CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Five-Year Summary

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

	Millions of yen					Thousands of U.S. dollars
	2006	2007	2008	2009	**2010**	**2010**
Orders received	¥296,046	¥368,262	¥395,083	¥334,236	**¥270,184**	**$2,903,955**
Construction	296,046	368,262	395,083	334,236	**270,184**	**2,903,955**
Net sales	354,657	323,265	352,809	398,486	**324,782**	**3,490,778**
Construction	338,842	311,389	337,476	384,824	**312,613**	**3,359,985**
Development business and other	4,488	1,447	4,436	1,209	**1,007**	**10,823**
Other	11,327	10,429	10,897	12,453	**11,162**	**119,970**
Total assets	389,367	355,069	340,233	339,587	**294,246**	**3,162,575**
Net assets excluding minority interests	66,891	57,581	53,851	52,188	**54,437**	**585,092**
Ordinary income	11,341	2,078	5,097	7,073	**7,734**	**83,126**
Income (loss) before income taxes and minority interests	10,019	(11,890)	4,328	330	**852**	**9,157**
Net income (loss)	3,876	(5,858)	2,571	(3,337)	**1,747**	**18,777**
Cash dividends	—	—	—	—	**491**	**5,277**

Per share of common stock:	Yen					U.S. dollars
Net assets excluding minority interests	¥136.12	¥117.18	¥219.19	¥212.43	**¥221.59**	**$2.38**
Net income (loss)	8.57	(11.92)	10.46	(13.58)	**7.11**	**0.08**
Cash dividends	—	—	—	—	**2.00**	**0.02**
Number of employees	3,557	3,464	3,414	3,335	**3,280**	

Notes:
1. The amounts of orders received related to development business and other business are not stated on the above summary, because those amounts are small and do not have a material effect to respective total amounts.
2. Figures in U.S. dollars are converted for convenience only, at the rate of ¥93.04 per U.S.$1 prevailing on March 31, 2010.

Business Performance

The Group experienced a significant decline in net sales during the consolidated fiscal year under review, recording ¥324,782 million (US$3,490.8 million), a ¥73,704 million (US$792.2 million) (18.5%) year-on-year decrease. Operating income was ¥10,799 million (US$116.1 million), with the decline contained to ¥22 million (US$0.3 million) (0.2%) compared to the prior consolidated fiscal year, while ordinary income amounted to ¥7,734 million (US$83.1 million), an increase of ¥660 million (US$7.1 million) (9.3%) compared to the prior consolidated fiscal year. The Group recorded extraordinary gains of ¥2,926 million (US$31.4 million), including a ¥2,038 million (US$21.9 million) gain on the valuation and sale of investment securities, but it posted extraordinary losses in the amount of ¥9,808 million (US$105.4 million), which included a ¥4,644 million (US$49.9 million) provision for doubtful accounts and a ¥1,511 million (US$16.2 million) provision related to a voluntary retirement system. As a result, net income totaled ¥1,747 million (US$18.8 million) (compared to a net loss of ¥3,337 million [US$34.0 million] for the prior consolidated fiscal year).

Segment Information

In our Construction Business segment, the Japanese government's decision to partially suspend execution of a large supplementary budget affected public works investment in the domestic construction market, which is one of the Group's main business lines. In particular, the decline in government construction projects continued, and competition between businesses to secure orders remained severe. Furthermore, while a partial recovery was evident, overall housing investment remained weak due to factors such as a cooling of sentiment regarding supply and demand. Similarly, some businesses showed signs of improved earnings, yet capital investment in private non-housing projects remained sluggish. Overseas, the Group's business was affected by the global financial contraction and the economic downturn. The speed of project execution slowed, but in the Group's main overseas market of Southeast Asia, an economic recovery was relatively quick to take hold. In a continuation of the trend seen the prior fiscal year, infrastructure projects, including those for ports, railroads, and schools, were strong. Amid conditions such as these, construction revenues amounted to ¥312,751 million (US$3,361.5 million), a ¥72,234 million (US$776.4 million) (18.8%) decline from the prior consolidated fiscal year; however, operating income totaled ¥10,623 million (US$114.2 million), an increase of ¥447 million (US$4.8 million) (4.4%) compared to the prior consolidated fiscal year.

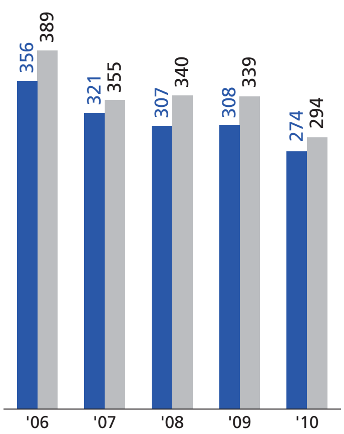
Our Development Business segment recorded net sales of ¥1,275 million (US$13.7 million), a decline of ¥199 million (US$2.2 million) (13.5%) compared to the prior consolidated fiscal year, due to factors including the deterioration of the domestic real estate market. The operating loss totaled ¥1,028 million (US$11.1 million) (compared to a loss of ¥401 million [US$4.3 million] in the prior consolidated fiscal year).

In the Group's Other Business segment, which consists primarily of shipbuilding, construction materials sales/equipment leasing, and the leasing of vessels, net sales totaled ¥18,754 million (US$201.6 million), a decline of ¥1,331 million (US$14.3 million) (6.6%) compared to the prior consolidated fiscal year. However, operating income for the segment came to ¥1,154 million (US$12.4 million), a year-on-year increase of ¥112 million (US$1.2 million) (10.8%). This result was due in part to an improved profit margin for the shipbuilding business, which accounts for the majority of the Other Business segment's net sales.

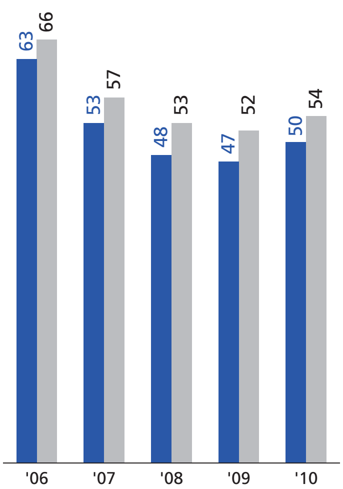
Orders Received and Contract Backlog

With regard to non-consolidated construction orders received, domestic civil engineering projects declined by ¥15,168 million (US$163.0 million) from the prior fiscal year, as orders received for land-based construction projects decreased. Orders received for domestic building construction were ¥27,961 million (US$300.5 million) lower than in the prior fiscal year, the result of a stagnant market coupled with the

Total Assets
¥ billion



Total Net Assets
¥ billion



Non-Consolidated
Consolidated

cancellation of orders for large-scale projects due to the legal liquidation of developers. Overseas, the Group received orders for large-scale civil engineering projects in Singapore and Hong Kong. However, total overseas orders received declined by ¥15,867 million (US$170.5 million) year-on-year, as strong results recorded in the prior fiscal year led to a comparative decline. As a result of the foregoing, construction orders received in the period under review totaled ¥257,056 million (US$2,762.9 million), for a decline of 18.7% year-on-year.

