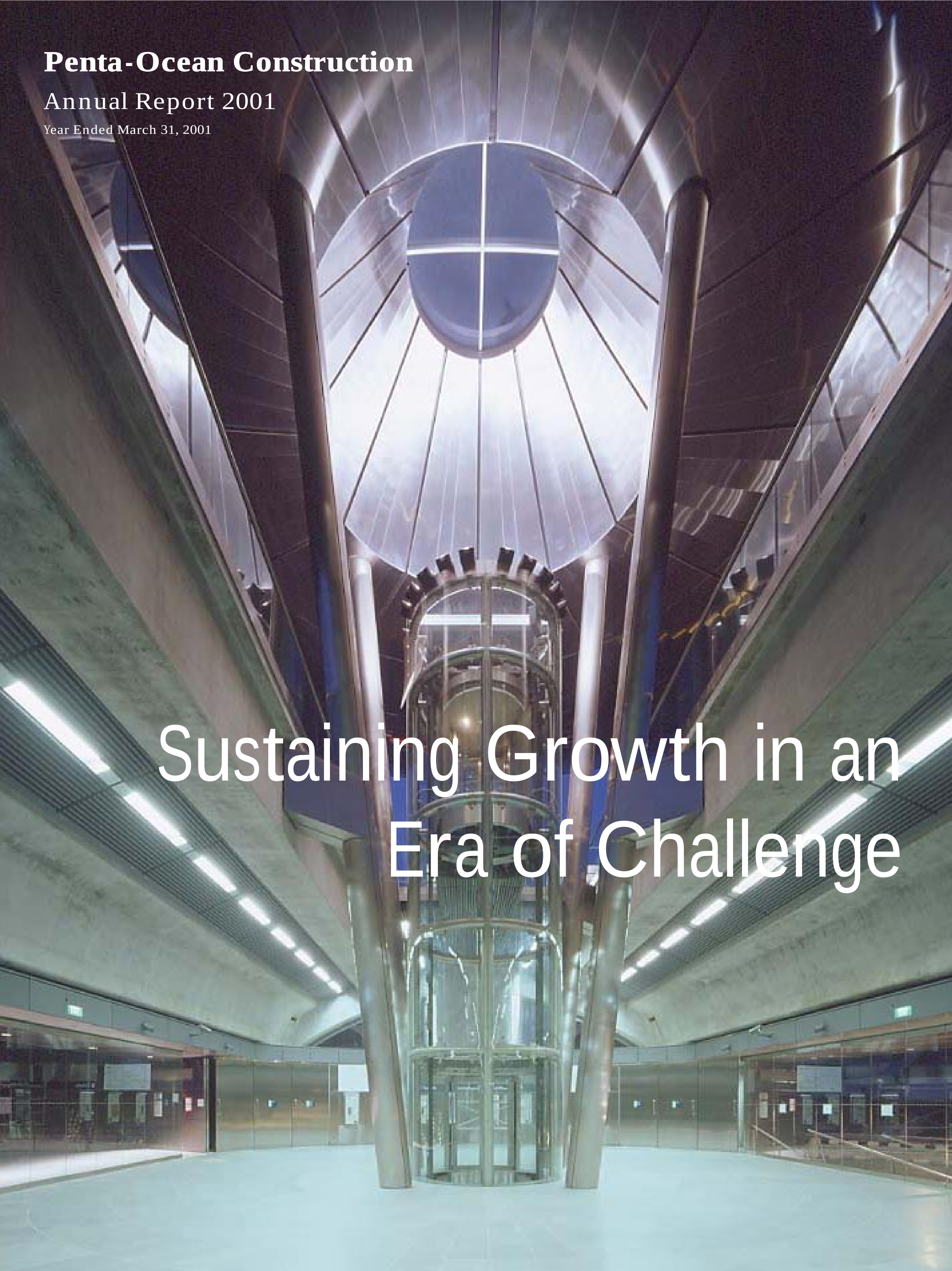
Penta-Ocean Construction

Annual Report 2001

Year Ended March 31, 2001



Sustaining Growth in an Era of Challenge

PROFILE

Penta-Ocean Construction Co., Ltd. began operations more than a century ago, in 1896, in Kure City, Hiroshima Prefecture. Today, with its consolidated group of 30 subsidiaries and affiliates, the Company is engaged in a wide range of civil and architectural engineering projects, and very-large-scale land reclamation works in Japan and overseas. Penta-Ocean maintains one of the largest construction-related research and development programs in the world, and is a leading developer of advanced construction materials and related equipment, which it markets worldwide.

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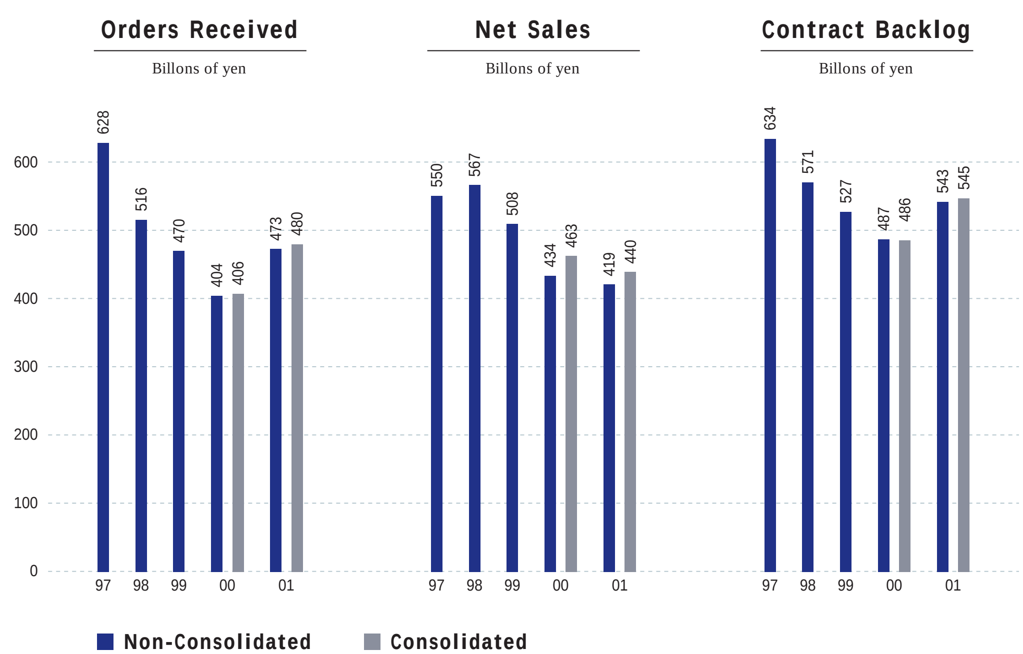
Cover
Penta-Ocean recently completed construction of MRT502 Expo station on the Changi Airport Line, part of Singapore's extensive new MRT system. The building has already become the city's most spectacular new landmark structure.
(picture by courtesy of SMRT)

CONSOLIDATED FINANCIAL HIGHLIGHTS

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Orders received	¥406,995	**¥480,690**	**$3,879,734**
Net sales	436,952	**440,141**	**3,552,389**
Contract backlog	486,989	**545,246**	**4,400,694**
Total assets	510,665	**497,114**	**4,012,220**
Shareholders' equity	46,110	**51,716**	**417,401**
Ordinary income	8,824	**10,494**	**84,697**
Income (loss) before income taxes	(19,054)	**9,436**	**76,158**
Net income (Loss)	(13,395)	**3,179**	**25,658**
Cash dividend	904	**1,807**	**14,584**
Per share of common stock	Yen		U.S. dollers
Shareholders' equity	¥128	**¥143**	**$1.15**
Net income (loss)	(37.06)	**8.80**	**0.07**
Cash dividends	2.50	**5.00**	**0.04**

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥123.90 per US$1, prevailing on March 31, 2001.



The past century has been one of continuous and often tumultuous social and economic change the world over, and throughout its more than 100 years in operation, Penta-Ocean Construction Co., Ltd. has grown to become one of the world's leading comprehensive construction companies. During the past decade, while Japan has moved to rebuild its economy, we have worked to restructure our group organization in order to strengthen our financial base and sharpen our competitive edge. In the term under review, we bid successfully for very large-scale land reclamation work in Singapore, double rail tracking for the Suez Canal, and large-scale construction work on the Kansai and Chubu international airports. Fiscal 2000, the year ended March 31, 2001, marked Penta-Ocean's 51st term of operation.

Operating in a depressed business environment

During the term under review, the Japanese economy continued to stagnate as government sector attempts to spur growth and foster consumer confidence failed. Private sector schemes, however, proved more successful, with both capital investment and business income steadily increasing during the term. Consumers remained concerned about the employment situation, resulting in a continued stalemate in household spending.

In the Japanese construction market, there was a downturn in orders for public works projects, as government spending at the regional level remained cautious. Investment in housing declined, while private sector capital investment increased, primarily in the manufacturing industry. In this uncertain business environment, the construction market remained depressed. Throughout the Asian region, where Penta-Ocean is most active, business improved steadily over the previous term, as the level of public and private sector investment in construction in those countries continued to recovery at a rapid pace.

Mixed business results in FY2000

In this business environment, consolidated net sales amounted to ¥440,141 million (US$3,552 million), a year-on-year decline of 5.1%. Consolidated ordinary income, on the other hand, increased 18.9% to ¥10,494 million (US$84.6 million). Reversing a two-year downward trend, consolidated net income rebounded to ¥3,179 million (US$25.6 million) in the term under review. Group-wide efforts to increase efficiency and improve profitability in overseas construction projects over the past five years is credited with the gains made in fiscal 2000.

The civil and architectural business groups reported declines in sales for both their domestic and overseas business operations, for a collective total of ¥428,369 million (US$3,457 million, a 2.0% decline from the previous term. Operating income for the groups also decreased, by 21.8% to ¥12,562 million (US$101 million). The real estate development group reported a sharp slide in revenue of 65.8%, to ¥5,934 million (US$47.8 million). Operating income for this group amounted to ¥864 million (US$7.0 million), owing to ongoing efforts to increase sales of specially targeted properties.

Consolidated net profit amounted to ¥1,898 million (US$15.3 million), despite the loss of ¥1,034 million (US$8.3 million) sustained in the previous term. Penta-Ocean's remaining business groups contributed to a 15.8% increase in sales, collectively, to ¥14,914 million (US$120 million). Operating losses of ¥535 million (US$4.3 million) reported in the previous term were reduced substantially during the term under review, to ¥81 million (US$0.6 million). These business groups contributed substantially to an overall improvement in Penta-Ocean's performance in fiscal 2000.

Orders received for civil and architectural construction projects from the domestic market declined, as the number of orders grew steadily overseas. During the term, orders for works in Japan decreased by 5.3% year on year, to ¥334,564 million (US$2,700 million), due primarily to a gradual reduction in the number of new public works projects. Overseas, Penta-Ocean received yet another order for a massive land reclamation project in Singapore, where it has been involved in this work since 1984. Owing to our successful bid for this project, we were able to report an 18.1% increase in new orders during the term, to ¥480,699 million (US$3,879 million).

Plotting a new course in an uncertain operating environment

The chances for growth in the Japanese economy continue to be vague and unpredictable at this point in time, owing to fears of an economic slowdown in the U.S., and to a less than robust stock market activity in Japan. In this uncertain environment, consumer spending is also expected to remain stagnant for some time to come.

These conditions do not point to an improvement in business conditions in the domestic construction market in fiscal 2001, where a steady fall off in orders for public works projects is expected to continue. Government indicators also warn of a backward movement in capital investment and a further decline in housing starts. Despite concern over what effect a slowdown in the U.S. economy and volatile oil prices will have on Japanese economic growth, we expect a gradual improvement in our business performance in overseas markets, where demand for social infrastructure projects still remains high.

Developing innovative approaches to cope with adverse market conditions

During the term under review, Penta-Ocean continued to implement a new and comprehensive management plan aimed at creating a more cohesive and powerful corporate group structure. The plan emphasizes a heightened awareness of customer needs, an improvement in efficiency at all levels of the organization, and a greater focus on developing the potential of each individual in the Penta-Ocean Group. It is also expected to bring Penta-Ocean and its group companies closer together and create a more resilient structure. Technological innovation and management prowess have long been trademarks of Penta-Ocean, however in order to meet the increasingly complex challenges of a new era in international business, we believe we must be prepared to confront successfully all possible future economic contingencies. In order to improve our chances for continued success in the increasingly severe operating environment confronting construction companies, we began to implement a three-year plan, the New Century Management Plan, during fiscal 2000. Under the plan, all business groups will work more closely together to improve operational efficiency group-wide, with the aim of maximizing our collective potential for growth and profitability for our shareholders.

Over the past three fiscal terms, the Company has continued to write off losses amounting to approximately ¥100 billion (US$807 million) in order to meet the requirements of new accounting principles and retirement benefits accounting. This process has strengthened the Company and made it more competitive.

In closing, I would like to thank our shareholders for their continued support and understanding.

June 28, 2001

Rempei Mizuno

Chairman, President and Representative Director

Setting New Goals, Meeting New Challenges

THE NEW CENTURY MANAGEMENT PLAN

Over the past three fiscal periods, the Penta-Ocean Group has adopted new accounting principles. In order to do this, it has been necessary to write off losses still held by the Company since the Japanese economy began its downward slide in the mid 1990s. This process of adjustment has made the Penta-Ocean Group financially stronger and more resilient to change. It is also considered to be a model for other companies in the industry. The continuing decline in the number of public works projects, coupled with increasing price competition in the private sector has made for an extremely difficult business environment. With an aim to meeting this challenge, the Company began to implement its New Century Management Plan during the term under review.

