimile: 94-112-449-979

8 Manila Office

Unit A 1, 2nd Floor, Almeda
Arcade 1014, Pasay Road
Makati City, Philippines
Telephone: 63-2-752-8997
Facsimile: 63-2-752-8996

9 Bangkok Office

11th Floor, Room 1106,
Vanit II Bldg. 1126/2
New Petchburi Road,
Makkasan Rajthevee,
Bangkok 10400, Thailand
Telephone: 66-2-655-2183
Facsimile: 66-2-655-2185

10 Hanoi Office

2nd Floor, 18 Tran Hung
Dao Street, Hanoi, Vietnam
Telephone: 84-4-824-1360
Facsimile: 84-4-824-1444

11 Micronesia Office

P.O. Box 2201, Kolonia,
Pohnpei, Federated States of
Micronesia 96941
Telephone: 691-320-2855
Facsimile: 691-320-2855

12 Phnom Penh Office

P.O. Box 2422, Phnom Penh III
No. F20, France Street, Norodom
Road, Borei Chamkamorn, Khan
Chamkamorn, Phnom Penh,
Cambodia
Telephone: 855-23-3-60463
Facsimile: 855-23-3-60462

13 Dubai Office

LOB 16-612, Jebel Ali Free Zone
P.O. Box 61498, Dubai
United Arab Emirates
Telephone: 971-4-887-2992
Facsimile: 971-4-887-2982

14 Taiwan Office

11th floor 6, No. 142, Section 4
Zhongxiao E. Road, Da-an District
Taipei City 106, Taiwan (R.O.C.)
Telephone: 886-2-2772-5724
Facsimile: 886-2-8773-1449

Penta-Ocean Construction Group

Consolidated Subsidiaries

Penta-Ocean Dredging Co., Ltd.	Koto-ku, Tokyo, Japan
Yoshin Construction Co., Ltd.	Hiroshima, Japan
Penta Builders Corporation	Shinjuku-ku, Tokyo, Japan
Kyushu Yoshin Construction Co., Ltd.	Fukuoka, Japan
Obama Marine Co., Ltd.	Unzen, Nagasaki, Japan
Penta Techno Service Co., Ltd.	Nasushiobara, Tochigi, Japan
Kegoya Dock Co., Ltd.	Kure, Hiroshima, Japan
Sand Techno Co., Ltd.	Ichikawa, Chiba, Japan
Nagasaki Sogo Kanri Co., Ltd.	Nishisonogi, Nagasaki, Japan
Domi Environmental Solutions	Bunkyo-ku, Tokyo, Japan
Penta-Ocean Construction (Malaysia) SDN. BHD.	Malaysia
Siam Goyo Co., Ltd.	Thailand
Thai Penta-Ocean Co., Ltd.	Thailand
Modern Mind Co., Ltd.	Hong Kong
Nicosia Co., Ltd.	Hong Kong
Brichwood Co., Ltd.	Hong Kong
Penta-Ocean Dredging Panama Inc.	Panama
Penta-Ocean Construction (Hong Kong) Ltd.	Hong Kong
Belleza Del Mar Transport Inc.	Panama
Viento Del Mar Transport Inc.	Panama
Reina Del Mar Transport Inc.	Panama
Sol Del Mar Transport Inc.	Panama
Cosmo Transport Panama Inc.	Panama
Gloria Transport Inc.	Panama
Angkutlaut Ltd.	Malaysia
Penta-Ocean Technology Information Advisory (Shenzhen) Ltd.	China

Consolidated Affiliates

Keisoku Joho System Co., Ltd.	Chuo-ku, Tokyo, Japan
Omori Building Co., Ltd.	Shinagawa-ku, Tokyo, Japan
Jiwat Co., Ltd.	Sendai, Miyagi, Japan
Haneda Airport International Airline Apron PFI	Shinjuku-ku, Tokyo, Japan
JA Gifu Agri. Kaihatsu Co., Ltd.	Gifu, Japan

Organization Chart



Investor Information

(As of March 31, 2006)

Head Office	Penta-Ocean Construction Co., Ltd. 2-8, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8576, Japan Telephone: 81-3-3817-7181 Facsimile: 81-3-3817-7642
Established	April 1896
Financial Year	April 1 to March 31
Common Stock	Authorized: 599,135,000 Issued: 491,527,820
Stock Listing	Tokyo, Nagoya and Osaka Stock Exchanges, First Section
Shareholders	48,042
Transfer Agency	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

Major Shareholders

Shareholders	Shares held (thousands)	Voting right ratio (%)
Japan Trustee Services Bank, Ltd.	31,402	6.4
Mizuho Corporate Bank, Ltd.	14,119	2.9
Japan Securities Finance Co., Ltd.	14,025	2.9
Meiji Yasuda Life Insurance Co.	13,312	2.7
Sompo Japan Insurance Inc.	12,226	2.5
The Master Trust Bank of Japan (Trust Account)	11,954	2.4
Trust & Custody Services Bank, Ltd. (Trust Account B)	10,774	2.2
Bank of New York GCM Client Accounts EISG	9,192	1.9
Tokyo Marine & Nichido Fire Insurance Co., Ltd.	7,869	1.6
Mizuho Trust & Banking Co., Ltd.	6,940	1.4



www.penta-ocean.co.jp