Financial Position

Total assets for the Group decreased by ¥45,341 million (US$487.4 million) year-on-year to ¥294,246 million (US$3,162.6 million). Accounts receivable from completed construction contracts and costs on uncompleted construction projects declined, and real estate for sale and development projects in progress decreased in line with the completion of development projects in which the Company participated, while cash and deposits increased. Total liabilities decreased by ¥45,979 million (US$494.2 million) year-on-year to ¥239,780 million (US$2,577.2 million) as the Group pushed ahead with the reduction of interest-bearing debt, long- and short-term loans payable decreased, and notes payable and accounts payable for construction contracts etc. declined. Owing to the recording of a consolidated net income for the year under review and a deficit disposition approved at the shareholders' meeting held in June 2009, retained earnings increased by ¥5,452 million (US$58.6 million). However, minority interests, such as other companies' interests in the above-mentioned development projects in which the Company took part, declined. As a result of these factors, net assets increased by ¥639 million (US$6.9 million) year-on-year to ¥54,466 million (US$585.4 million).

Cash Flows

Cash flows from operating activities increased by ¥7,414 million (US$79.7 million) (31.0%) compared with the prior consolidated fiscal year, for a net increase of ¥31,340 million (US$336.8 million). While net income before taxes and minority interests amounted to ¥852 million (US$9.2 million) (¥330 million [US$3.4 million] in the prior consolidated fiscal year), progress was made on the collection of funds related to advanced outlays for the cost of sales of completed construction contracts, primarily large-scale domestic and overseas construction projects.

Cash flows from investing activities increased by ¥16,113 million (US$173.2 million) (there was a net outlay of ¥10,607 million [US$108.0 million] in the prior consolidated fiscal year) on the sale of investment securities, for a net increase of ¥5,506 million (US$59.2 million).

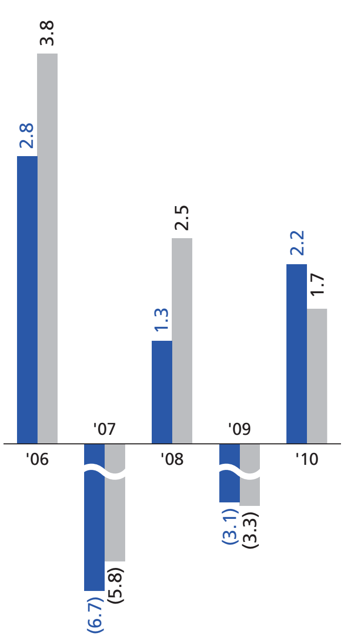
Cash flows from financing activities underwent a ¥12,087 million (US$130.0 million) increase in outlays compared to the prior consolidated fiscal year (there was a net outlay of ¥7,421 million [US$75.5 million] in the prior consolidated fiscal year) due to the repayment of loans, for a net outlay of ¥19,508 million (US$209.7 million).

As a result of the above, consolidated cash and cash equivalents as of the end of the consolidated fiscal year under review amounted to ¥55,931 million (US$601.2 million), a year-on-year increase of ¥17,594 million (US$189.1 million) (45.9%).

Dividends

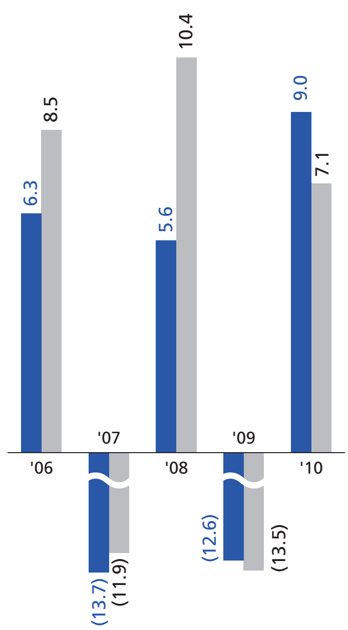
The Company's basic policy with respect to dividends is to offer long-term, stable payouts to shareholders as circumstances allow, while building a stronger management foundation for the future, and taking into account the business environment, earnings performance, and other factors. Furthermore, the Company's policy is to utilize internal reserves toward investment in technological development, capital expenditures and other value-enhancing activities, and to reward shareholders through the future development of our business. Having given full consideration to earnings performance in the fiscal year under review, the progress made on strengthening fiscal health, and the future development of our business, the Company resumed its dividend for the first time in eight fiscal years, distributing a shareholder dividend of ¥2 per share.

Net Income
¥ billion



Non-Consolidated
Consolidated

Net Income per Share
YEN



CONSOLIDATED BALANCE SHEETS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Current assets:			
Cash and deposits	¥ 38,363	**¥ 56,439**	**$ 606,610**
Short-term investment securities (Notes 3 (4), 4 and 5)	94	**30**	**322**
Trade receivables:			
Notes	5,001	**2,742**	**29,471**
Accounts	153,524	**113,883**	**1,224,022**
Inventories: (Note 3 (7))			
Costs on uncompleted construction contracts	15,802	**12,066**	**129,686**
Real estate for sale and development projects in progress	22,614	**15,829**	**170,131**
Other	2,467	**1,963**	**21,098**
Deferred tax assets (Note 15)	7,084	**5,236**	**56,277**
Other	3,265	**4,066**	**43,703**
Allowance for doubtful accounts (Note 3 (6))	(1,125)	**(1,271)**	**(13,661)**
Total current assets	247,089	**210,983**	**2,267,659**
Investments and other assets:			
Investment securities (Notes 3 (4), 4 and 5)	13,014	**7,478**	**80,374**
Long-term loans receivables	526	**313**	**3,364**
Deferred tax assets (Note 15)	8,656	**10,089**	**108,437**
Other	15,424	**15,437**	**165,918**
Allowance for doubtful accounts (Note 3 (6))	(4,421)	**(7,561)**	**(81,266)**
Total investments and other assets	33,199	**25,756**	**276,827**
Property, plant and equipment: (Note 3 (8))			
Land (Note 5)	35,934	**35,069**	**376,924**
Buildings and structures (Note 5)	31,665	**31,625**	**339,908**
Machinery, equipment and vehicles	18,939	**19,126**	**205,568**
Dredgers and vessels	49,891	**49,880**	**536,113**
Construction in progress	46	**1,300**	**13,972**
Total property, plant and equipment	136,475	**137,000**	**1,472,485**
Less: accumulated depreciation	(77,732)	**(79,994)**	**(859,781)**
Property, plant and equipment - net	58,743	**57,006**	**612,704**
Other (Note 3 (10))	556	**501**	**5,385**
Total assets	¥339,587	**¥294,246**	**$3,162,575**