Civil Engineering Group

The Civil Engineering Group set three goals for itself during the period of the 3-year plan — to compensate for the fall off in public works projects by increasing its competitiveness, to develop new construction systems, processes and materials, and to more effectively utilize its human resources and accumulated expertise.

To attain these goals, the group will work to improve its sales performance by more systematically highlighting achievements in its research and development activities, and make the general public and potential customers aware of Penta-Ocean's prowess as a technology based construction company.

Architectural Engineering Group

The Architectural Engineering Group set as its primary goal for the 3-year plan to complete current projects in progress and eliminating the unprofitable business activities in which it is engaged. The group will also promote its consulting services in areas of expertise, primarily real estate development and taxation with an aim to increasing recognition for Penta-Ocean's formidable construction related consulting capabilities. It will also strive to increase the number of orders it receives for construction of medical, social welfare, and environmental related structures and facilities.

International Business Group

As a leading comprehensive construction company, Penta-Ocean is actively engaged in the construction of both large-scale and very-large-scale civil and architectural engineering projects in Japan and overseas. Our architectural engineering achievements encompass a broad range of structures, including schools and hospitals, industrial plants, office buildings, cultural centers and transportation related facilities. It is also working to improve efficiency at every level of operations and enhance the contribution of individual staff members in both technical and business fields.

New Business Promotion Group

This Group is charged with establishing new operations that will eventually equal the Company's core civil and architectural engineering businesses in terms of scale and revenues. The group is expected to become an independent division within the next three years.

The group is currently engaging in four types of businesses: recycling of construction sludge, the demolition of old waste incinerating facilities, the development of guidelines for eliminating soil contamination, and the introduction of commercial wind power generation in Japan. Since many of our competitors have already established their own task

Penta-Ocean works actively with its subsidiaries and affiliate companies to improve communication and the level of expertise of each member of the Group. With an aim to enhancing its standing as a technology based comprehensive construction company, we strive to improve our design and planning, project implementation, construction, and after service maintenance capabilities. In fiscal 2000, we also focused more closely on improving communication with our clients and developed more effective information gathering skills in order to keep abreast of rapidly changing market demand and individual client needs.

We believe our New Century Management Plan, a 3-year business scheme inaugurated in 2001, will make the Penta-Ocean Group more resilient to change and more creative and innovative in meeting the challenges of an increasingly competitive business environment both at home and abroad. The plan encompasses six basic strategies.

forces for dealing with soil contamination and the development of wind power generation for commercial use, we are anticipating an uphill battle in these areas. In this endeavor we are not entirely unequipped, however, and backed by Penta-Ocean's formidable research and development capabilities, we expect to be a major force in these areas in the near future.

In Japan, the Group is working to reinforce our sales system for redevelopment of properties located in coastal areas, and to increase the number of new orders for environment-related projects, for building and facility upgrades, and the development of comprehensive support systems for hospitals and social welfare facilities. Currently, Penta-Ocean is involved in projects aimed at reducing or eliminating environmental pollution, recycling construction sludge, and the development of other services based on our advanced technological capabilities.

Overseas, we intend to improve profitability further by concentrating our efforts in areas in which we have achieved a high level of expertise. Our affiliates and subsidiaries involved in new business development will also strive to reinforce their competitive edge in their respective fields.

- **The first will improve sales performance by adopting a client-first approach and facilitate the steady commercialization of new construction related technology to will keep Penta-Ocean's competitive edge razor sharp.**

- **The second will bring down overall operating costs by reducing out sourcing expenses and eliminating unnecessary expenditures.**

- **The third will strengthen the capabilities of our affiliate companies so that they can increase their individual contributions to the Group as a whole.**

- **The fourth strategy is designed to cultivate creative thinking in the development of our environment related business and new business areas, by expanding the activities of our new Business Promotion Room, and the formation of the Institute of Environment and Construction Renewal Division.**

- **The fifth will strengthen the Group's financial base by paying down interest bearing debt and increasing our internal reserves.**

- **The sixth and last strategy of the plan is designed to revitalize our corporate culture by focusing on the growth of the individuals that make up the Penta-Ocean Group. Key to this goal will be the establishment of more open communication internally and among Group members and the removal of barriers between the ranks. New information technology based formats are expected to play a major role in accomplishing these objectives.**

Under the plan, all business groups will work to set up criteria for differentiating themselves from competitors, in terms of their ability to respond decisively to rapid changes in client needs, and to create sustainable profitability.

Technological innovation is at the heart of Penta-Ocean's drive to enhance its position as a global-scale comprehensive construction company, and in all our business activities our goal is simple: To build continuous growth for a sustainable prosperity that benefits our customers, our shareholders, and society.

>> Penta-Ocean is setting new standards for innovation and cost efficiency in large-scale civil engineering projects in Japan and overseas.

Civil Engineering Projects

A ground breaking ceremony was held on August 19, 2000 for the Chubu International Airport, 30 years after the first proposals for construction of the facility were made public. The facility is being constructed in Aichi Prefecture near Tokoname City, on the Chita Peninsula, and is expected to become an important hub for international travel. The opening of the airport is scheduled to coincide with the Aichi Exposition, in March 2005.

The Penta-Ocean Group is participating in this gigantic project and is engaged in the construction of sea walls and other substructures. The construction of the massive sea wall that will surround the airport's artificial island will be divided into 4 phases. Penta-Ocean is charged with constructing the only section that requires full-fledged caisson-type piers, for a tanker berth of 302 meters, and construction of a temporary caisson-type pier 815 meters in length. This section of the wall also involves major land improvement work requiring a high level of technological expertise.

Owing to repeated delays in beginning the project, construction time has been shortened in order to have the airport operational by the time of the Aichi Exposition. The time constraints placed on individual contractors is expected to present a unique challenge and Penta-Ocean is prepared to meet all expectations for completion of our portion of the project. The pillars will be constructed utilizing the riprap-type tilted bank system, which has been proven to exhibit far less negative impact on the immediate marine environment than do conventional marine structures.

Construction of Chubu International Airport at Ise Bay, Aichi

Fiscal 2000 saw an end to the economic slump that had gripped many Asian countries in recent years, and a return to robust economic growth, particularly in the Southeast Asian region. Investment in construction projects by both the public and private sectors continued to grow steadily. During the term, Penta-Ocean won yet another bid to continue massive reclamation and construction work for Singapore's Jurong Town Corporation. The ¥220 billion (US$1,775 million) project, includes the Jurong Island Phase IV and Tuas View Extension projects. The landfill area amounts to 1,464 hectors, or 2.2% of Singapore's total land area.

Queen of Penta-Ocean engaged in dredging work in Singapore

This final mega-project of the 20th century, represents the largest overseas construction project ever handled by a Japanese general construction company. The work involves the creation of 547 hectors of new land adjacent to Jurong Island and 917 hectors in the Tuas View area. Penta-Ocean's state-of-the-art, ocean-going dredger, the Queen of Penta-Ocean, used in the Jurong Island Phase III-B phase work, will also be used to complete the new project.

Komagata interchange on the North Kanto Highway, Gunma

Penta-Ocean received orders for additional Kiosks and other facilities at Lok Ma Chau Boundary Crossing, from the Hong Kong government. We also received orders for repair work on the Colombo Port North Pier from the Sri Lankan Port Authority, and on the Takatik fishing port facility from the Government of Micronesia.

Other new orders for civil engineering work received during the term included construction work on the Konan Tunnel on Meishin Highway No. 2, from the Japan Highway Public Corp. and water intake open-conduit construction work for Fukushima Nuclear Power Plant No. 2, from the Tokyo Electric Power Co., Ltd. These non-consolidated orders resulted in a 26.8% increase over the previous term, to ¥316,348 million (US$2,553 million).

Civil engineering projects completed in Japan in fiscal 2000 included the Komagata section of the North Kanto Highway for the Japan Highway Public Corp., construction of the Wakamatsu-Yanagicho section of the Metropolitan Subway's Loop Line No. 12, and the Gamagori-Otsuka landfill for the Gamagori Ocean Development Co., Ltd.

MRT502 Expo station on the Changi Airport line, Singapore (picture by courtesy of SMPT)

As part of an international consortium involved in the construction of Singapore's MRT Subway System, Penta-Ocean handled design and construction work of the EXPO station building and a 1.4 km length of elevated rail lines leading to and from the facility. The unique design of the structure has already made it a landmark in Singapore, with its 150-meter massive platform, enormous Y-shaped pillar supports and spectacular scallop-shaped roof. Construction of this facility required two and a half years to complete.

Non-consolidated sales from domestic civil engineering works, in the term under review amounted to ¥195,538 million (US$1,578 million), a 10.8% decline from the level in the previous term. Overseas, civil engineering works amounted to ¥55,398 million (US$447 million), 8.2% up from the previous term's level. As a result, the carryover in the account for domestic civil engineering works to the subsequent term, amounted to ¥197,817 million (US$1,596 million). The carryover from overseas projects was ¥171,751 million (US$1,386 million), and together, non-consolidated total carryover amounted to ¥369,568 million (US$2,983 million).

>> A wide range of challenging projects at home and abroad showcase Penta-Ocean's superior architectural engineering capabilities.

Architectural Projects

Large-scale architectural engineering projects under construction during the term included Penta-Ocean's first highrise building in Japan, the Urban View Grand Tower in Hiroshima. At 155.9 meters, it is the highest in western Japan. The landmark building is scheduled to open in March 2004. In Singapore, Penta-Ocean moved closer to completion of the spectacular Esplanade Theatre. When completed, the facility will house, two large concert halls as well as commercial and retail space in a beautiful waterfront setting. Large-scale projects such as these are showcases of the Company's architectural engineering prowess.

Shimonoseki Aquarium Kaikyo-kan, Yamaguchi

New orders received during the term included repair work on the Naka Plant in Hiroshima City, construction of the Urban View Grand Tower from the Hiroshima City Urban Corporation, mentioned above, and construction of the Shonandai Condominiums for Ito-Chu Urban Redevelopment Co., Ltd., and others.

Shimonoseki City, famous for its natural beauty and marine products, is the sight of the newly completed Kaikyo-kan Aquarium. Completed by Penta-Ocean during the term under review, the beautifully designed facility is expected to draw more tourists to the city and positively effect economic growth in the region. The main structure was designed to imitate the curves and lines of a large whale, and houses a dolphin aquarium, and various visitor amenities. The building directly faces the sea, and so special care was taken to protect it from corrosion. Because of its location, the project posed many challenges, and required a trial and error process which allowed the Company to select the perfect design and building materials to complete the project.

Other projects completed by Penta-Ocean in fiscal 2000 included a waste disposal facility, the SunLive Munakata, for SunLive Co., Ltd., in Munakata City in Fukuoka Prefecture. SunLive is a supermarket chain of about 200 stores in the Kyushu and Chugoku regions. The Mihara Plant Building C for Dai Nippon Printing Co., Ltd. was also completed during the term.

The Tin Shui Wai community facility, commissioned by Hong Kong's Housing Authority, encompasses commercial space, a bus terminal, a community center, kindergarten and nursery facilities, parking areas, and residences for the elderly. The complex has 80,000 square meters of floor space and required two years to complete.

Non-consolidated orders received in fiscal 2000 amounted to ¥151,291 million (US$1,221 million), a 5.0% increase from the previous term. Carryover from projects in Japan totaled ¥142,557 million (US$1,150 million), with the overseas total amounting to ¥30,626 million (US$247 million). Non-consolidated total carryover for the term amounted to ¥173,184 million (US$1,398 million).

Sales from domestic architectural works amounted to ¥147,794 million (US$1,192 million), a 12.3% increase over the previous term's level. Overseas works accounted for ¥15,513 million (US$1,255 million). Non-consolidated total sales for this group amounted to ¥163,308 million (US$1,318 million) a 6.5% increase from the previous term.

In fiscal 2000, overseas, construction related sales amounted to ¥70,911 million (US$572 million), a 2.7% decrease from the previous term, a carryover from the previous period amounting to ¥202,377 million (US$1,633 million). This represented a year-on-year increase of 61.9%.

Consolidated construction orders received amounted to ¥480,699 million (US$3,880 million), or 18.1% more than in the previous term. Consolidated construction sales totaled ¥440,141 million (US$3,552 million), 5.1% down from the previous term's level. The contract backlog was ¥545,246 million (US$4,401 million), a 12.0% year-on-year increase.

Tin Shui Wai community in Hong Kong


Yasugi wind power station, Shimane

>> Molding a century of management know-how and technical expertise into a sustainable force for growth over the long-term future.

New Businesses Promotion Group

During fiscal 2000, this group began full-fledged operations under the guidelines set forth in the Company's New Century Management Plan. Initial goals were to increase the Group's capabilities in the area of coastal property redevelopment, environmental monitoring and the upgrading of old structures and buildings.

In the term under review, construction of the first wind generator facility handled by the group reached completion. The Yasugi Wind Power Project, located in Nakaumi Agricultural Village Park, Yasugi City, Shimane Prefecture, took two years to complete. The blade of the wind turbine is more than 48 meters across and sits on a massive pole 50 meters above the ground. This modern day windmill is of medium scale and has a rated output of 600 kW. The group was responsible for overall project management, system design, construction and start up phases for the new facility.

The New Business Promotion Group also engages in the demolition of waste incinerating facilities. As antipollution laws have become more rigid, it has become more cost effective to scrap the old facilities and build new ones that meet the new standards. During the term under review, it announced the development of a sludge-recycling system. The project was funded by Penta-Ocean and The Environment Public Fund. The sludge generated by foundation, shielding, dredging, and other construction work, considered to be one of the most difficult forms to handle, is refined through a special process and then reused as a ground-improvement material, embankment for roads and highways, and other construction.

In April 2000, Penta-Ocean participated in the International Environment Exposition, held at Tokyo's Bigsite Convention Center. Each year the exposition is held to introduce new waste disposal and recycling technologies and spotlight the most innovative environment related products and systems. The Company demonstrated a wide range of products based on original technology, including our ecological wallpaper, wind generators, an advanced heat ventilation system, and infiltration and solidification processes developed by Penta-Ocean.

>> Penta-Ocean's diversified approach to growth is guaranteeing it a leadership position in non-construction businesses.

Development and Other Activities

Consolidated sales for this category in the term under review amounted to ¥5,934 million (US$47.8 million), despite a sluggish real estate market. Although this figure represented a 65.9% decline in sales from the previous term's level, operating income amounted to ¥864 million (US$6.9 million) owing to sales of highly profitable real estate holdings. From an operating loss of ¥1,033 million (US$8.3 million) recorded in the previous term, this gain represented an increase of ¥1,897 million (US$15.3 million).

The Other Business Division is comprised of shipbuilding, construction material and equipment, and vessel leasing businesses. Sales in the term under review amounted to ¥14,914 million (US$120 million), an increase of 15.9%, however, this result accompanied an operating loss of ¥81 million (US$0.6 million). Compared with the ¥535 million (US$4.3 million) operating loss in the previous term, this year's result represents an improvement of ¥454 million (US$3.6 million).

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

Consolidated Summary

Years ended March 31

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Orders received	¥406,995	**¥480,699**	**$3,879,734**
Construction	406,995	**480,699**	**3,879,734**
Real estate development	—	**—**	**—**
Others	—	**—**	**—**
Net sales	463,952	**440,141**	**3,552,390**
Construction	436,910	**428,367**	**3,457,361**
Real estate development	17,283	**5,844**	**47,167**
Others	9,759	**5,930**	**47,862**
Contract backlog	486,989	**545,246**	**4,400,694**
Construction	486,989	**545,246**	**4,400,694**
Real estate development	—	**—**	**—**
Others	—	**—**	**—**
Total assets	510,665	**497,114**	**4,012,220**
Shareholders' equity	46,110	**51,715**	**417,393**
Ordinary income	8,824	**10,494**	**84,698**
Income (Loss) before income taxes	(19,054)	**9,436**	**76,158**
Net income (loss)	(13,395)	**3,179**	**25,658**
Cash dividend	904	**1,807**	**14,584**
	Yen		U.S. dollars
Per share of common stock:			
Shareholders' equity	¥128	**¥143**	**$1.15**
Net income (loss)	(37.06)	**8.80**	**0.07**
Cash dividend	2.50	**5.00**	**0.04**
Number of employees	4,176	**4,114**	

Note: The amounts of orders received and contract backlog related to real estate development and other business are not included in the summary, because they were too small to have material effect on total amounts. U.S.$1=¥123.90 as at March 31, 2001.

Business Performance

In the domestic construction market, the principal area of business for Penta-Ocean's subsidiaries and affiliates, the number and size of public works projects continued to decrease, due primarily to the increasingly stringent monetary restraints of regional governments. Although private sector investment in housing declined from the previous term's level, capital investment increased, primarily in the manufacturing. Owing to these and other factors, investment in construction projects remained unchanged from the previous term.

In Southeast Asia, the Group's primary area of overseas operations, local economies continued to rebound steadily from the economic slump caused by the currency crisis of a few years ago. Correspondingly, investment in construction continued to rise.

In these circumstances, consolidated net sales amounted to ¥440,141 million (US$3,552 million), decreasing 5.1% from the previous term. Consolidated ordinary income, however, increased by 18.9% over the level in the previous term to ¥10,494 million (US$84.6 million). Consolidated net income, which had recorded a loss for the previous two consecutive terms, rebounded to ¥3,179 million (US$25.6 million) in the term under review.

Segment Information

When examining the Company's consolidated financial results by business segment, construction accounted for the largest contribution to revenues. In fiscal 2000, however, sales for this segment declined by 2.0% cumulatively for the domestic and overseas markets, to ¥428,369 million (US$3,457 million). Operating income also decreased year-on-year, by 21.8% to ¥12,562 million (US$101 million)

Conversely, while the Company's development segment reported a 65.8% decreased in sales to ¥5,934 million (US$47.8 million), it also recorded operating income amounting to ¥864 million (US$7.0 million) for the term. Concerted efforts to improve sales of highly profitable items contributed largely to these results. Compared with a loss of ¥1,034 million (US$8.3 million), reported in the previous term, the Company is pleased to report a profit of ¥1,898 million (US$15.3 million) for fiscal 2000 for this business segment.

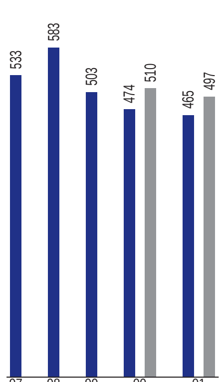
Total net sales for the other businesses segment increased by 15.8% from the previous year, to ¥14,914 million (US$120 million), however there was no operating income reported. An operating loss amounting to ¥535 million (US$4.3 million) was recorded in the previous term, however owing to the increase in total net sales for this business segment during the term under review the loss was reduced to ¥81 million (US$0.6 million). The substantial improvement in the performance of these two business segments contributed substantially to Penta-Ocean's overall performance in fiscal 2000.

In Japan, consolidated net sales amounted to ¥368,899 million (US$2,977 million), decreasing 3.9% from the previous term, and accounted for 83.8% of the Group's total net sales. Operating income declined by 13.5% to ¥11,809 million (US$95.3 million).

Revenues from overseas projects in the Asian region decreased by 11.0%, to ¥71,242 million (US$574 million), and accounted for 16.2% of total net sales. Operating income derived from the Company's international business segment, amounted to ¥1,353 million (US$10.9 million), increasing 53.9% year-on-year.

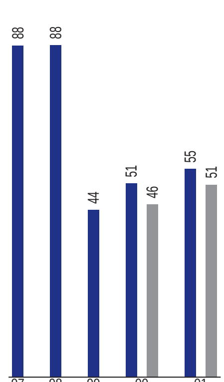
Total Assets

Billons of yen



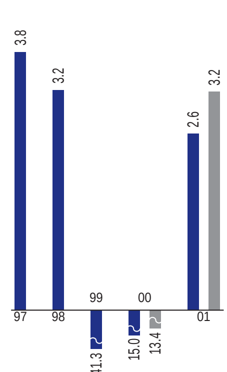
Shareholders' Equity

Billons of yen



Net Icome (Loss)

Billons of yen



Orders Received and Contract Backlog

The total of new orders received during the term by the Company's consolidated group amounted to ¥480,699 million (US$3,879 million). In particular, the construction segment reported an increase in new orders of 18.1%. Domestic orders received decreased by 5.3%, due primarily to a reduction in public works, to ¥334,564 million (US$2,700 million). Orders received from overseas, however, increased substantially, as a result of successful bidding for a massive landfill project in Singapore. A carryover to the current fiscal term by the construction segment amounted to ¥545,246 million (US$4,400 million), an 11.9% increased from the previous term.

Cash Flows

Cash flow generated by sales activities, net profit before tax and other adjustments in the term under review, amounted to ¥9,436 million (US$76.1 million). This represented a significant increase from the previous term of ¥28,490 million (US$229 million). The 329.8% improvement in income from the construction segment was due largely to a reduction in construction expenses involving units not yet completed, and amounted to ¥37,340 million (US$301 million). This represents an increase of ¥28,653 million (US$231 million) over the previous term's result.

Cash flow from investment activities increased by ¥6,604 million (US$53.3 million) and represented excess income of ¥1,744 million (US$14.0 million) after adjustment for expenditures involving the acquisition of tangible fixed assets, such as costs for a reclamation vessel and the sale of securities for investment.

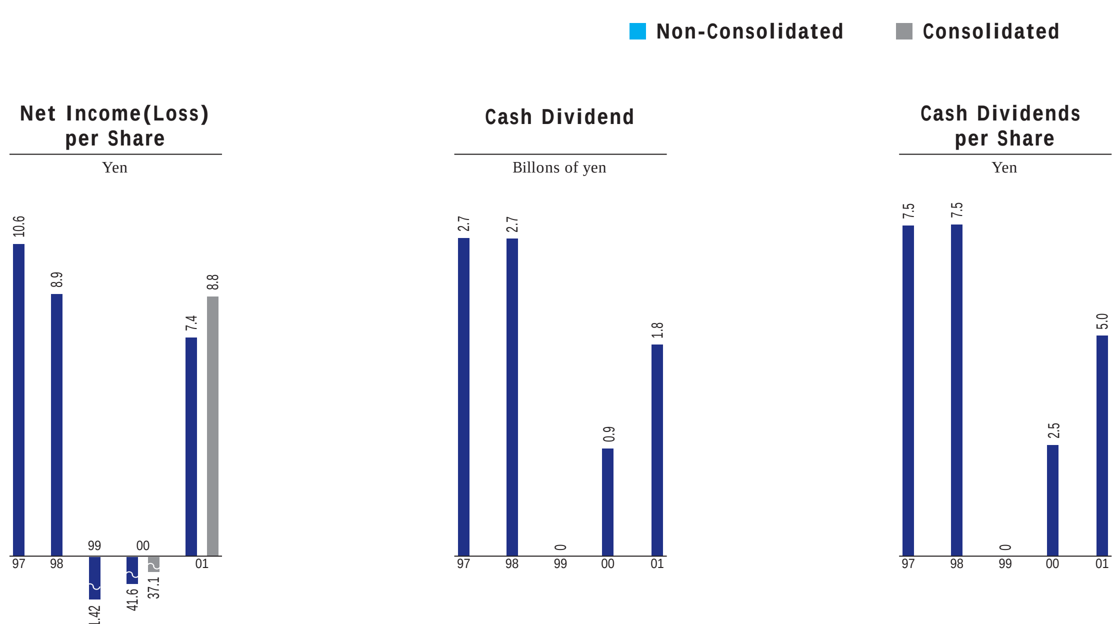
Cash flow from financial activities decreased by ¥6,892 million (US$55.6 million) from the previous term, to an excess expenditure of ¥21,587 million (US$174 million), owing mainly to the deferment of long-term debts.

As a result, the amount of consolidated cash and cash equivalents reported by the Company at the end of the term increased by 49.5%, or ¥17,761 million (US$143 million) over the previous term's level, to ¥53,632 million (US$432 million).

Dividends

It is the Company's basic policy to pay dividends to its shareholders in a consistent manner, while at the same time endeavoring to accumulate internal reserves in order to maintain a strong financial base.

In the term under review, Penta-Ocean completed a three-year plan to write off losses in order to move the company into a more financially sound and profitable position. Owing to this, the dividend was set at ¥5.00 (US$0.04) per share and the Company paid out a total of ¥1,807 million (US$14.5 million) for a payout ratio of 67.6%. In doing so, we expressed our revolve to ensuring stable profits for our shareholders in the future.



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

Consolidated Balance Sheets

March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2000	**2001**	**2001**
Current assets:			
Cash and time deposits	¥ 37,578	**¥ 54,499**	**$ 439,863**
Marketable securities (Notes 3 (4), 4 and 5)	14,864	**—**	**—**
Securities (Notes 3 (4) and 4)	—	**72**	**581**
Trade receivables:			
Note	18,343	**24,668**	**199,096**
Account	156,728	**150,163**	**1,211,969**
Inventories: (Note 3 (7))			
Cost of uncompleted contacts	60,543	**45,832**	**369,911**
Real estate for trade and real estate in progress	51,006	**53,255**	**429,822**
Other inventories	2,794	**1,994**	**16,094**
Deferred tax assets (Note 15)	15,083	**10,231**	**82,575**
Other current assets	7,235	**7,359**	**59,395**
Allowance for doubtful receivables (Note 3 (6))	(3,986)	**(1,236)**	**(9,976)**
Total current assets	360,188	**346,837**	**2,799,330**
Investments and non-current assets:			
Investment in securities (Notes 3 (4), 4 and 5)	15,842	**23,249**	**187,643**
Long-term loans and receivables	7,195	**2,115**	**17,070**
Sundry investments	21,376	**25,890**	**208,959**
Deferred tax assets (Note 15)	9,776	**8,925**	**72,034**
Allowance for doubtful receivables (Note 3 (6))	(9,103)	**(13,689)**	**(110,484)**
Total investments and non-current assets	45,086	**46,490**	**375,222**
Property and equipment: (Note 3 (8))			
Land	52,335	**51,688**	**417,176**
Buildings and structures	42,383	**41,346**	**333,705**
Machinery, equipment and vehicles	19,131	**19,164**	**154,673**
Dredgers and vessels	45,091	**42,592**	**343,761**
Construction in progress	152	**1,175**	**9,483**
Other property and equipment	3,722	**3,790**	**30,589**
Total property and equipment	162,814	**159,755**	**1,289,387**
Less accumulated depreciation	(58,809)	**(57,031)**	**(460,298)**
Property and equipment — net	104,005	**102,724**	**829,089**
Other assets			
Consolidation adjustments	192	**144**	**1,162**
Other (Note 3 (9))	1,194	**919**	**7,417**
Total other assets	1,386	**1,063**	**8,579**
Total assets	¥510,665	**¥497,114**	**$4,012,220**