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Current liabilities:			
Short-term loans payable (Note 6)	¥ 31,862	**¥ 28,024**	**$ 301,204**
Current portion of long-term loans payable (Note 6)	37,795	**25,657**	**275,763**
Trade payable:			
Notes	26,786	**22,607**	**242,982**
Accounts	98,353	**75,859**	**815,337**
Advance received on uncompleted construction contracts	25,467	**25,345**	**272,410**
Deposits received	13,411	**12,689**	**136,382**
Income taxes payable	784	**568**	**6,105**
Provision for loss on construction contracts (Note 3 (12))	618	**1,326**	**14,252**
Provision for warranties for completed construction (Note 3 (13))	602	**587**	**6,309**
Provision for loss on voluntary retirement and other (Note 3 (16))	—	**1,511**	**16,240**
Other provision	1,624	**1,092**	**11,737**
Other	2,848	**3,578**	**38,457**
Total current liabilities	240,150	**198,843**	**2,137,178**
Noncurrent liabilities:			
Long-term loans payable (Note 6)	35,515	**32,159**	**345,647**
Provision for retirement benefits (Notes 3 (11) and 19)	592	**350**	**3,762**
Provision for directors' retirement benefits (Note 3 (14))	172	**199**	**2,139**
Provision for loss on development business (Note 3 (15))	1,020	**9**	**97**
Deferred tax liabilities for land revaluation (Note 17 (2))	7,200	**7,156**	**76,913**
Other	1,110	**1,064**	**11,436**
Total noncurrent liabilities	45,609	**40,937**	**439,994**
Total liabilities	285,759	**239,780**	**2,577,172**
Net assets: (Note 18)			
Shareholders' equity:			
Common stock	28,070	**28,070**	**301,698**
Authorized - 599,135,000 shares			
Issued shares			
March 31, 2010 245,763,910 shares			
March 31, 2009 245,763,910 shares			
Capital surplus (Note 17 (1))	20,106	**16,007**	**172,044**
Retained Earnings	678	**6,130**	**65,886**
Less: Treasury Stock	(22)	**(22)**	**(237)**
Total shareholders' equity	48,832	**50,185**	**539,391**
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities (Note 17 (3))	(225)	**248**	**2,666**
Deferred gains (losses) on hedges	(30)	**(5)**	**(54)**
Revaluation reserve for land (Note 17 (2))	3,516	**3,910**	**42,025**
Foreign currency translation adjustment (Note 3 (2))	95	**99**	**1,064**
Total valuation and translation adjustments	3,356	**4,252**	**45,701**
Minority interests	1,639	**29**	**312**
Total net assets	53,827	**54,466**	**585,404**
Total liabilities and net assets	¥339,587	**¥294,246**	**$3,162,575**

Commitments and contingent liabilities (Note 14)

CONSOLIDATED STATEMENTS OF OPERATIONS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2010

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Construction business:			
Net sales	¥384,824	**¥312,614**	**$3,359,996**
Cost of sales	357,283	**284,787**	**3,060,910**
Gross profit	27,541	**27,827**	**299,086**
Development business and other:			
Net sales	13,662	**12,168**	**130,782**
Cost of sales	12,327	**11,336**	**121,840**
Gross profit	1,335	**832**	**8,942**
Total:			
Total net sales	398,486	**324,782**	**3,490,778**
Total cost of sales	369,610	**296,123**	**3,182,750**
Total gross profit	28,876	**28,659**	**308,028**
Selling, general and administrative expenses	18,054	**17,860**	**191,960**
Operating income	10,822	**10,799**	**116,068**
Non-operating income:			
Interest and dividends	500	**325**	**3,493**
Other (Note 7)	395	**443**	**4,762**
	895	**768**	**8,255**
Non-operating expenses:			
Interest	3,094	**2,784**	**29,923**
Other (Note 8)	1,550	**1,049**	**11,274**
	4,644	**3,833**	**41,197**
Ordinary income	7,073	**7,734**	**83,126**
Extraordinary gain (Note 9)	1,061	**2,926**	**31,448**
Extraordinary loss (Note 10)	7,804	**9,808**	**105,417**
Income before income taxes and minority interests	330	**852**	**9,157**
Income taxes: (Notes 3 (20) and 15)			
Current	816	**439**	**4,718**
Deferred	2,862	**304**	**3,268**
	3,678	**743**	**7,986**
Minority interests	11	**1,638**	**17,606**
Net income (loss)	¥ (3,337)	**¥ 1,747**	**$ 18,777**

Net income (loss) per share of common stock (Note 3 (17))	Yen		U.S. dollars
Primary	¥(13.58)	**¥7.11**	**$0.08**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2010

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2008	¥28,070	¥20,106	¥3,992	¥(20)	¥52,148
Changes of items during the period					
Net income (loss)			(3,337)		(3,337)
Reversal of revaluation reserve for land			23		23
Purchase of treasury stock				(2)	(2)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	(3.314)	(2)	(3,316)
Balance at March 31, 2009	¥28,070	¥20,106	¥ 678	¥(22)	¥48,832

	Millions of yen						
	Valuation and translation adjustments						
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2008	¥(1.973)	¥(33)	¥3,539	¥170	¥1,703	¥ 11	¥53,862
Changes of items during the period							
Net income (loss)							(3,337)
Reversal of revaluation reserve for land							23
Purchase of treasury stock							(2)
Net changes of items other than shareholders' equity	1,748	3	(23)	(75)	1,653	1,628	3,281
Total changes of items during the period	1,748	3	(23)	(75)	1,653	1,628	(35)
Balance at March 31, 2009	¥ (225)	¥(30)	¥3,516	¥ 95	¥3,356	¥1,639	¥53,827

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2009	¥28,070	¥20,106	¥ 678	¥(22)	¥48,832
Changes of items during the period					
Deficit disposition		(4,099)	4,099		
Net income			1,747		1,747
Reversal of revaluation reserve for land			(394)		(394)
Purchase of treasury stock				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(4,099)	5,452	(0)	1,353
Balance at March 31, 2010	¥28,070	¥16,007	¥6,130	¥(22)	¥50,185

	Millions of yen						
	Valuation and translation adjustments						
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2009	¥(225)	¥(30)	¥3,516	¥95	¥3,356	¥1,639	¥53,827
Changes of items during the period							
Deficit disposition							
Net income							1747
Reversal of revaluation reserve for land							(394)
Purchase of treasury stock							(0)
Net changes of items other than shareholders' equity	473	25	394	4	896	(1,610)	(714)
Total changes of items during the period	473	25	394	4	896	(1,610)	639
Balance at March 31, 2010	¥ 248	¥ (5)	¥3,910	¥99	¥4,252	¥ 29	¥54,466

	Thousands of U.S. dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2009	$301,698	$216,101	$ 7,287	$(236)	$524,850
Changes of items during the period					
Deficit disposition		(44,057)	44,057		
Net income			18,777		18,777
Reversal of revaluation reserve for land			(4,235)		(4,235)
Purchase of treasury stock				(1)	(1)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(44,057)	58,599	(1)	14,541
Balance at March 31, 2010	$301,698	$172,044	$65,886	$(237)	$539,391

	Thousands of U.S. dollars						
	Valuation and translation adjustments						
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2009	$(2,418)	$(322)	$37,790	$1,021	$36,071	$17,616	$578,537
Changes of items during the period							
Deficit disposition							
Net income							18,777
Reversal of revaluation reserve for land							(4,235)
Purchase of treasury stock							(1)
Net changes of items other than shareholders' equity	5,084	268	4,235	43	9,630	(17,304)	(7,674)
Total changes of items during the period	5,084	268	4,235	43	9,630	(17,304)	6,867
Balance at March 31, 2010	$ 2,666	$ (54)	$42,025	$1,064	$45,701	$ 312	$585,404

CONSOLIDATED STATEMENTS OF CASH FLOWS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2010