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2000	2001	Thousands of U.S. dollars (Note 1) 2001
Current liabilities:			
Bank loans (Note 6)	¥130,429	**¥102,815**	**$ 829,822**
Commercial paper	3,000	**3,000**	**24,213**
Current portion of long-term debt (Note 6)	26,233	**22,048**	**177,950**
Trade payables:			
Note	49,267	**58,108**	**468,991**
Account	98,855	**91,754**	**740,549**
Advance on contracts in progress	48,797	**46,695**	**376,878**
Deposit received	8,998	**14,353**	**115,843**
Accrued taxes on income	525	**521**	**4,205**
Accrued expenses	4,008	**3,058**	**24,681**
Other current liabilities	3,858	**3,961**	**31,969**
Total current liabilities	373,970	**346,313**	**2,795,101**
Long-term liabilities:			
Long-term debt (Note 6)	73,072	**80,692**	**651,267**
Reserve for retirement benefits (Notes 3 (11), (13) and 19)	5,812	**8,030**	**64,811**
Reserve for directors' and statutory auditors' retirement (Note 3 (12))	1,233	**1,231**	**9,935**
Deferred tax liabilities for land revaluation (Note 17 (2))	3,358	**3,418**	**27,587**
Other long-term liabilities	6,867	**5,715**	**46,126**
Total long-term liabilities	90,342	**99,086**	**799,726**
Shareholders' equity:			
Common stock	33,971	**33,971**	**274,181**
Common stock, ¥50 par value			
Authorized — 599,135,000 shares			
Issued — 361,407,443 shares at March 31, 2001 and 2000			
Additional paid-in capital (Note 17 (1))	10,635	**10,635**	**85,835**
Land revaluation excess (Note 17 (2))	4,628	**4,711**	**38,023**
Retained earnings (deficit) (Note 2 (5))	(3,124)	**317**	**2,559**
Valuation difference of other securities (Note 17 (3))	—	**1,766**	**14,253**
Cumulative foreign currency translation adjustments (Note 3 (2))	243	**315**	**2,542**
Less: Treasury shares	(0)	**(0)**	**(0)**
Total shareholders' equity	46,353	**51,715**	**417,393**
Total liabilities and shareholders' equity	¥510,665	**¥497,114**	**$4,012,220**

Commitments and contingent liabilities (Note 14)

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

Consolidated Statement of Income, and Retained Earnings or Deficit

For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	**2001**	**2001**
Construction business:			
Net sales	¥436,910	**¥428,367**	**$3,457,361**
Cost of sales	389,785	**383,471**	**3,095,004**
	47,125	**44,896**	**362,357**
Real estate and others:			
Net sales	27,042	**11,774**	**95,029**
Cost of sales	27,514	**10,090**	**81,437**
	(472)	**1,684**	**13,592**
Total net sales	463,952	**440,141**	**3,552,390**
Total cost of sales	417,299	**393,561**	**3,176,441**
Total gross profit	46,653	**46,580**	**375,949**
Selling, general and administrative expenses	32,109	**33,418**	**269,718**
Operating income	14,544	**13,162**	**106,231**
Other income:			
Interest and dividends	822	**856**	**6,909**
Other (Note 7)	685	**1,042**	**8,410**
	1,507	**1,898**	**15,319**
Other expenses:			
Interest	5,215	**4,001**	**32,292**
Other (Note 8)	2,012	**565**	**4,560**
	7,227	**4,566**	**36,852**
Ordinary income	8,824	**10,494**	**84,698**
Extraordinary gain (Note 9)	4,686	**17,321**	**139,798**
Extraordinary loss (Note 10)	32,564	**18,379**	**148,338**
Income (loss) before income taxes	(19,054)	**9,436**	**76,158**
Income taxes: (Notes 3 (18) and 15)			
Current	862	**872**	**7,038**
Tax effect adjustment	(6,521)	**5,385**	**43,462**
Net income (loss)	(13,395)	**3,179**	**25,658**
Retained earnings (deficit): (Note 2 (15))			
Balance at the beginning of the period	(26,787)	**(3,124)**	**(25,214)**
Prior period tax effect adjustment	18,031	**—**	**—**
Additional paid-in capital to cover deficit	19,027	**—**	**—**
Decrease due to changes in consolidated subsidiaries	—	**1,249**	**10,081**
Cash Dividend	—	**(904)**	**(7,296)**
Reversal of land revaluation excess	—	**(83)**	**(670)**
Net income (loss)	(13,395)	**3,179**	**25,658**
Balance at the end of the period	¥ (3,124)	**¥ 317**	**$ 2,559**

Income (loss) per share of common stock (Note 3 (14))	Yen		U.S. dollars (Note 1)
Primary	¥(37.06)	**¥8.80**	**$0.07**
Assuming full dilution	—	**—**	**—**

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statement of Shareholders' Equity

For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	**2001**	**2001**
Common stock:			
Balance at the beginning of the period	¥33,971	**¥33,971**	**$274,181**
Balance at the end of the period	33,971	**33,971**	**274,181**
Additional paid-in capital: (Note 17)			
Balance at the beginning of the period	29,662	**10,635**	**85,835**
Reversal to cover deficit	(19,027)	**—**	**—**
Balance at the end of the period	10,635	**10,635**	**85,835**
Land revaluation excess: (Note 17 (2))			
Balance at the beginning of the period	—	**4,628**	**37,353**
Removal of land revaluation excess	4,628	**83**	**670**
Balance at the end of the period	4,628	**4,711**	**38,023**
Retained earnings or deficit: (Note 3 (12))			
Balance at the beginning of the period	(26,787)	**(3,124)**	**(25,214)**
Prior period tax effect adjustment	18,031	**—**	**—**
Reversal of additional paid-in capital the to cover deficit	19,027	**—**	**—**
Increase (decrease) due to changes in consolidated subsidiaries	0	**1,249**	**10,081**
Cash dividend	0	**(904)**	**(7,296)**
Reversal of land revaluation excess	0	**(83)**	**(670)**
Net income (loss)	(13,395)	**3,179**	**25,658**
Balance at the end of the period	(3,124)	**317**	**2,559**
Valuation difference of other securities (Note 17 (3))	—	**1,766**	**14,253**
Cumulative foreign currency translation adjustments (Note 3 (2))	¥ 243	**¥ 315**	**$ 2,542**

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statement of Cash Flows

For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	**2001**	**2001**
Cash flows from operating activities:			
Income (loss) before income taxes	¥(19,054)	**¥9,436**	**$76,158**
Adjustment to reconcile income (loss) before income taxes to net cash provided by operating activities:			
Depreciation and amortization	5,400	**4,947**	**39,927**
(Increase) decrease in allowance for doubtful receivables	2,759	**1,819**	**14,681**
(Increase) decrease in reserve for retirement benefits	2,819	**2,218**	**17,902**
(Increase) decrease in reserve for directors' and statutory auditors' retirement	170	**(2)**	**(16)**
Interest and dividend received...	(822)	**(856)**	**(6,909)**
Interest paid	5,680	**4,495**	**36,279**
Foreign exchange loss (gain)	684	**318**	**2,567**
Equity in loss (gain) of affiliates	336	**330**	**2,663**
Loss (gain) on sales and disposal of property and equipment	620	**(409)**	**(3,300)**
Loss (gain) on sales of marketable and investment in securities	283	**(3,441)**	**(27,772)**
Loss (gain) on valuation of marketable and investment in securities	228	**1,863**	**15,036**
Expense on approving defined benefit plan	—	**(8,069)**	**(65,125)**
Gains on approving defined benefit plan	—	**14,845**	**119,814**
Gains on redeeming long-term debt	—	**(4,130)**	**(33,333)**
Change in assets and liabilities:			
(Increase) decrease in trade receivables	18,451	**3,769**	**30,420**
(Increase) decrease in cost of uncompleted contacts	6,563	**14,711**	**118,733**
(Increase) decrease in real estate for trade and real estate in progress	26,553	**2,538**	**20,484**
Increase (decrease) in trade payables	(14,302)	**6,137**	**49,532**
Increase (decrease) in advance on contracts in progress	(15,887)	**(2,105)**	**(16,990)**
Increase (decrease) in accured expenses	(907)	**(930)**	**(7,506)**
Other – net	(5,112)	**(5,362)**	**(43,277)**
Sub total	14,292	**42,122**	**339,968**
Interest and dividends received	756	**777**	**6,271**
Interest paid.	(5,373)	**(4,680)**	**(37,772)**
Income taxes paid	(988)	**(879)**	**(7,095)**
Net cash provided by (used for) operating activities	8,687	**37,340**	**301,372**

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	**2001**	**2001**
Cash flows from investing activities:			
Purchases of marketable securities	¥ (215)	**¥ (15)**	**$ (121)**
Proceeds from sales of marketable securities	721	**125**	**1,009**
Purchases of investment in securities	(915)	**(1,357)**	**(10,952)**
Proceeds from sales of investment in securities	450	**6,473**	**52,243**
Purchases of property and equipment	(5,125)	**(5,160)**	**(41,646)**
Proceeds from sales of property and equipment	1,915	**2,203**	**17,780**
Disbursements for loans receivable	(3,281)	**(2,534)**	**(20,452)**
Collection of loans receivable	1,939	**1,488**	**12,010**
Other – net	(349)	**521**	**4,205**
Net cash provided by (used for) financing activities	(4,860)	**1,744**	**14,076**
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(9,081)	**(29,043)**	**(234,407)**
Net increase (decrease) commercial paper	(2,000)	**—**	**—**
Proceeds from long-term debt	16,882	**44,464**	**358,870**
Payment of long-term debt	(20,489)	**(36,103)**	**(291,388)**
Cash dividend paid	(7)	**(905)**	**(7,304)**
Other – net	0	**(0)**	**(0)**
Net cash provided by (used for) financing activities	(14,695)	**(21,587)**	**(174,229)**
Difference resulting from conversion of foreign cash and cash equivalents to yen	(423)	**264**	**2,130**
Net increase (decrease) in cash and cash equivalents	(11,291)	**17,761**	**143,349**
Cash and cash equivalents at the beginning of the period	47,162	**35,871**	**289,516**
Cash and cash equivalents at the end of the period	¥35,871	**¥53,632**	**$432,865**
(Note) Cash and cash equivalents are comprised as follows:			
Cash and deposits in bank	¥37,578	**¥54,499**	**$439,863**
Less-Time deposits which can be drawn out over three months	(1,707)	**(867)**	**(6,998)**
Cash and cash equivalents	¥35,871	**¥53,632**	**$432,865**

Notes to Consolidated Financial Statements

(Information with respect to fiscal 2001 is unaudited)

1. Basis of consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan and regulations under the Securities and Exchange Law of Japan, which may differ in some material respects from the accounting principles and practices generally accepted in the counties and jurisdictions other than Japan. The Note to these statements includes information which is not required under accounting principles and practices generally accepted in Japan , but is presented herein as additional information. Certain items presented have been reclassified and adjusted for readers outside 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=¥123.90, the exchange rate prevailing on March 31, 2001. 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 the equity method

The Company had twenty-five subsidiaries and five affiliates at March 31, 2001.
The Company consolidated all subsidiaries and applied the equity method to all affiliates.

(2) Consolidation date

The balance sheet date of the Company and its domestic subsidiaries is March 31 and those of the overseas subsidiaries (excluding Penta-Ocean Dredging Panama and three other subsidiaries) are December 31. The consolidation date is March 31.

Significant transactions through the period from January 1 to March 31 are adjusted in consolidation.

(3) Valuation of assets and liabilities of consolidated subsidiaries

The valuation method of assets and liabilities of subsidiaries adopts the full fair market value method, which evaluates all assets and liabilities of subsidiaries at fair market value. The Company allocates the valuation excess between fair market value and book value on the proportion of each holding share's number to minority shareholders and the Company.

This method was applied to subsidiaries acquired on and after April 1, 1999.

(4) Consolidation adjustments

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

(5) Appropriation of retained earnings or deficit

Appropriation of retained earnings or deficit approved by the Shareholders' meeting held during the fiscal year in which consolidation of the respective consolidated companies took place, was reflected in the consolidated financial statements.

3. Summary of significant accounting policies

(1) The conversion method of foreign currency transactions used by the Company and its domestic subsidiaries and affiliates

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 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. Exchange gains or losses, realized or unrealized, are included in current income.

(2) The conversion method of foreign currency of overseas subsidiaries and affiliates

Translations in the non-consolidated financial statements of overseas subsidiaries and affiliates are made in accordance with the conversion method approved in the respective countries.

Concerning translations to yen, all assets, liabilities, revenues and expenses accounted for the financial statements 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 their historical rate.

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 meet 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 are included in inventory.

(4) Securities

Held-to-maturity bonds are determined by the amortized cost method.

Other securities with fair market value are stated at the fair value method based on the market price at the closing date (Valuation differences are included in Shareholders' equity, and sales costs when sold are determined by the moving average method.)

Other securities with no fair value are determined by the moving average cost method.

The Company applied the accounting standards for financial instruments (Opinion Concerning Establishment of Accounting Standards for Financial Instruments), issued by the Business Accounting Deliberation Council on January 22, 1999), and changed the valuation basis and valuation method of securities from the current fiscal year. The effect of this change to the financial statements is small.
The Company reexamined the holding purpose of securities at the beginning of the current year, and reclassified the securities coming to maturity within a year as current assets and the others as investment in securities.

Thereby, securities in current assets, ¥14,739 million (U.S.$118,959 thousand) are transferred to investment in securities.

As a result of the evaluation based on the fair value method, securities in current assets decreased by ¥2 million (U.S.$16 thousand) and investment in securities increase by ¥3,050 million (U.S.$24,617 thousand).

(5) Derivative transactions

Derivative financial instruments are determined by the fair value method.

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

(6) Allowance for doubtful receivables

Allowance for doubtful receivables is provided for at the amounts calculated by an estimated uncollectible rate, which is based on the ratio of the past actual bad debt loss to general credits, and at the estimated uncollectible amounts by consideration of the possibility of collection on an individual account to specific credits of apprehension credits of bad debt, etc.