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 330	**¥ 852**	**$ 9,157**
Adjustment to reconcile income (loss) before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,697	**3,951**	**42,466**
Impairment loss	35	**907**	**9,748**
Increase (Decrease) in allowance for doubtful accounts	(2,217)	**3,227**	**34,684**
Increase (Decrease) in provision for retirement benefits	(517)	**(242)**	**(2,601)**
Interest and dividends income	(500)	**(325)**	**(3,493)**
Interest expense	3,340	**2,817**	**30,277**
Foreign exchange losses (gains)	913	**(238)**	**(2,558)**
Equity in (earnings) losses of affiliates	(4)	**(46)**	**(494)**
Loss (Gain) on sales of property, plant and equipment	(580)	**(48)**	**(516)**
Loss (Gain) on sales of investment securities	0	**(2,037)**	**(21,894)**
Loss on valuation of securities and investment securities	5,767	**361**	**3,880**
Change in assets and liabilities:			
Decrease (Increase) in notes and accounts receivable-trade	(8,355)	**39,387**	**423,334**
Decrease (Increase) in costs on uncompleted construction contracts	13,572	**3,736**	**40,155**
Decrease (Increase) in real estate for sale and development projects in progress and other inventories	2,086	**7,357**	**79,074**
Increase (Decrease) in notes and accounts payable-trade	3,908	**(29,239)**	**(314,263)**
Increase (Decrease) in advances received on uncompleted construction contracts	(3,431)	**(122)**	**(1,311)**
Increase (Decrease) in other provision	869	**675**	**7,255**
Other, net	7,561	**3,461**	**37,199**
Subtotal	27,474	**34,434**	**370,099**
Interest and dividends income received	579	**349**	**3,751**
Interest expenses paid	(3,317)	**(2,796)**	**(30,052)**
Income taxes paid	(811)	**(647)**	**(6,954)**
Net cash provided by (used in) operating activities	23,925	**31,340**	**336,844**
Cash flows from investing activities:			
Purchase of short-term investment securities	(301)	**(401)**	**(4,310)**
Proceeds from sales of short-term investment securities	310	**406**	**4,364**
Purchase of investment securities	(2,847)	**(227)**	**(2,440)**
Proceeds from sales of investment securities	11	**8,108**	**87,145**
Purchase of property, plant and equipment	(2,499)	**(2,569)**	**(27,612)**
Proceeds from sales of property, plant and equipment	925	**296**	**3,181**
Payments of loans receivable	(1,179)	**(40)**	**(430)**
Collection of loans receivable	101	**296**	**3,181**
Proceeds for acquisition of shares of subsidiaries resulting in the change of consolidation scope	—	**63**	**677**
Payments for acquisition of shares of other affiliates resulting in the change of consolidation scope	(258)	**—**	**—**
Payments for investment to development business	(4,750)	**—**	**—**
Other, net	(120)	**(426)**	**(4,577)**
Net cash provided by (used in) investing activities	(10,607)	**5,506**	**59,179**

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(3,275)	**(3,838)**	**(41,251)**
Proceeds from long-term loans payable	27,400	**22,301**	**239,693**
Repayment of long-term loans payable	(30,952)	**(37,795)**	**(406,223)**
Cash dividends paid	(0)	**(0)**	**(0)**
Other, net	(594)	**(176)**	**(1,892)**
Net cash provided by (used in) financing activities	(7,421)	**(19,508)**	**(209,673)**
Effect of exchange rate change on cash and cash equivalents	(954)	**256**	**2,751**
Net increase (decrease) in cash and cash equivalents	4,943	**17,594**	**189,101**
Cash and cash equivalents at the beginning of the period	33,394	**38,337**	**412,049**
Cash and cash equivalents at the end of the period	¥38,337	**¥55,931**	**$601,150**
(Note) (1) Cash and cash equivalents are comprised as follows:			
Cash and deposits	¥38,363	**¥56,439**	**$606,610**
Less-Time deposits with maturity over three months	(26)	**(508)**	**(5,460)**
Cash and cash equivalents (Note 3 (18))	¥38,337	**¥55,931**	**$601,150**

1. Basis of preparation of consolidated financial statements

The accompanying consolidated financial statements of Penta-Ocean Construction Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The accounting principles and practices adopted by the overseas consolidated subsidiaries conform to those adopted by the Company. The figures in these financial statements are shown in U.S. dollars at the conversion rate of U.S.$1=¥93.04, the exchange rate prevailing on March 31, 2010. 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 four affiliated companies at March 31, 2010.

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

One affiliated company has been excluded from the scope of equity method, because its impact on consolidated financial statements was small and was not significant on the whole.

(2) Consolidation date

Consolidation date is March 31.

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

Closing date for other eight overseas subsidiaries is December 31. The Company compiled the consolidated financial statements using the financial statements of each company's closing date, and adjustments were made for any material difference incurred between the closing date and the consolidation date.

Also the closing date for one domestic subsidiary is November 30 and its financial statements have been temporarily made based on the consolidation date.

(3) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of subsidiaries are recorded at fair value upon acquisition. The difference between fair value and book value is allocated to Net assets.

(4) Good will and negative good will

Good will and Negative good will are amortized over five years by the straight-line method.

3. Summary of significant accounting policies

(1) Conversion method of foreign currency transactions of the Company and its domestic subsidiaries and affiliated companies

Transactions in foreign currencies are converted into yen at the exchange rate prevailing at the time of the transactions. Monetary receivables and payables denominated in foreign currencies including foreign cash are converted into yen at the exchange rate prevailing on the closing date. Non-monetary items denominated in foreign currencies are converted into yen at the historical rate. Held-to-maturity bonds denominated in foreign currencies are translated into yen at the exchange rate prevailing on the closing date, securities for purpose of sales and investment securities other than the above are converted into yen from the fair value based on foreign currencies at the exchange rate prevailing on the closing date and stock of subsidiaries and affiliated companies at the exchange rate prevailing at the time of acquisition of the Company, and those are written down, when declined remarkably. The valuation amount of derivative financial instruments resulting from derivative transaction denominated in foreign currencies are translated at the exchange rate prevailing on the closing date based on the fair value or the actual value estimated in foreign currencies excluding those applying hedge accounting. Exchange gains or losses, realized or unrealized, are included in current income.

(2) Conversion method of financial statements of overseas subsidiaries stated in foreign currency

Financial statements stated in foreign currency are translated into yen at the exchange rate prevailing on the closing date except for the components of Net assets which are translated at the exchange rate prevailing at the time of acquisition of the Company and at the historical rate to their increase thereafter.

Exchange differences arising from conversion of balance sheet accounts are stated as foreign currency translation adjustment in Net assets.

(3) Recognition of sales and cost of sales

The Company recognizes revenue by applying the percentage-of-completion method for the construction projects with condition that the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction project, method to calculate the percentage of the cost incurred to the estimated total cost (= cost proportion method) has been applied. For other construction projects, the completed-contract method has been applied.

(Change of accounting method-2009)

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

However, since Accounting Standard Board of Japan Statement No. 15 "Accounting Standard for Construction Contracts" and Accounting Standard Board of Japan Guidance No. 18 "Guidance on Accounting Standard for Construction Contracts" both issued on December 27, 2007 have been able to apply effective fiscal years before April 1, 2009, the Company made an early adoption for these Accounting Standards from the fiscal year ended March 31, 2009 and for the construction contracts commencing on and after April 1, 2009, the percentage-of-completion method has been applied for construction projects, if the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, cost proportion method has been applied. For other construction projects, the completed-contract method shall be applied.

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

The financial impact of this change on each segment is described in 21. Segment information.

(4) Investment securities

Held-to-maturity bonds are determined by the amortized cost method. Other securities with fair value are stated at fair value based on the market price at the closing date. Valuation differences are included in Net assets as valuation difference on available-for-sale securities, and cost of sales are determined by the moving average method.

Other investment securities with no fair value are stated at moving average cost.

(5) Derivative financial transactions

Derivative financial instruments are stated at fair value.

Hedge accounting is adopted for derivative financial instruments which conform to requirements of hedge accounting.

(6) Allowance for doubtful accounts

Allowance for doubtful accounts is accounted for using the estimated doubtful account ratio determined based on the past actual bad debt losses for general receivable and the individual estimated uncollectible amount for any specific doubtful receivables.

(7) Inventories

Inventories are stated at identified cost, except for raw materials and supplies which are stated at cost determined by the first-in first-out method.

In the case that the net realizable value falls below the historical cost at the end of the period, inventories except for cost on uncompleted construction contracts are carried at the net realizable value on the closing date.

(8) Property, plant, equipment and Depreciation (Excluding Leased assets)

Property, plant and equipment are stated at cost and for the Company and domestic subsidiaries depreciation is calculated using the declining balance method, except for buildings (other than building fixtures) acquired on and after April 1, 1998, which are calculated by the straight-line method. The straight-line method is applied to property, plant and equipment of overseas subsidiaries.

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

(9) Leased assets

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

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

(Change of accounting method-2009)

Leased assets under Finance lease transactions that do not transfer ownership were previously accounted for in a manner similar to accounting treatment for ordinary rental transactions, however, effective from the fiscal year ended March 31, 2009, Accounting Standard Board of Japan Statement No. 13 "Accounting Standard for Lease Transactions" and Accounting Standard Board of Japan Guidance No. 16 "Guidance on Accounting Standard for Lease Transactions" both revised on March 30, 2007 have been adopted and the transactions are accounted for in a similar manner with ordinary sale and purchase transactions.

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

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

(10) Research and development costs, and computer software

Research and development costs are charged to income as incurred.

Computer software purchased for internal use is amortized by the straight-line method over five years, the estimated useful life.

(11) Provision for retirement benefits

Provision for retirement benefits is provided for on an accrual basis based on the projected benefit obligations and pension fund assets at end of the fiscal year.

However, in case the amount of pension fund assets exceeds the amount of retirement benefit obligations add/less unrecognized transition obligations and unrecognized actuarial gains or losses, the balance is recorded as Prepaid Pension Cost on the Investments and other assets. Regarding lump-sum severance indemnity plan for some of the consolidated subsidiaries, the amount is calculated based on simplified method (method to assume required payment amount based on voluntary termination of employment on the closing date as retirement benefit obligations).

Effects of the application of the new accounting standards for retirement benefits are equally amortized over fifteen years.

Prior service liabilities are recognized as an expense when incurred.

Actuarial gains or losses are equally amortized by the straight-line method over the average remaining employees' service years, which should be within 10 years and its amortization starts in the next year of the respective accrual years.

(Change of accounting method-2010)

Effective from the current fiscal year, Accounting Standard Board of Japan Statement No. 19, Partial Amendments to "Accounting Standard for Retirement Benefits" (Part3) revised on July 31, 2008 has been adopted.

Due to amortizing actuarial gain/loss from next fiscal year, there is no effect on operating income, ordinary income and income before income taxes and minority interests for this adoption. The unrecognized negative difference of retirement benefit obligations by adopting this accounting standard was ¥-269 million.

(12) Provision for loss on construction contracts

The Company provides provision for future losses from construction contracts outstanding at the fiscal year end.

(13) Provision for warranties for completed construction

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

(14) Provision for directors' retirement benefits

Some subsidiaries provide provision for retirement pay equal to the amount required if all directors and statutory auditors retired on the closing date.

(15) Provision for loss on development business

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

(16) Provision for loss on voluntary retirement and other

To provide provision for the expenses of extra retirement payments and related costs, due to execution of the voluntary early retirement program, estimated amount required in the future is calculated.

(17) 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, 2010.

(18) 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.

(19) Hedge accounting

1) Derivative transactions are accounted for primarily using deferral hedge accounting.

2) Hedge instruments and hedged items
Hedge instruments are interest rate swap agreements and forward exchange contracts.
Hedged items are interest on bank loans and monetary receivables and payables denominated in foreign currencies.

3) The Company enters into interest rate swap agreements and forward exchange contracts to hedge risk from fluctuations in interest rate and forward exchange rates, respectively.

4) Evaluation of the effectiveness of hedge accounting
Control procedures for hedge transactions are executed according to the Company's bylaw. The Examination Committee of Derivative Instruments and the Financial Division in the Company periodically evaluates the effectiveness of hedging.

(20) Income taxes

The Company and consolidated domestic subsidiaries declare corporation and other taxes on the basis of taxable income calculated under the provisions of the Corporation Tax Law and other tax regulations. Taxable income thus calculated is different from earnings in the account book.

Japanese corporation and other taxes applicable to the Company and consolidated domestic subsidiaries comprise (a) corporation tax of 30.0 percent on taxable income, (b) enterprise tax of 7.6 percent on taxable income after certain adjustments, and (c) prefectural and municipal taxes averaging 20.4 percent of corporation tax. Enterprise tax paid is deductible for income tax purposes.

Foreign subsidiaries declare income taxes at the rate applicable in each country. Foreign tax credit related to the amount of income taxes paid to foreign tax offices by the Company directly or indirectly, is subject to certain limitations in accordance with Japanese tax regulations.

(21) Reclassifications

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

4. Investment securities

The composition of securities as of March 31, 2009 and 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Securities due within one year:			
Held-to-maturity bonds	¥ 1	¥ 1	$ 11
Investment trust bills	93	29	311
Total	¥ 94	¥ 30	$ 322
Investment securities:			
Held-to-maturity bonds	¥ 69	¥ 121	$ 1,300
Investment trust bills	183	211	2,268
Stocks	12,762	7,146	76,806
Total	¥13,014	¥7,478	$80,374

5. Pledged assets

(1) The following assets are pledged for fulfillment of construction contracts at March 31, 2009 and 2010.

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Deposits	¥ —	¥158	$1,698
Short-term investment securities	1	1	11
Investment securities	179	208	2,236
Total	¥180	¥367	$3,945

(2) The following assets are in pledge to short-term bank loans at March 31, 2009 and 2010.

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Real estate for sale and development projects in progress (Trust beneficiary rights)	¥4,685	¥ —	$ —
Land	67	67	720
Buildings	96	93	1,000
Total	¥4,848	¥160	$1,720

6. Short-term and long-term loans payable

Short-term loans are represented primarily in the form of overdraft facility notes. The weighted average interest rates are 1.74% for the fiscal year 2009 and 1.59% for the fiscal year 2010, respectively. Long-term loans as of March 31, 2009 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Long-term loans from banks and insurance companies maturing in 2014	¥73,310	¥57,816	$621,410
(The weighted average interest rate is 3.17%.)			
Less: current portion of long-term loans	(37,795)	(25,657)	(275,763)
Net	¥35,515	¥32,159	$345,647

The aggregate annual maturity of long-term loans after March 31, 2010 is as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,	2010	2010
2011	¥25,657	$275,763
2012	19,570	210,340
2013	8,280	88,994
2014	3,175	34,125
2015 and after that	1,134	12,188
Total	¥57,816	$621,410

7. Non-operating income

The composition of Non-operating income - other for the two years ended March 31, 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Real estate rent	¥ 75	**¥ 71**	**$ 763**
Equity in earnings of affiliates	4	**47**	**506**
Other	316	**325**	**3,493**
Total	¥395	**¥443**	**$4,762**

8. Non-operating expenses

The composition of Non-operating expenses - other for the two years ended March 31, 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Foreign exchange losses	¥ 640	**¥ 288**	**$ 3,095**
Other	910	**761**	**8,179**
Total	¥1,550	**¥1,049**	**$11,274**

9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Gain on prior period adjustments	¥ 26	**¥ 497**	**$ 5,342**
Gain on sales of noncurrent assets	603	**70**	**752**
Gain on insurance adjustments	122	**31**	**333**
Gain on sales of investment securities	—	**2,038**	**21,905**
Reversal of allowance for doubtful accounts	220	**288**	**3,095**
Other	90	**2**	**21**
Total	¥1,061	**¥2,926**	**$31,448**