(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 and equipment

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

At the time of sale or disposal, their cost and related accumulated depreciation are eliminated from the account, and gains or losses are reflected in income. Maintenance and repair costs, including minor renewals and improvements and purchases of small equipment, are included in expenses during the fiscal year.

(9) Research and development costs, and computer software

Research and development costs are charged to expense as incurred.

The computer software which has been purchased for internal use is amortized as no scrap values by the straight-line method over five years based on the estimated useful life of internal use.

(10) Accounting for finance lease

Finance lease transactions other than these, which are deemed to transfer the ownership of the leased assets to lessees, are accounted for by the same method applied to ordinary operating leases.

(11) Reserve for retirement benefits

Retirement benefits systems of the Company consist of an employee welfare pension system and a tax-qualified pension system, which cover 70 percent of the amount which would be required to be paid, if all employees voluntarily terminated their service at the balance sheet date.

The Company applied the new accounting standard for retirement benefits (Opinion Concerning the Establishment of Accounting Standards for Retirement Benefits), issued by the Business Accounting Deliberation Council on June 16, 1998) from the current consolidation fiscal year.

Reserve for retirement benefits is provided for at the necessary amounts on accrual basis at the end of the current fiscal year based on the estimated amounts of liability for retirement benefits and pension fund assets at the end of the current fiscal year.

Effects of the amendments on the application of the new accounting standards for retirement benefits ¥22,815 million (U.S.$184,140 thousand) are equally amortized over fifteen years.

Prior service liability is recognized as an expense when incurred.

Actuarial gains and losses are equally amortized using the straight-line method over ten years based on the average employees' remaining service years, and its amortization is to be started from the next year.

Costs for retirement benefits increased by ¥682 million (U.S.$5,504 thousand), were charged to expense as general and administrative expenses, cost of sales and cost of uncompleted contracts as ¥219 million (U.S.$1,768 thousand), ¥416 million (U.S.$3,358 thousand), and ¥46 million (U.S.$371 thousand), respectively.

As a result, operating income and ordinary income decreased by ¥636 million (U.S.$5,133 thousand), respectively. Gains on establishment of trusts of financial assets to cover retirement benefit obligations rose ¥8,069 million (U.S.$65,125 thousand), while the cost of retirement benefits incurred amounted to ¥14,845 million (U.S.$119,814 thousand). These were stated as extraordinary gain and losses, respectively, thereby, income before income taxes decreased by ¥7,412 million (U.S.$59,822 thousand), compared with those in the case where the same method used in the previous consolidation fiscal year is applied in the current consolidation fiscal year.

Reserve for retirement, ¥5,811 million (U.S.$46,901 thousand), and accrued payable, ¥994 million (U.S.$8,023 thousand), for prior service liability of the pension plan have been transferred to reserve for retirement benefits.

(12) Reserve for directors' and statutory auditors' retirement

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

(13) System of retirement pay

The Company established the employees' welfare pension system, tax-qualified pension system and a lump-sum severance indemnity plan as defined retirement benefit plans and established the trusts of financial assets to cover retirement benefit obligations. In response to necessity, the Company will pay a special supplementary retirement pay to those retiring.

The lump-sum severance indemnity plan and the employees' welfare pension were established by eleven companies of the Company and consolidated subsidiaries, respectively, and the tax-qualified pension plan applies only to the Company.

Consolidated overseas subsidiaries are not included in these retirement benefit plans.

(14) Net income per share

Primary net income per share is calculated by the weighted average number of shares on the basis of outstanding common stocks for the period from the beginning to the end of the fiscal period.

Assuming full dilution has not been presented by the reason why convertible bonds and bonds with detachable warrant have not been issued as of the end of March 31, 2001.

(15) Statement of Cash Flow

Cash and cash equivalents included in the Statements of cash flows, consist of cash, time deposits, which are drawn out within three months, and highly liquid investments with a maturity of three months or less when purchased.

(16) Deferred charge

Initial cost of business is amortized over five years on the straight-line method.

(17) Hedging accounting

1) Hedge accounting method adopts deferral hedge.

2) Hedge instruments and hedge items

Hedge instruments are interest rate swap agreements and forward exchange contracts.

Hedge items are bank loans and 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 rates and forward exchange rates, respectively.

4) Evaluation of the effectiveness of hedge accounting

Control procedures of hedge transactions are executed according to the Companies' Bylaws. The Examination Committee of Derivative Instruments and the Financial Division in the Company periodically evaluate the effectiveness of hedging.

(18) Income taxes

The Company and consolidated domestic subsidiaries declares 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 9.6 percent on taxable income after certain adjustments, and (c) prefectural and municipal taxes of averaging 20.4 percent to the amount 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 tax paid to foreign tax offices by the Company directly or indirectly, is approved under a certain limitation in accordance with Japanese tax regulations.

4. Securities

The composition of securities as of March 31, 2001 is as follows:

	Millions of yen	Thousands of U.S. dollars
Securities due within one year:		
Held-to maturity bonds	**¥ 65**	**$ 525**
Investment trust bills	**7**	**56**
Total	**¥ 72**	**$ 581**
Investment in securities:		
Held-to maturity bonds	**¥ 537**	**$ 4,334**
Investment trust bills	**132**	**1,065**
Stocks	**19,977**	**161,235**
Others	**2,603**	**21,009**
Total	**¥23,249**	**$187,643**

(Note)

The new accounting standards concerning securities have come to application from the current consolidated fiscal year and the valuation basis and the classification method of securities are changed, as a result the comparison with the previous consolidation fiscal year is not available and so has been omitted.

5. Pledged assets

The following assets replaced guaranty money relating to fulfillment of construction contracts at March 31, 2000 and 2001.

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Marketable securities	¥359	**¥ —**	**$ —**
Investment in insecurities	265	**1,040**	**8,394**
Sundry investments	150	**150**	**1,211**
Total	¥774	**¥1,190**	**$9,605**

6. Loans and long-term debt

Short-term bank loans are represented primarily in the form of overdraft facility notes bearing annual interest rates ranging from 0.60 percent to 1.88 percent for the two fiscal years ended March 31, 2001 and 2000. Long-term debt as of March 31, 2000 and 2001 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Long-term loans from banks and insurance companies maturing in 2013 (bearing annual interest rates ranging from 1.40 percent to 4.46 percent)	¥99,305	**¥102,739**	**$829,209**
Less: current portion of long-term debt	(26,233)	**(22,047)**	**(177,942)**
Total	¥73,072	**¥ 80,692**	**$651,267**

The aggregate annual maturing amounts of long-term loans after March 31, 2001 are as follows:

Years ending March 31,	Millions of yen **2001**	Thousands of U.S. dollars **2001**
2002	**¥ 22,048**	**$177,950**
2003	**17,735**	**143,140**
2004	**12,008**	**96,917**
2005	**7,915**	**63,882**
2006 and after that	**43,034**	**347,328**
Total	**¥102,740**	**$829,217**

7. Other income

The composition of Other income-others for the two years ended March 31, 2000 and 2001 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Rent received from real estate	¥223	**¥ 335**	**$2,704**
Gain on sale of marketable securities	11	**—**	**—**
Exchange gain	—	**401**	**3,236**
Others	451	**306**	**2,470**
Total	¥685	**¥1,042**	**$8,410**

8. Other expenses

The composition of Other expenses-others for the two years ended March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Equity in loss of affiliates	¥ 336	**¥330**	**$2,663**
Foreign exchange loss	1,327	**—**	**—**
Others	349	**235**	**1,897**
Total	¥2,012	**¥565**	**$4,560**

9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Gain of cancellation of land contract	¥3,562	**¥ —**	**$ —**
Gain on sale of marketable securities	18	**3,833**	**30,936**
Gain on approving defined benefit plan	—	**8,069**	**65,125**
Gain on redeeming long-term debt	—	**4,172**	**33,672**
Gain on sale of fixed assets	14	**726**	**5,860**
Prior period adjustments	757	**430**	**3,471**
Others	335	**91**	**734**
Total	¥4,686	**¥17,321**	**$139,798**

10. Extraordinary loss

The composition of Extraordinary loss for the two years ended March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Loss from sale of fixed assets	¥ 634	**¥ 327**	**$ 2,639**
Loss from disposition of fixed assets	414	**63**	**509**
Provision for bad debt	3,065	**—**	**—**
Loss on revaluation of real estate for trade	18,502	**204**	**1,647**
Loss on securities revaluation	228	**1,863**	**15,036**
Expense on approving defined benefit plan	—	**14,845**	**119,814**
Loss resulting from cancellation of interest rate swap agreements	3,441	**—**	**—**
Loss resulting from recognizing the shortage of past service costs by the change in accounting	3,309	**—**	**—**
Others	2,971	**1,077**	**8,693**
Total	¥32,564	**¥18,379**	**$148,338**

11. Research and development costs

Research and development costs charged to expense for the fiscal year ended March 31, 2001 were ¥2,367 million (U.S.$19,104 thousand).

12. The summary of finance lease transactions

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

(1) Fair market value, accumulated depreciation and present value of properties leased by the Company are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Equipment	¥332	**¥ 323**	**$2,607**
Vehicle	278	**676**	**5,456**
Buildings	21	**21**	**169**
	631	**1,020**	**8,232**
Accumulated depreciation	(391)	**(622)**	**(5,020)**
Present value	¥240	**¥ 398**	**$3,212**

Depreciation is calculated by the straight-line method for lease periods as no scrap value.

(2) The future lease payments as of March 31, 2000 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Within less than one year	¥135	**¥129**	**$1,041**
Later years	113	**304**	**2,454**
Total	¥248	**¥433**	**$3,495**

(3) The difference between the aggregate payment and the acquisition fair market value of lease properties is regarded as an interest to be paid and allocated to each accounting period through the lease period of initial contracts by the interest-method:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Lease payment	¥169	**¥200**	**$1,614**
Depreciation	158	**180**	**1,453**
Interest expense	9	**18**	**145**

13. Derivative transactions

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

Also, the derivative transactions are mainly performed by the Company, and have been made in accordance with its Bylaw which clarify its purposes, management and execution procedures.

	Millions of yen			Thousands of U.S. dollars		
	2001			2001		
As of March 31, 2001	Contract amount	Fair Value	Unrealized gain (loss)	Contract amount	Fair Value	Unrealized gain (loss)
Non-market transactions						
Interest rate swap						
Fixed rate payment, floating rate receipt	¥6,427	¥(71)	¥(71)	$51,872	$(573)	$(573)
Total	¥6,427	¥(71)	¥(71)	$51,872	$(573)	$(573)

(Note)

Fair market value is based on the price offered by financial institutions concluding the derivative agreements.

14. Commitments and contingent liabilities

As of March 31, 2001, commitments for the purchase of machinery and equipment and other assets were ¥246 million (U.S.$1,985 thousand). The Company had contingent liabilities for bank loans amounting to ¥27,542 million (U.S.$222,292 thousand) of subsidiaries, affiliates and others.

15. Tax effect accounting

The significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Deferred tax assets			
Loss on revaluation of real estate for trade	¥ 8,576	**¥ 6,034**	**$ 48,701**
Deficit carried forward on tax	9,727	**4,641**	**37,458**
Disapproval on tax purpose concerning allowance for doubtful receivables	1,750	**2,307**	**18,620**
Loss on establishments of trusts of financial assets to cover retirement benefit obligations	—	**2,849**	**22,994**
Disapproval on tax purpose concerning reserve for retirement benefits	—	**2,592**	**20,920**
Disapproval on tax purpose concerning reserve for bonuses	—	**584**	**4,713**
Reserve for directors' and statutory auditors' retirement	—	**517**	**4,173**
Disapproval on tax purpose concerning accrued employees' severance indemnities	1,643	**—**	**—**
Others	3,401	**2,163**	**17,458**
Total: deferred tax assets	25,097	**21,687**	**175,037**
Less : Valuation allowance	—	**(997)**	**(8,047)**
Deferred tax assets	25,097	**20,690**	**166,990**
Deferred tax liabilities			
Valuation difference of other securities	—	**(1,281)**	**(10,339)**
Amendment for reduction of allowance for doubtful receivables	(118)	**(120)**	**(969)**
Others	(120)	**(133)**	**(1,073)**
Total: deferred tax liabilities	(238)	**(1,534)**	**(12,381)**
Net: deferred tax assets	¥24,859	**¥19,156**	**$154,609**

The principal originated details of the material differences between the legal practical tax rate and the actual burden tax rate after application of tax effect accounting is as follows:

	2000	**2001**
The legal practical tax rate		**42.05%**
Permanent exclusion from expenses		**14.85**
Tax free income		**(1.88)**
Capita levy on inhabitant tax	*	**5.35**
Unrecognized tax effect concerning deficit carried forward on tax		**2.94**
Unrecognized tax effect on consolidation adjustments		**2.69**
Others		**0.31**
The actual burden tax rate after application of tax effect accounting		**66.31%**

* The above details of the material differences in fiscal 2000 have been omitted due to losses before tax adjustments.

16. Consumption tax

Consumption tax is usually levied at the rate of 5 percent on all transactions in connection with transferences (including services) and purchases, except for tax-free transactions. Consumption tax is eliminated from transferences (including services) and purchases stated in the Statement of income.

17. Shareholders' equity

(1) Legal reserve and additional paid-in capital

(a) The Japanese Commercial Code requires as legal reserve to provide for over 10% of cash out flow every fiscal year, that is, payment of dividends and / or directors' and statutory auditors' bonuses approved by a Shareholders' meeting until the amount reaches 25% of capital stock.

In the consolidated financial statements, this legal reserve is summed up retained earnings.