10. Extraordinary loss

The composition of Extraordinary loss for the two years ended March 31, 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Loss on prior period adjustments	¥ 41	**¥ 3**	**$ 32**
Loss on valuation of investment securities	5,767	**361**	**3,880**
Impairment loss ＊1	35	**907**	**9,749**
Provision for loss on real estate development business	1,020	**—**	**—**
Loss on real estate development business	—	**1,520**	**16,337**
Provision for allowance for doubtful accounts	653	**4,644**	**49,914**
Provision for loss on voluntary retirement and other	—	**1,511**	**16,240**
Other	288	**862**	**9,265**
Total	¥7,804	**¥9,808**	**$105,417**

＊1 The Company recognized impairment loss for the following group of assets in the current fiscal year ended March 31, 2010

Location	Classification	Impairment loss
Kanto area	Common assets (2 objects)	Land and other .... ¥130 million ($1,397 thousand)
Chubu area	Common assets (1 object)	Land and other .... ¥139 million ($1,494 thousand)
Kansai area	Common assets (1 object)	Land and other .... ¥ 66 million ($ 709 thousand)
Chugoku/Kyusyuu area	Leased and other assets (4 objects)	Land and other .... ¥572 million ($6,148 thousand)

The Company and consolidated subsidiaries have classified the fixed assets by business control unit such as company, branch office, and business line, which controls its revenue and expenditure continuously.

Book values of above assets were written down to recoverable amounts due to following reasons.

The profitability of leased assets has been decreased due to the devaluation of land price. For common assets, management decision on disposal has been made and no alternative investment has been planned.

The impairment loss (¥907 million [U.S.$9,748 thousand]) was accounted for as the extraordinary loss.

The recoverable amounts related to the leased assets were measured by value in use calculated by discounting future cash flow and those related to the common assets were measured by net realizable amounts based on the the land value assessed for tax purposes or the contract amounts.

11. Research and development costs

Research and development costs charged to income are ¥940 million for the fiscal year 2009 and ¥852 million (U.S.$9,157 thousand) for the fiscal year 2010.

12. Summary of finance lease transactions

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

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

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Estimated acquisition costs			
Equipment	¥111	**¥107**	**$1,150**
Vehicles	36	**36**	**387**
	147	**143**	**1,537**
Less: accumulated depreciation	(68)	**(95)**	**(1,021)**
Estimated value	¥ 79	**¥ 48**	**$ 516**

(2) Future lease payments and accumulated impairment loss on leased assets as of March 31, 2009 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Within one year	¥31	**¥26**	**$279**
Over one year	50	**24**	**258**
Total	¥81	**¥50**	**$537**

(3) Lease payments, reversal of accumulated impairment loss on leased assets, depreciation equivalents, interest expenses equivalents and impairment loss for the years ended March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Lease payments	¥53	**¥32**	**$344**
Reversal of accumulated impairment loss on leased assets	14	**—**	**—**
Depreciation equivalents	49	**31**	**333**
Interest expense equivalents	2	**1**	**11**

13. Derivative financial transactions

(1) Matters concerning derivative financial transactions

The Company and its consolidated subsidiaries have entered into interest rate swap agreements and forward exchange contracts only for hedging risks from fluctuation in interest rates and foreign exchange rates, not for speculative purposes.

The derivative financial transactions are mainly performed by the Company, and have been made in accordance with the bylaw, which clearly describes purposes, execution and control for transaction.

(2) Matters concerning fair value

Hedge accounting is applied for all derivative financial transactions for the year ended March 31, 2009 and 2010 and accordingly fair value information is waived.

14. Commitments and contingent liabilities

As of March 31, 2010, the Company has liabilities for guarantee to bank loans made by customers amounting to ¥1,478 million (U.S.$15,886 thousand).

The Company also has the guarantee amounting to ¥1,030 million (U.S. $11,071 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

The Company has agreements on commitment line with 30 banks totaling ¥36,000 million (U.S.$386,930 thousand) for the purpose of flexible financing. There is no amount of loans using the line as of March 31, 2010.

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
	2009	**2010**	**2010**
Deferred tax assets			
Net operating loss carried forward	¥ 7,816	**¥ 6,895**	**$ 74,108**
Loss on valuation of real estate for sale	5,090	**4,062**	**43,659**
Employees' retirement benefits trust	1,712	**2,750**	**29,557**
Allowance for doubtful accounts	995	**2,082**	**22,378**
Impairment loss	586	**781**	**8,394**
Provision for bonuses	662	**439**	**4,718**
Provision for loss on voluntary retirement and other	—	**615**	**6,610**
Provision for loss on construction contracts	—	**539**	**5,793**
Other	4,300	**1,701**	**18,283**
Total: deferred tax assets	21,161	**19,864**	**213,500**
Less : valuation allowance	(5,084)	**(4,164)**	**(44,755)**
Deferred tax assets	¥16,077	**¥15,700**	**$168,745**
Deferred tax liabilities			
Prepaid pension cost	¥ (274)	**¥ (238)**	**$ (2,558)**
Other	(62)	**(137)**	**(1,473)**
Total: deferred tax liabilities	(336)	**(375)**	**(4,031)**
Net: deferred tax assets	¥15,741	**¥15,325**	**$164,714**

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

	2009	2010
The statutory effective tax rate	40.69%	**40.69%**
(Adjustments)		
Permanent differences (expense)	276.29	**86.33**
Permanent differences (income)	(136.43)	**(75.61)**
Per capita levy on inhabitant tax	101.32	**25.23**
Consolidated adjustments	100.81	**26.14**
Increase in valuation allowance	783.54	**(116.90)**
Other	(52.27)	**101.36**
Actual burden tax rate after the application of tax effect accounting	1,113.95	**87.24**

16. Consumption tax

Consumption tax is usually levied at the rate of 5 percent on all transactions in connection with sales and purchases, except for tax-free transactions. Consumption tax is eliminated from sales and purchases stated in the statements of income.

17. Net assets

(1) Legal retained earnings and legal capital surplus

The Japanese Corporate Law requires to provide a legal retained earnings equal to 10 percent of cash out flow, that is, payment of dividends approved by the Shareholders' meeting every fiscal years, until the total amounts of legal retained earnings plus legal capital surplus or either of them reach 25 percent of common stock.

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

(2) Revaluation reserve for land

Lands used for business purposes are revaluated on March 31, 2000 based on the "Law Concerning Land Revaluation (Law No.34, promulgated on March 31, 1998)" and the "Partial Revision of the Law Concerning Land Revaluation (Law No.24, promulgated on March 31, 1999)." Relating to revaluation excess, the deferred tax on the revaluation is accounted for as a long-term deferred tax liabilities and the remaining revaluation difference is accounted for as revaluation reserve for land in net assets.

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
The difference between the appraisal value of land at the end of the current fiscal year and the book value	¥10,765	**¥11,377**	**$122,281**

Fair values were determined on the basis of Article 2 No. 4 and 5 of an Enforcement ordinance No. 119 of the Law concerning Land Revaluation promulgated on March 31, 1998.

(3) Valuation difference on available-for-sale securities

Valuation difference on available-for-sale securities is based on the difference between fair market value and book value at March 31. This amounted to ¥248 million (U.S.$2,666 thousand) gain as of March 31, 2010.

(4) Restriction of dividends

It is regulated by the Japanese Corporate Law that the unrealized valuation difference from assets evaluated by fair value is not available for payment of dividends.

18. Authorized shares

The Articles of Incorporation provides that if retirement of shares is carried out, the corresponding number of shares must be deducted from authorized shares.