The code regulates that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

(b) According to Article 3 of the Law concerning Special Measures under the Commercial Code with respect to procedures of cancellation of stocks, it has been regulated in the Articles of Incorporation that the Company can repurchase treasury stocks on certain terms by resolution of the Board of Directors and the Company can cancel those by additional paid-in capital.

(2) Land revaluation excess

The Company revalued land used for its own business purposes based on the appraised value in accordance with Article 2 Nos. 4 and 5 of Enforcement Ordinance No. 119 of the Law concerning Land Revaluation, promulgated on March 31, 1999.

Date of revaluation: March 31, 2000

As a result, the revaluation excess was recognized and taxes to be levied to its excess in future was declared as a deferred tax liability and net excess after deduction of the above taxes was presented in Shareholders' equities as a Land Revaluation Excess. This excess is also available for cancellation of treasury stocks.

The revaluation difference between the fair market value as of March 31, 2001 and book value after the initial enforcement of the Law, is ¥2,596 million (U.S.$20,952 thousand).

(3) Valuation differences of other securities

Valuation difference are recognized as the amounts after application of tax effect accounting to differences between valuation amounts of other securities based on the fair market value and their book value at the closing date on March 31. This amounted to ¥1,766 million (U.S.$14,253 thousand) as of March 31, 2001.
Deferred tax liability amounted to ¥1,281 million (U.S.$10,339 thousand).

(4) Restriction on dividends

It is regulated in the Japanese Commercial Code that unrealized valuation differences from assets evaluated by fair market value is not available for dividends.

18. Authorized shares

The Articles of Incorporation require the Company to deduct the number of shares being retired from authorized shares.

19. Retirement benefits

I. Retirement benefit obligations.

	Millions of yen	Thousands of U.S. dollars
	2001	**2001**
a. Retirement benefit obligation	**¥(96,088)**	**$(775,528)**
b. Pension assets	**50,803**	**410,032**
c. Unfunded retirement benefit obligation	**(45,285)**	**(365,496)**
d. Unrecognized effects of the amendments on the application of the new accounting standards for retirement benefits	**21,290**	**171,832**
e. Unrecognized actuarial gain or loss	**15,965**	**128,853**
f. Unrecognized prior service liability	**—**	**—**
g. Net retirement benefit obligations	**(8,030)**	**(64,811)**
h. Prepaid pension cost	**—**	**—**
i. Reserve for retirement benefits	**¥ (8,030)**	**$ (64,811)**

II. Retirement benefit costs for the year ended March 31, 2001.

	Millions of yen	Thousands of U.S. dollars
	2001	**2001**
a. Service costs	**¥ 2,109**	**$ 17,022**
b. Interest costs	**2,946**	**23,777**
c. Expected return on pension fund assets	**(1,989)**	**(16,053)**
d. Amortization of effects of the amendments on the application of the new accounting standards for retirement benefits	**16,371**	**132,131**
e. Amortization of actuarial gain or loss	**—**	**—**
f. Recognition of prior service liability	**—**	**—**
g. Retirement benefit costs	**¥19,437**	**$156,877**

III. Calculation basis of retirement benefit obligations, etc.

a. Recognition method of the projected retirements benefit obligations	Straight-line method
b. Discount rate	3.00%
c. Expected return rate on pension fund assets	5.00%
d. Recognition term of prior service liability	fully recognized as incurred
e. Amortization term of actuarial gain or loss	10 years
f. Amortization term of effects of the amendments on the application of the new accounting standards for retirement benefits	15 years

20. Segment Informations

(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

Others .... Sale of construction materials, shipbuilding, etc.

	Millions of yen					
Year ended March 31, 2000	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥436,910	¥17,283	¥ 9,759	¥463,952	¥ —	¥463,952
Internal sales or transfer	604	102	3,114	3,820	(3,820)	—
Total	437,514	17,385	12,873	467,772	(3,820)	463,952
Operating expenses	421,446	18,419	13,408	453,273	(3,865)	449,408
Operating income	16,068	(1,034)	(535)	14,499	45	14,544
Assets	344,416	71,920	35,557	451,893	58,772	510,665
Depreciation	3,665	207	1,528	5,400	—	5,400
Capital expenditures	1,036	5	4,273	5,314	—	5,314

	Millions of yen					
Year ended March 31, 2001	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥428,367	¥5,843	¥5,931	¥440,141	¥ —	¥440,141
Internal sales or transfer	2	91	8,983	9,076	(9,076)	—
Total	428,369	5,934	14,914	449,217	(9,076)	440,141
Operating expenses	415,807	5,070	14,995	435,872	(8,894)	426,978
Operating income	12,562	864	(81)	13,345	(182)	13,163
Assets	335,882	64,473	36,960	437,315	59,799	497,114
Depreciation	3,234	148	1,565	4,947	—	4,947
Capital expenditures	2,340	5	2,932	5,277	—	5,277

	Thousands of U.S. dollars					
Year ended March 31, 2001	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	$3,457,361	$ 47,159	$ 47,870	$3,552,390	$ —	$3,552,390
Internal sales or transfer	16	734	72,503	73,253	(73,253)	—
Total	3,457,377	47,893	120,373	3,625,643	(73,253)	3,552,390
Operating expenses	3,355,989	40,920	121,025	3,517,934	(71,775)	3,446,159
Operating income	101,388	6,973	(652)	107,709	(1,478)	106,231
Assets	2,710,912	520,363	298,305	3,529,580	482,640	4,012,220
Depreciation	26,102	1,195	12,631	39,928	—	39,928
Capital expenditures	18,886	41	23,664	42,591	—	42,591

(2) Geographic segment

Geographic segment is primarily composed of the followings:

Japan
Southeast Asia .... Singapore, Hong Kong, Malaysia
Others .... Egypt, Micronesia, Sri Lanka

	Millions of yen					
Year ended March 31, 2000	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥383,902	¥76,064	¥3,986	¥463,952	¥ —	¥463,952
Internal sales or transfer	—	—	—	—	—	—
Total	383,902	76,064	3,986	463,952	—	463,952
Operating expenses	370,237	75,145	4,026	449,408	—	449,408
Operating income	13,665	919	(40)	14,544	—	14,544
Assets	396,161	42,129	4,869	443,159	67,506	510,665

	Millions of yen					
Year ended March 31, 2001	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥368,899	¥64,302	¥6,940	¥440,141	¥ —	¥440,141
Internal sales or transfer	—	—	—	—	—	—
Total	368,899	64,302	6,940	440,141	—	440,141
Operating expenses	357,090	63,089	6,799	426,978	—	426,978
Operating income	11,809	1,213	141	13,163	—	13,163
Assets	374,953	46,691	5,718	427,362	69,752	497,114

	Thousands of U.S. dollars					
Year ended March 31, 2001	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	$2,977,393	$518,983	$56,014	$3,552,390	$ —	$3,552,390
Internal sales or transfer	—	—	—	—	—	—
Total	2,977,393	518,983	56,014	3,552,390	—	3,552,390
Operating expenses	2,882,082	509,193	54,884	3,446,159	—	3,446,159
Operating income	95,311	9,790	1,130	106,231	—	106,231
Assets	3,026,255	376,845	46,150	3,449,250	562,970	4,012,220

All the operating expenses are allocated to the respective segments applicably.

The assets unable to allocate belong to general control division in the head office of the Company and subsidiaries at March 31, 2001 was ¥69,752 million (U.S.$562,970 thousand).

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

(3) Overseas sales

For the year ended March 31, 2000	Millions of yen		
	Southeast Asia	Others	Total
Overseas sales	¥76,064	¥3,986	¥ 80,050
Consolidated sales			¥463,952
The proportion of overseas sales to consolidated sales	16.4%	0.9%	17.3%

Segments of countries or areas are set up on the basis of geographical proximity.

Principal countries and areas included in each category.
— Southeast Asia: Singapore, Hong Kong, Malaysia.
— Others: Egypt, Micronesia, Sri Lanka.

For the year ended March 31, 2001	Millions of yen			Thousands of U.S. dollars
	Southeast Asia	Others	Total	Total
Overseas sales	¥64,302	¥6,940	¥ 71,242	$ 574,997
Consolidated sales			¥440,141	$3,552,390
The proportion of overseas sales to consolidated sales	14.6%	1.6%	16.2%	16.2%

Segments of countries or areas are set up on the basis of geographical proximity.

Principal countries and areas included in each category.
— Southeast Asia: Singapore, Hong Kong, Malaysia.
— Others: Egypt, Micronesia, Sri Lanka.

21. Significant subsequent events

The Company resolved including the following two companies by acquisition of their stocks as subsidiaries in the Board of Directors held on May 23, 2001.

The purposes of acquisition of their stocks are strengthening of competitiveness and improvement of construction capacities of the Company's group in domestic or foreign counties and these are to be acquired at May 30, 2001.

The summery of their financial data for six months ended March 31, 2001 is as follows:

	Penta-Ocean Dredging CO., LTD.		Yoshin Construction CO., LTD.	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Sales amounts	¥21,913	$176,860	¥10,984	$ 88,249
Net income	247	1,994	54	436
Total assets	28,804	232,478	19,260	155,448
Total liabilities	27,078	218,547	18,238	147,199
Net assets	1,726	13,931	1,022	8,249

Independent Auditors' Report

The Board of Directors
Penta-Ocean Construction Co., Ltd.

We have audited the consolidated balance sheets of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income (loss), and retained earnings (deficit), shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above, expressed in yen, present fairly the financial position of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries at March 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan, applied on a consistent basis.

As described in Note 3 to the consolidated financial statements, PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries adopted new accounting standards for retirement benefits, financial instruments and translation of foreign currency transactions effective April 1, 2000, and new accounting standards for consolidation, research and development costs and tax-effect accounting effective April 1, 1999 in the preparation of the consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for the convenience of the reader. 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.

Tokyo, Japan
June 28, 2001

Century Ota Showa & Co.

CENTURY OTA SHOWA & CO.

See notes to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of PENTA-OCEAN CONSTRUCTION CO., LTD. under Japanese accounting principles and practices.

Penta-Ocean Construction Co., Ltd.

Non-Consolidated Five-Year Summary

Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	1997	1998	1999	2000	**2001**	**2001**
Orders received	¥628,185	¥516,020	¥470,010	¥404,259	**¥473,024**	**$3,817,789**
Civil engineering	385,429	265,688	319,246	249,349	**316,349**	**2,553,261**
Architectual engineering	240,417	246,738	147,257	144,055	**151,291**	**1,221,074**
Real estate and other	2,339	3,594	3,507	10,855	**5,384**	**43,454**
Net sales	550,695	567,176	508,925	434,811	**419,382**	**3,384,843**
Civil engineering	335,046	319,165	280,180	270,443	**250,937**	**2,025,319**
Architectual engineering	212,551	244,604	225,525	153,288	**163,308**	**1,318,063**
Real estate and other	3,098	3,407	3,220	11,080	**5,137**	**41,461**
Contract backlog	634,771	571,317	527,702	487,252	**543,262**	**4,384,681**
Civil engineering	360,075	295,832	330,850	302,537	**369,569**	**2,962,801**
Architectual engineering	274,683	275,285	196,364	184,453	**173,184**	**1,397,772**
Real estate and other	13	200	488	262	**509**	**4,108**
Total assets	533,785	583,978	503,272	474,959	**465,121**	**3,754,003**
Shareholders' equity	88,616	88,978	44,606	51,634	**55,167**	**445,254**
Ordinary income	12,517	11,683	3,173	11,305	**10,917**	**88,111**
Income (Loss) before income taxes	13,231	9,478	(40,796)	(23,321)	**7,481**	**60,379**
Net income (loss)	3,807	3,209	(41,341)	(15,024)	**2,674**	**21,562**
Cash dividend	2,717	2,717	—	904	**1,807**	**14,584**

Per share of common stock:	Yen					U.S. dollars
Shareholders' equity	¥245	¥246	¥123	¥143	**¥153**	**$1.23**
Net income (loss)	10.56	8.86	(114.22)	(41.57)	**7.40**	**0.06**
Cash dividend	7.50	7.50	—	2.50	**5.00**	**0.04**
Number of employees	5,080	4,671	3,937	3,774	**3,710**	

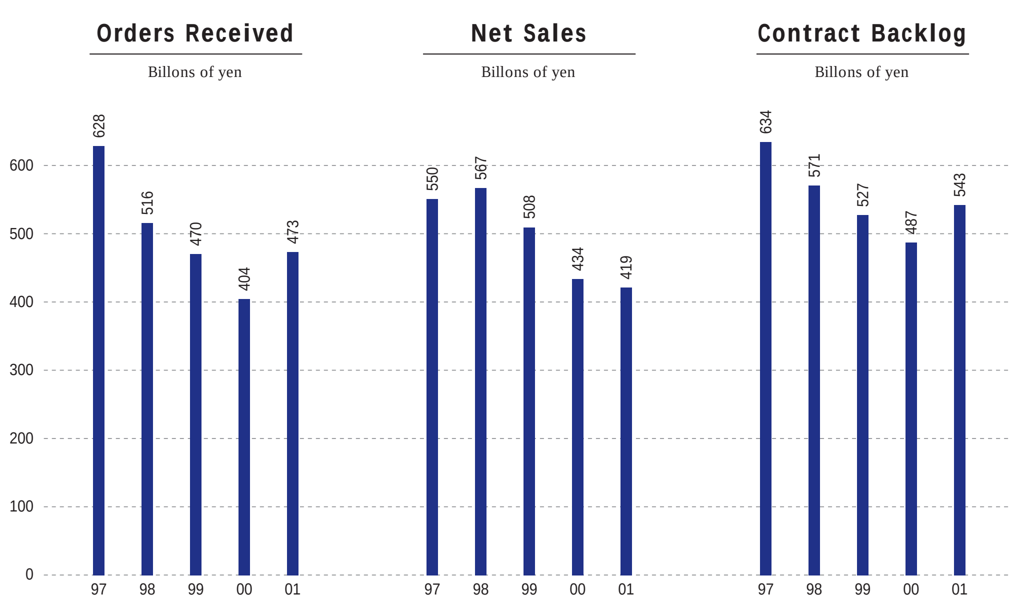
U.S.$1=¥123.90 as at March 31, 2001

NON-CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Orders received	¥404,259	**¥473,024**	**$3,817,789**
Net sales	434,811	**419,382**	**3,384,843**
Contract backlog	487,252	**543,262**	**4,384,681**
Total assets	474,959	**465,121**	**3,754,003**
Shareholders' equity	51,634	**55,167**	**445,254**
Ordinary income	11,305	**10,917**	**88,111**
Income (Loss) before income taxes	(23,321)	**7,481**	**60,379**
Net income (loss)	(15,024)	**2,674**	**21,582**
Cash dividend	904	**1,807**	**14,584**
	Yen		U.S. dollars
Per share of common stock:			
Shareholders' equity	¥143	**¥153**	**$1.23**
Net income (loss)	(41.57)	**7.40**	**0.06**
Cash dividends	2.50	**5.00**	**0.04**

Note: Figures stated in U.S. dollars are converted for convenience only, at the rate of ¥123.90 per U.S.$1, prevailing on March 31, 2001.