19. Retirement benefits

I. Retirement benefits obligations

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
a. Retirement benefit obligations	¥(32,189)	**¥(30,096)**	**$(323,474)**
b. Pension fund assets	17,343	**18,595**	**199,860**
c. Unfunded retirement benefit obligations	(14,846)	**(11,501)**	**(123,614)**
d. Amortization term of effects of the application of the new accounting standards for retirement benefits	7,810	**6,509**	**69,959**
e. Unrecognized actuarial gain or loss	7,118	**5,226**	**56,170**
f. Net retirement benefit obligations	82	**234**	**2,515**
g. Prepaid pension cost	674	**584**	**6,277**
h. Provision for retirement benefits	¥ (592)	**¥ (350)**	**$ (3,762)**

II. Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
a. Service costs	¥1,162	**¥1,136**	**$12,210**
b. Interest costs	677	**668**	**7,180**
c. Expected return on pension fund assets	(733)	**(607)**	**(6,524)**
d. Amortization term of effects of the application of the new accounting standards for retirement benefits	1,302	**1,302**	**13,994**
e. Amortization of actuarial gain or loss	798	**1,246**	**13,392**
f. Retirement benefit costs	¥3,206	**¥3,745**	**$40,252**

III. Calculation basis of retirement benefit obligations

a. Recognition method of the projected retirements benefit obligations	Straight-line method
b. Discount rate	2.20%
c. Expected return rate on pension fund assets	3.50%
d. Recognition term of prior service liabilities	Fully recognized as incurred
e. Amortization term of actuarial gain or loss	Actuarial gains or losses are amortized by the straight-line method over the average remaining employees' service years from the next year of the respective accrual years (almost 10 years)
f. Amortization term of effects of the application of the new accounting standards for retirement benefits	15 years

20. Financial instruments

(1) Policy for acquiring Financial instruments

The Company and consolidated subsidiaries have limited the instruments of fund investment to short term deposits and other, and relied on bank loans for fund procurement.

Regarding credit risk to customers related to notes receivable, accounts receivable from completed construction contracts and other the Company and consolidated subsidiaries' bylaw has been applied to reduce the risk. Additionally notes receivable, accounts receivable from completed construction contracts and other in foreign currencies are exposed to foreign currency risk, and the Company enters into forward exchange contracts to hedge the risk.

Short-term investment securities and investment securities include mainly stocks, held-to-maturity bonds and investment trusts.

Those fair value, financial status of the issuers and so on are checked regularly. Accounts receivable-other are mainly credit other than accounts receivable associated with operating transactions and most of the accounts are collected in short term and detail of the balance is reviewed on monthly basis.

Loans payable is mainly for procurement for operating funds and the Company enters into interest rate swap agreements and manages to fix its interest cost to hedge the risk from interest volatility related to long-term loans payable.

Execution and control of derivative transaction is held in accordance with the Company's bylaw where its purpose, action and control of such transaction are clearly stated and derivative transactions shall not be used for speculative purpose.

(2) Estimated fair value of financial instruments

Book value on consolidated balance sheet, fair value and the difference as of March 31, 2010 are as follows;

	Millions of yen		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	¥ 56,439	¥ 56,439	¥—
(2) Notes receivable, accounts receivable from completed construction contracts and other	101,618	101,572	(46)
(3) Short-term investment securities and investment securities	4,056	4,064	8
(4) Accounts receivable-other	15,006	15,006	—
Total Assets	¥177,119	¥177,081	¥(38)
Liabilities			
(1) Notes payable, accounts payable for construction contracts and other	¥ 92,630	¥ 92,630	¥ —
(2) Short-term loans payable	28,024	28,024	—
(3) Long-term loans payable (*1)	57,816	58,019	203
Total Liabilities	¥178,470	¥178,673	¥203
Derivative transaction (*2)	¥ (8)	¥ (8)	—

	Thousands of U.S. Dollars		
	Book value on consolidated B/S	Fair value	Difference
Assets			
(1) Cash and deposits	$ 606,610	$ 606,610	$ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	1,092,197	1,091,702	(495)
(3) Short-term investment securities and investment securities	43,594	43,680	86
(4) Accounts receivable-other	161,285	161,285	—
Total Assets	$1,903,686	$1,903,277	$(409)
Liabilities			
(1) Notes payable, accounts payable for construction contracts and other	$ 995,593	$ 995,593	$ —
(2) Short-term loans payable	301,204	301,204	—
(3) Long-term loans payable (*1)	621,410	623,592	2,182
Total Liabilities	$1,918,207	$1,920,389	$2,182
Derivative transaction (*2)	$ (86)	$ (86)	—

(*1) Long-term loans payable includes the current portion of long-term loans payable.
(*2) The debit and credit balances recorded by derivative transaction are offset each other.

(Notes 1) Calculation method of financial instruments' fair value and securities and derivative transaction

Assets

(1) Cash and deposits, (4) Accounts receivable-other

Since these items are settled within the short term, the fair values are nearly equivalent to the book values, therefore the book value is used.

(2) Notes receivable, accounts receivable from completed construction contracts and other

These items' fair values are the present value, discounted by using interest rate determined based on the term until maturity and credit risk with respect to the receivables categorized by a certain period.

(3) Short-term investment securities and investment securities

The fair value of stocks and bonds present the market values. Investment trust is the standard price released to public.

Liabilities

(1) Notes payable, accounts payable for construction contracts and other, (2) Short-term loans payable

Since these items are settled within short term, the fair values are nearly equivalent to book values, therefore the current book value is used.

(3) Long-term loans payable

The fair value of long-term loans payable is calculated by discounting the total of principal and interest using interest rate calculated assuming the loan is newly made. Long-term loans payable with floating rate is subject to a special treatment of interest rate swap and is calculated by discounting the total of principal and interest, accounted for as if they were integral part of the interest rate swap, by interest rate that is reasonably estimated and applied in case same loan is made.

Derivative transaction

It is forward exchange contracts, and fair value is calculated by using a forward exchange rate. However, the transactions that apply to a special treatment of interest rate swap are accounted for as if they were integral part of the hedged long-term loans payable, it's fair value is included in the fair value of long-term loans payable.

(Notes 2) Since unlisted stocks and investments in silent partnership for development investment business (balance on consolidated balance sheet ¥3,452 million [U.S.$37,102 thousand]) have no market value, are not able to estimate the future cash flow and are quite difficult to recognize the fair value, they are not included in "(3) Short-term investment securities and investment securities."

(Notes 3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2010

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits	¥ 56,402	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from				
completed construction contracts and other	93,095	8,524	—	—
Short-term investment securities and investment securities				
Held-to-maturity bonds				
National and local government bonds	1	—	111	—
Corporate bonds	—	—	10	—
Other marketable securities with maturities				
Other	28	—	12	—
Accounts receivable-other	15,006	—	—	—
Total	¥164,532	¥8,524	¥133	¥ —

	Thousands of U.S. Dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits	$ 606,212	$ —	$ —	$ —
Notes receivable, accounts receivable from				
completed construction contracts and other	1,000,591	91,617	—	—
Short-term investment securities and investment securities				
Held-to-maturity bonds				
National and local government bonds	11	—	1,193	—
Corporate bonds	—	—	107	—
Other marketable securities with maturities				
Other	301	—	129	—
Accounts receivable-other	161,285	—	—	—
Total	$1,768,400	$91,617	$1,429	$ —

(Notes 4) The redemption schedule for long-term loans payable is disclosed in Notes 6.