Penta-Ocean Construction Co., Ltd.

Non-Consolidated Balance Sheets

March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars
ASSETS	2000	**2001**	**2001**
Current assets:			
Cash and time deposits	¥ 30,521	**¥ 46,782**	**$ 377,579**
Marketable securities (Notes 2 (3), 3 and 4)	14,864	**—**	**—**
Securities (Notes 2 (3) and 3)	—	**72**	**581**
Trade receivables:			
Note	14,847	**23,338**	**188,362**
Account	150,433	**142,654**	**1,151,364**
Subsidiaries and affiliates	13,612	**14,153**	**114,229**
Allowance for doubtful receivables (Note 2 (5))	(4,060)	**(1,312)**	**(10,589)**
Inventories: (Note 2 (6))			
Cost of uncompleted contracts	58,458	**43,726**	**352,914**
Real estate for trade and real estate in progress	32,138	**36,477**	**294,407**
Raw materials and supplies	1,726	**1,341**	**10,823**
Deferred tax assets (Note 12)	16,767	**11,469**	**92,566**
Other current assets	6,761	**6,533**	**52,728**
Total current assets	336,067	**325,233**	**2,624,964**
Investments and non-current assets:			
Investments in and loans to subsidiaries and affiliates	23,130	**23,019**	**185,787**
Investment in securities (Notes 2 (3), 3 and 4))	15,769	**23,074**	**186,231**
Long-term receivables	2,860	**204**	**1,646**
Sundry investments	20,498	**25,150**	**202,986**
Deferred tax assets (Note 12)	9,424	**9,156**	**73,899**
Allowance for doubtful receivables (Note 2 (5))	(9,238)	**(15,306)**	**(123,535)**
Total investments and non-current assets	62,443	**65,297**	**527,014**
Property and equipment: (Note 2 (7))			
Land	47,292	**46,624**	**376,304**
Buildings and structures	37,646	**36,604**	**295,432**
Machinery, equipment and vehicles	16,319	**16,367**	**132,098**
Dredgers and vessels	27,875	**24,290**	**196,045**
Construction in progress	152	**1,365**	**11,017**
Total property and equipment	129,284	**125,250**	**1,010,896**
Less accumulated depreciation	(53,741)	**(51,425)**	**(415,053)**
Property and equipment — net	75,543	**73,825**	**595,843**
Other assets (Note 2 (8))	906	**766**	**6,182**
Total assets	¥474,959	**¥465,121**	**$3,754,003**

See accompanying Notes to Non-Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2000	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2001
Current liabilities:			
Bank loans (Note 5)	¥127,726	**¥101,333**	**$ 817,861**
Commercial paper	3,000	**3,000**	**24,213**
Current portion of long-term debt (Note 5)	22,306	**20,893**	**168,628**
Trade payables:			
Note	38,429	**45,359**	**366,094**
Account	91,370	**84,480**	**681,840**
Subsidiaries and affiliates	4,616	**5,939**	**47,934**
Advance on contracts in progress	46,959	**45,048**	**363,584**
Deposits received	8,790	**14,184**	**114,479**
Accrued taxes on income	211	**247**	**1,994**
Accrued expenses	8,123	**6,025**	**48,628**
Other current liabilities	3,064	**3,188**	**25,730**
Total current liabilities	354,594	**329,696**	**2,660,985**
Long-term debt (Note 5)	56,983	**67,281**	**543,026**
Reserve for retirement benefits (Note 2 (10))	5,759	**7,940**	**64,084**
Reserve for directors' and statutory auditors' retirement (Note 2 (11))	1,089	**1,040**	**8,394**
Deferred tax liabilities for land revaluation (Note 14 (2))	3,358	**3,418**	**27,587**
Other long-term liabilities	1,542	**579**	**4,673**
Total long-term liabilities	68,731	**80,258**	**647,764**
Shareholders' equity:			
Common stock, ¥50 par value			
Authorized — 599,135,000 shares			
Issued — 361,407,443 shares at March 31, 2000	33,971	**—**	**—**
Issued — 361,407,443 shares at March 31, 2001	—	**33,971**	**274,181**
Additional paid-in capital (Note 14 (1))	10,635	**10,635**	**85,835**
Legal reserve (Note 14 (1))	—	**100**	**807**
Land revaluation excess (Note 14 (2))	4,628	**4,711**	**38,023**
Retained earnings (deficit):	—	**—**	**—**
Unappropriated	2,400	**3,987**	**32,179**
Valuation difference of other securities (Note 14 (3))	—	**1,763**	**14,229**
Total shareholders' equity	51,634	**55,167**	**445,254**
Total liabilities and shareholders' equity	¥474,959	**¥465,121**	**$3,754,003**

Commitments and contingent liabilities (Note 11)

Penta-Ocean Construction Co., Ltd.

Non-Consolidated Statements of Income

For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	**2001**	**2001**
Construction business:			
Net sales	¥423,732	**¥414,245**	**$3,343,382**
Cost of sales	378,458	**370,848**	**2,993,123**
	45,274	**43,397**	**350,259**
Real estate and other:			
Net sales	11,080	**5,137**	**41,461**
Cost of sales	10,776	**3,899**	**31,469**
	304	**1,238**	**9,992**
Total net sales	434,812	**419,382**	**3,384,843**
Total cost of sales	389,234	**374,747**	**3,024,592**
Total gross profit	45,578	**44,635**	**360,251**
Selling, general and administrative expenses	29,831	**31,331**	**252,874**
Operating income	15,747	**13,304**	**107,377**
Other income:			
Interest and dividends	739	**892**	**7,199**
Interest and dividends from subsidiaries and affiliates	168	**139**	**1,122**
Other (Note 6)	567	**609**	**4,915**
	1,474	**1,640**	**13,236**
Other expenses:			
Interest	4,930	**3,910**	**31,558**
Other (Note 7)	986	**117**	**944**
	5,916	**4,027**	**32,502**
Ordinary income	11,305	**10,917**	**88,111**
Extraordinary gain (Note 8)	465	**17,113**	**138,119**
Extraordinary loss (Note 9)	35,091	**20,549**	**165,851**
Income (loss) before income taxes	(23,321)	**7,481**	**60,379**
Income taxes: (Notes 2 (14) and 12)			
Current	470	**460**	**3,712**
Tax effect adjustment	(8,767)	**4,347**	**35,085**
Net income (loss)	¥(15,024)	**¥ 2,674**	**$ 21,582**

Income (loss) per share of common stock (Note 2 (12))	Yen		U.S. dollars
Primary	¥(41.57)	**¥7.40**	**$0.06**

See accompanying Notes to Non-Consolidated Financial Statements

Penta-Ocean Construction Co., Ltd.

Non-Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	**2001**	**2001**
Common stock:			
Balance at the beginning of the period	¥ 33,971	**¥33,971**	**$274,181**
Balance at the end of the period	¥ 33,971	**¥33,971**	**$274,181**
Additional paid-in capital: (Note 14 (1))			
Balance at the beginning of the period	¥ 29,662	**¥10,635**	**$ 85,835**
Used for making up deficit	(19,027)	**—**	**—**
Balance at the end of the period	¥ 10,635	**¥10,635**	**$ 85,835**
Legal reserve: (Note 14 (1))			
Balance at the beginning of the period	¥ 5,197	**¥ —**	**$ —**
Reversal to cover deficit	(5,197)	**100**	**807**
Balance at the end of the period	¥ —	**¥ 100**	**$ 807**
Land revaluation excess: (Note 14 (2))			
Balance at the beginning of the period	¥ —	**¥ 4,628**	**$ 37,353**
Removal of land revaluation excess	4,628	**83**	**670**
Balance at the end of the period	¥ 4,628	**¥ 4,711**	**$ 38,023**
Retained earnings or deficit: (Note 2 (15))			
Balance at the beginning of the period	¥14,049	**¥ —**	**$ —**
Used for making up deficit	(14,049)	**—**	**—**
Balance at the end of the period	¥ —	**¥ —**	**$ —**
Unappropriated:			
Balance at the beginning of the period	¥(38,273)	**¥ 2,400**	**$ 19,370**
Net income (loss)	(15,024)	**2,674**	**21,582**
Prior period tax effect adjustment	17,424	**—**	**—**
Cash dividend	—	**(904)**	**(7,296)**
Making up from legal reserve	5,197	**(100)**	**(807)**
Making up from additional paid-in capital to cover deficit	19,027	**—**	**—**
Used for making up deficit	14,049	**—**	**—**
Transferred from land revaluation excess	—	**(83)**	**(670)**
Balance at the end of the period	¥ 2,400	**¥ 3,987**	**$ 32,179**
Valuation defference of other securities: (Note 14 (3))	¥ —	**¥ 1,763**	**$ 14,229**

See accompanying Notes to Non-Consolidated Financial Statements.

Notes to Non-Consolidated Financial Statements

(Information with respect to 2001 and 2000 is unaudited)

1. Basis of non-consolidated financial statements

The accompanying non-consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan and regulations under the Securities and Exchange Law in Japan, which may differ in some material respects from the accounting principles and practices generally accepted in the counties and jurisdictions other than Japan. The Note to these statements includes information which is not required under accounting principles and practices generally accepted in Japan, but are presented herein as additional information. Certain items have been reclassified and adjusted for readers outside Japan.

The figures in these financial statements are shown in U.S. dollars at the conversion rate of U.S.$1=¥123.90, the exchange rate prevailing on March 31, 2001. 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. Summary of significant accounting policies

(1) Foreign currency conversion

Transactions in foreign currencies are converted into yen at the exchange rates prevailing at the time of the transactions. Monetary receivables and payables denominated in foreign currencies 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. Exchange gains or losses, realized or unrealized, are included in current income.

(2) 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 meet 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 are included in inventory.

(3) Securities

Held-to-maturity bonds are determined by the amortized cost method.

Stocks of subsidiaries and affiliates are determined by the moving average cost method.

Other securities with fair market value are determined by the fair value method based on the market price at the closing date (Valuation differences are included in Shareholders' equity, and sales costs when sold are determined by the moving average method.) Other securities with no fair value are determined by the moving average cost method.

The Company applied the accounting standards for financial instruments "Opinion Concerning Establishment of Accounting Standards for Financial Instruments," issued by the Business Accounting Deliberation Council on January 22, 1999), and changed the valuation basis and valuation method of securities from the current fiscal year. The effect of this change to the financial statements is small.

The Company reexamined the holding purpose of securities at the beginning of the current year, and reclassified the securities coming to maturity within a year as current assets and the others as investment in securities.

Thereby, securities in current assets, ¥14,739 million (U.S.$118,959 thousand) are transferred to investment in securities.

As a result of the evaluation based on the fair value method, securities in current assets decreased by ¥2 million (U.S.$16 thousand) and investment in securities increase by ¥3,044 million (U.S.$24,568 thousand).

(4) Derivative transactions

Derivative financial instruments are determined by the fair value method.

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

(5) Allowance for doubtful accounts receivable

Allowance for doubtful receivables is provided for at the amounts calculated by an estimated uncollectible rate, which is based on the ratio of the past actual bad debt loss to general credits, and at the estimated uncollectible amounts by consideration of the possibility of collection on an individual account to specific credits of apprehension credits of bad debt, etc.

(6) Inventories

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

(7) Property and equipment

Property and equipment are stated at cost and their depreciation is calculated using the declining balance method, except buildings (except for equipment fixed inside buildings) acquired on/after April 1, 1998, which are calculated using the straight-line method.

At the time of sale or disposal, their cost and related accumulated depreciation are eliminated from the account, and gains or losses are reflected in income. Maintenance and repair costs, including minor renewals and improvements and purchases of small equipment, are included in expenses incurred during the fiscal year.

(8) Research and development costs, and computer software

Research and development costs are charged to expense as incurred. The computer software which has been purchased for internal use is amortized as no scrap values by the straight-line method over five years based on the estimated useful life of internal use.

(9) Accounting for finance lease

Finance lease transactions other than these, which are deemed to transfer the ownership of the leased assets to lessees, are accounted for by the same method applied to ordinary operating leases.

(10) Reserve for retirement benefits

Retirement benefits systems of the Company consist of an employee welfare pension system and a tax-qualified pension system, which cover 70 percent of the amount which would be required to be paid, if all employees voluntarily terminated their service at the balance sheet date.