(Additional Information)
Effective from the current fiscal year, Accounting Standard Board of Japan Statement No. 10, "Accounting Standard for Financial instruments" and Accounting Standard Board of Japan Guidance No. 19, "Guidance on Disclosures about Fair Value of Financial instruments" both issued on March 10, 2008 have been adopted.

21. Segment information

(1) Business segment

Business segment is primarily composed of the followings:

Construction	Civil engineering, construction
Development business	Sale or rental of real estate
Other	Sale of construction materials, leasing, shipbuilding and other

Millions of yen

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

Millions of yen

Year ended March 31, 2010	Construction	Development business	Other	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥312,613	¥ 1,007	¥11,162	¥324,782	¥ —	¥324,782
Internal sales or transfer	138	269	7,593	8,000	(8,000)	—
Total	312,751	1,276	18,755	332,782	(8,000)	324,782
Operating expenses	302,127	2,304	17,600	322,031	(8,048)	313,983
Operating income (loss)	10,624	(1,028)	1,155	10,751	48	10,799
Assets	206,727	21,488	17,696	245,911	48,335	294,246
Depreciation	2,593	15	1,362	3,970	(19)	3,951
Impairment loss	598	309	—	907	—	907
Capital expenditures	2,902	1	195	3,098	—	3,098

Thousands of U.S. dollars

Year ended March 31, 2010	Construction	Development business	Other	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	$3,359,985	$ 10,823	$119,970	$3,490,778	$ —	$3,490,778
Internal sales or transfer	1,483	2,892	81,610	85,985	(85,985)	—
Total	3,361,468	13,715	201,580	3,576,763	(85,985)	3,490,778
Operating expenses	3,247,281	24,764	189,166	3,461,211	(86,501)	3,374,710
Operating income (loss)	114,187	(11,049)	12,414	115,552	516	116,068
Assets	2,221,915	230,954	190,198	2,643,067	519,508	3,162,575
Depreciation	27,870	161	14,639	42,670	(204)	42,466
Impairment loss	6,427	3,321	—	9,748	—	9,748
Capital expenditures	31,191	11	2,096	33,298	—	33,298

Notes

(1) All operating expenses are allocated to the respective segments. Assets which could not be allocated relate to the general administration division in the head office of the Company and subsidiaries and amount to ¥39,260 million at March 31, 2009 and ¥48,690 million (U.S.$523,323 thousand) at March 31, 2010.

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

(2) Change of Accounting Method-2009

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

However, since Accounting Standard Board of Japan Statement No. 15 "Accounting Standard for Construction Contracts" and Accounting Standard Board of Japan Guidance No. 18 "Guidance on Accounting Standard for Construction Contracts" both issued December 27, 2007 are able to apply for fiscal years before April 1, 2009, the Company made an early adoption for these Accounting Standards from the fiscal year ended March 31, 2009 and for the construction contracts commencing on and after April 1, 2009, the percentage-of-completion method has been applied for construction projects, if the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, cost proportion method has been applied. For other construction projects, the completed-contract method has been applied.

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

(2) Geographic segment

Geographic segment is primarily composed of the followings:

Japan

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

Others .... Micronesia and Seychelles

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

Year ended March 31, 2010	Millions of yen					
	Japan	Southeast Asia	Other	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥246,586	¥74,555	¥3,641	¥324,782	¥ —	¥324,782
Internal sales or transfer	—	—	—	—	—	—
Total	246,586	74,555	3,641	324,782	—	324,782
Operating expenses	238,941	71,614	3,428	313,983	0	313,983
Operating income	7,645	2,941	213	10,799	0	10,799
Assets	199,373	44,291	1,891	245,555	48,691	294,246

Year ended March 31, 2010	Thousands of U.S. dollars					
	Japan	Southeast Asia	Other	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	$2,650,322	$801,322	$39,134	$3,490,778	$ —	$3,490,778
Internal sales or transfer	—	—	—	—	—	—
Total	2,650,322	801,322	39,134	3,490,778	—	3,490,778
Operating expenses	2,568,153	769,712	36,845	3,374,710	0	3,374,710
Operating income	82,169	31,610	2,289	116,068	0	116,068
Assets	2,142,874	476,043	20,325	2,639,242	523,333	3,162,575

Notes

(1) All operating expenses are allocated to the respective segments. Assets which could not be allocated relate to the general administration division in the head office of the Company and subsidiaries and amount to ¥39,260 million at March 31, 2009 and ¥48,690 million (U.S.$523,323 thousand) at March 31, 2010.

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

(2) Change of Accounting Method-2009

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

However, since Accounting Standard Board of Japan Statement No. 15 "Accounting Standard for Construction Contracts" and Accounting Standard Board of Japan Guidance No. 18 "Guidance on Accounting Standard for Construction Contracts" both issued December 27, 2007 are able to apply for fiscal years before April 1, 2009, the Company made an early adoption for these Accounting Standards from the fiscal year ended March 31, 2009 and for the construction contracts commencing on and after April 1, 2009, the percentage-of-completion method has been applied for construction projects, if the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, cost proportion method has been applied. For other construction projects, the completed-contract method has been applied.

As a result of this change, in "Japan" Segment, net sales has increased by ¥16,654 million (U.S.$169,548 thousand) and operating income has increased by ¥1,321 million (U.S.$13,450 thousand), in "Other" Segment, net sales has increased by ¥1,376 million (U.S.$14,012 thousand) and operating income has decreased by ¥100 million (U.S.$1,026 thousand) compared with previous accounting method.

(3) Overseas sales

	Millions of yen		
Year ended March 31, 2009	Southeast Asia	Other	Total
Overseas sales	¥77,240	¥7,249	¥ 84,489
Consolidated sales			¥398,486
Proportion of overseas sales to consolidated sales	19.4%	1.8%	21.2%

	Millions of yen		
Year ended March 31, 2010	Southeast Asia	Other	Total
Overseas sales	¥74,555	¥3,641	¥ 78,196
Consolidated sales			¥324,782
Proportion of overseas sales to consolidated sales	23.0%	1.1%	24.1%

	Thousands of U.S. dollars		
Year ended March 31, 2010	Southeast Asia	Other	Total
Overseas sales	$801,322	$39,134	$ 840,456
Consolidated sales			$3,490,778
Proportion of overseas sales to consolidated sales	23.0%	1.1%	24.1%

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

Other .... Micronesia and Seychelles

Change of Accounting Method-2009

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

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

As a result of this change, Overseas sales for "Other" has increased by ¥1,376 million (U.S.$14,012 thousand), and Overseas Sales Total has increased by ¥1,376 million (U.S.$14,012 thousand) compare with previous accounting method.

22. Related party transactions

For the year ended March 31, 2009

None

For the year ended March 31, 2010

None

23. Amounts per share

1. Per share information is summarized as follows:

	Yen		U.S. dollars
	2009	**2010**	**2010**
Net assets per share	¥212.43	**¥221.59**	**$2.38**
Net income (loss) per share	(13.58)	**7.11**	**0.08**
Diluted net income per share	—	**—**	**—**

2. For the year ended March 31, 2009, diluted net income per share is not disclosed, because the dilutive potential of shares of common stock is none and net loss per share is recorded.

For the year ended March 31, 2010, diluted net income per share is not disclosed, because the dilutive potential of shares of common stock is none.

24. Significant subsequent event

For the year ended March 31, 2009

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

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

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

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

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

For the year ended March 31, 2010

None

Report of Independent Auditors

The Board of Directors
PENTA-OCEAN CONSTRUCTION CO., LTD.

We have audited the accompanying consolidated balance sheets of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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, 2010

Ernst & Young ShinNihon LLC

Ernst & Young ShinNihon LLC