The Company applied the new accounting standard for retirement benefits "Opinion Concerning the Establishment of Accounting Standards for Retirement Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998) from the current fiscal year.

Reserve for retirement benefits is provided for at the necessary amounts on an accrual basis at the end of the current fiscal year based on the estimated amounts of liability for retirement benefits and pension fund assets at the end of the current fiscal year.

Effects of the amendments on the application of the new accounting standards for retirement benefits ¥22,408 million (U.S.$180,855 thousand) are equally amortized over fifteen years.

Prior service liability is recognized as an expense when incurred.

Actuarial gains and losses are equally amortized using the straight-line method over ten years based on the average employee remaining service years, and its amortization is to be started from the next year.

Costs for retirement benefits increased by ¥648 million (U.S.$5,230 thousand) and were charged to expense as general and administrative expenses, cost of sales and cost of uncompleted contracts, as ¥208 million (U.S.$1,679 thousand), ¥395 million (US$3,188 thousand), and ¥44 million (U.S.$355 thousand), respectively.

As a result, operating income and ordinary income decreased by ¥604 million (U.S.$4,875 thousand), respectively. Gains on establishment of trusts of financial assets to cover retirement benefit obligations rose ¥8,069 million (U.S.$65,125 thousand), which costs of retirement benefits incurred amounted to ¥14,845 million (U.S.$119,814 thousand). These were stated as extraordinary gain and losses, respectively, thereby, income before income taxes decreased by ¥7,380 million (U.S.$59,564 thousand), compared with those in the case where the same method used in the previous fiscal year was applied in the current fiscal year.

Reserve for retirement, ¥5,759 million (U.S.$46,481 thousand), and accrued payable, ¥994 million (U.S.$8,023 thousand), for prior service liability of the pension plan have been transferred to reserve for retirement benefits

(11) Reserve for directors' and statutory auditors' retirement

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

(12) Net income per share

Primary net income per share is calculated by the weighted average number of shares on the basis of outstanding common stocks for the period from the beginning to the end of the fiscal period.

Assuming full dilution has not been presented by the reason why convertible bonds and bonds with detachable warrant have not been issued as of the end of March 31, 2001.

(13) Hedging accounting

1) Hedge accounting method adopts deferral hedge.

2) Hedge instruments and hedge items

Hedge instruments are interest rate swap agreements and forward exchange contracts.

Hedge items are bank loans and 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 rates and forward exchange rates, respectively.

4) Evaluation of the effectiveness of hedge accounting

Control procedures of hedge transactions are executed according to the Companies' Bylaws. The Examination Committee of Derivative Instruments and the Financial Division in the Company periodically evaluate the effectiveness of hedging.

(14) Income taxes

The Company declares corporation and other taxes for the current fiscal year 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 comprise (a) corporation tax of 30.0 percent on taxable income, (b) enterprise tax of 9.6 percent on taxable income after certain adjustments, and (c) prefectural and municipal taxes averaging 20.4 percent on the amount of corporation tax after certain adjustments. When paid, enterprise tax is deductible for income tax purposes.

(15) Appropriations of retained earnings or deficit

Appropriations of retained earnings or deficit are reflected in the accompanying non-consolidated financial statements when approved by shareholders.

3. Securities

The composition of securities as of March 31, 2001 is as follows:

	Millions of yen	Thousands of U.S. dollars
Securities due within one year:		
Held-to-maturity bonds	**¥ 65**	**$ 525**
Investment trust bills	**7**	**56**
Total	**¥ 72**	**$ 581**
Investment in securities:		
Held-to-maturity bonds	**¥ 537**	**$ 4,334**
Investment trust bills	**132**	**1,065**
Stocks	**19,806**	**159,855**
Others	**2,599**	**20,977**
Total	**¥23,074**	**$186,231**

(Note)

The new accounting standards concerning securities have come to application from the current fiscal year and the valuation basis and the classification method of securities have been changed. As a result, the comparison with the previous fiscal year is not available and so has been omitted.

4. Pledged assets

The following assets replaced guaranty money relating to fulfillment of construction contracts at March 31, 2000 and 2001.

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Marketable securities	¥359	**¥ —**	**$ —**
Investment in insecurities	265	**1,040**	**8,394**
Total	¥624	**¥1,040**	**$8,394**

5. Loans and long-term debt

Short-term bank loans as of March 31, 2000 and 2001 are represented primarily in the form of overdraft facility notes bearing annual interest rates ranging from 0.520 percent to 1.875 percent for the two fiscal years ended March 31, 2000 and 2001. Long-term debt as of March 31, 2001 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Long-term loans from banks and insurance companies maturing in 2011 (bearing annual interest rates ranging from 1.40 percent to 2.92 percent)	¥79,289	**¥88,174**	**$711,654**
Less: current portion of long-term debt	(22,306)	**(20,893)**	**(168,628)**
Total	¥56,983	**¥67,281**	**$543,026**

The aggregate annual maturing amounts of long-term loans after March 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,	**2001**	**2001**
2002	**¥20,893**	**$168,628**
2003	**16,734**	**135,060**
2004	**11,050**	**89,185**
2005	**6,932**	**55,948**
2006 and after that	**32,565**	**262,833**
Total	**¥88,174**	**$711,654**

6. Other income

The composition of "Other income-others" for the two years ended March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Rent received from real estate	¥261	**¥234**	**$1,889**
Gain on sale of marketable securities	11	**—**	**—**
Others	295	**375**	**3,026**
Total	¥567	**¥609**	**$4,915**

7. Other expenses

The composition of "Other expenses-others" for the two years ended March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Foreign exchange losses	¥778	**¥ —**	**$ —**
Others	208	**117**	**944**
Total	¥986	**¥117**	**$944**

8. Extraordinary gain

The composition of "Extraordinary gain" for the two years ended March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Gain on sale of investment in securities	¥ 16	**¥ 3,834**	**$ 30,944**
Gain on sale of fixed assets	13	**708**	**5,714**
Gain on establishments of trusts of financial assets to cover retirement benefit obligations	—	**8,069**	**65,125**
Repayment difference before due date of long-term debts	—	**4,130**	**33,334**
Others	436	**372**	**3,002**
Total	¥465	**¥17,113**	**$138,119**

9. Extraordinary loss

The composition of "Extraordinary loss" for the two years ended March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Losses on sale of fixed assets	¥ 380	**¥ 324**	**$ 2,615**
Losses on disposition of fixed assets	410	**56**	**452**
Extra pay for voluntary retirement	199	**—**	**—**
Allowance for bad debt	3,020	**1,480**	**11,945**
Losses on revaluation of real estate for trade	18,469	**—**	**—**
Losses on liquidation of affiliated companies	3,471	**463**	**3,737**
Losses on revaluation of investment in securities	154	**1,853**	**14,956**
Losses resulting from cancellation of interest rate swap agreements	3,441	**—**	**—**
Losses resulting from recognizing the shortage of past service costs by the change in accounting	3,309	**—**	**—**
Cost for establishments of trusts of financial assets to cover retirement benefit obligations	—	**14,845**	**119,814**
Others	2,238	**1,528**	**12,332**
Total	¥35,091	**¥20,549**	**$165,851**

10. The summary of finance lease transactions

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

(1) Fair value, accumulated depreciation and present value of properties leased by the Company are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Equipment	¥620	**¥594**	**$4,794**
Vehicles	259	**204**	**1,646**
Buildings	21	**21**	**169**
	900	**819**	**6,609**
Accumulated depreciation	(555)	**(567)**	**(4,575)**
Present value	¥345	**¥252**	**$2,034**

Depreciation is calculated by the straight-line method for lease periods as no scrap value.

(2) The future lease payments in the two fiscal years ended March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Due within one year	¥188	**¥138**	**$1,141**
Due over one year	170	**122**	**984**
Total	¥358	**¥260**	**$2,098**

(3) The difference between the aggregate payment and the acquisition fair value of lease properties is regarded as an interest to be paid and it is allocated to each accounting period through the lease period of initial contracts by the interest-method and its summary is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Lease payment	¥242	**¥211**	**$1,703**
Depreciation	225	**198**	**1,598**
Interest expense	14	**9**	**73**

11. Commitments and contingent liabilities

As of March 31, 2000 and 2001, commitments for the purchase of machinery and equipment and other assets are ¥75 million (U.S.$605 thousand) and ¥246 million (U.S.$1,985 thousand), respectively.

As of March 31, 2001 and 2000 the Company was contingently liable for bank loans of its subsidiaries, affiliates and others totalling ¥24,862 million (U.S.$200,661 thousand) and ¥41,581 million (U.S.$335,601 thousand), respectively.

12. Tax effect accounting

The significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Deferred tax assets			
Loss on revaluation of real estate for trade	¥ 8,576	**¥ 6,034**	**$ 48,701**
Tax loss carry forwards	9,685	**3,664**	**29,572**
Excess of allowance for doubtful accounts	1,749	**2,928**	**23,632**
Loss on establishments of trusts of financial assets to cover retirement benefit obligations	—	**2,849**	**22,994**
Disapproval on tax purpose concerning reserve for retirement benefits	—	**2,561**	**20,670**
Loss on liquidation of affiliated companies	2,039	**1,330**	**10,734**
Excess of allowance for employees' bonuses	—	**553**	**4,463**
Accrued directors' and statutory auditors' retirement allowance	—	**437**	**3,527**
Excess of accrued employees' severance indemnities	1,622	**—**	**—**
Others	2,612	**1,643**	**13,261**
Total deferred tax assets	26,283	**21,999**	**177,554**
Less : Valuation allowance	—	**(4)**	**(32)**
Deferred tax assets	26,283	**21,995**	**177,522**
Deferred tax liabilities			
Unrealized gain on securities	—	**(1,278)**	**(10,323)**
Others	(92)	**(91)**	**(734)**
Total deferred tax liabilities	(92)	**(1,370)**	**11,057**
Net: deferred tax assets	¥26,191	**¥20,625**	**$166,465**

The principal originated details of the material differences between the legal practical tax rate and the actual burden tax rate after application of tax-effect accounting is as follows:

	2000	**2001**
The legal practical tax rate		**42.05%**
Permanent exclusion from expenses		**17.61**
Tax free income	*	**(2.34)**
Capita levy on inhabitant tax		**6.15**
Others		**0.79**
The actual burden tax rate after application of tax-effect accounting		**64.26%**

* The above details of the material differences in fiscal 2000 are omitted due to losses before tax adjustment.

13. Consumption tax

Consumption tax is usually levied at the rate of 5 percent on all transactions in connection with transferences (including services) and purchases, except for tax-free transactions. Consumption tax is eliminated from transferences (including services) and purchases stated in the Statement of income.

14. Shareholders' equity

(1) Legal reserve and additional paid-in capital

a. The Japanese Commercial Code requires as legal reserve to provide for over 10% of cash out flow every fiscal year, that is, payment of dividends and / or directors' and statutory auditors' bonuses approved by a Shareholders' meeting until the amount reaches 25% of capital stock.

The code regulates that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the Shareholders or may be transferred to common stock by resolution of the Board of Directors.

b. According to Article 3 of the Law concerning Special Measures under the Commercial Code with respect to procedures of cancellation of stocks, it has been regulated in the Articles of Incorporation that the Company can repurchase treasury stocks on certain terms by resolution of the Board of Directors and the Company can cancel those by additional paid-in capital.

(2) Land revaluation excess

The Company revalued land used for its own business purposes based on the appraised value in accordance with Article 2 Nos. 4 and 5 of Enforcement Ordinance No. 119 of the Law concerning Land Revaluation, promulgated on March 31, 1999.

Date of revaluation: March 31, 2000

As a result, the revaluation excess was recognized and declared as a deferred tax liability and net excess after deduction of the above taxes was presented in Shareholders' equities as a Land Revaluation Excess. This excess is also available from cancellation of treasury stocks.

The valuation difference between the fair market value as of March 31, 2001 and book value after the initial enforcement of the Law, is ¥2,596 million (U.S.$20,952 thousand).

(3) Valuation differences of other securities

Valuation differences are recognized as the amounts after application of tax effect accounting to differences between valuation amounts of other securities based on the fair market value and their book value at the closing date on March 31. This amounted to ¥1,763 million (U.S.$14,229 thousand) as of March 31, 2001. Deferred tax liability amounted to ¥1,279 million (U.S.$10,323 thousand).

(4) Restriction on dividends

It is regulated in the Japanese Commercial Code that unrealized valuation differences from assets evaluated by fair market value is not available for dividends.

15. Authorized shares

The Articles of Incorporation require the Company to deduct the number of shares being retired from authorized shares.

16. Significant subsequent events

The Company resolved including the following two companies by acquisition of their stocks as subsidiaries in the Board of Directors held on May 23, 2001.

The purposes of acquisition of their stocks are strengthening of competitiveness and improvement of construction capacities of the Company's group in domestic or foreign counties and these are to be acquired at May 30, 2001.

The summery of their financial data for six months ended March 31, 2001 is as follows:

	Penta-Ocean Dredging CO., LTD.		Yoshin Construction CO., LTD.	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Sales amounts	¥21,913	$176,860	¥10,984	$ 88,249
Net income	247	1,994	54	436
Total assets	28,804	232,478	19,260	155,448
Total liabilities	27,078	218,547	18,238	147,199
Net assets	1,726	13,931	1,022	8,249

Independent Auditors' Report

The Board of Directors
Penta-Ocean Construction Co., Ltd.

We have audited the non-consolidated balance sheets of PENTA-OCEAN CONSTRUCTION CO., LTD. and as of March 31, 2001 and 2000, and the related non-consolidated statements of income (loss) and shareholders' equity for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above, expressed in yen, present fairly the financial position of PENTA-OCEAN CONSTRUCTION CO., LTD. at March 31, 2001 and 2000, and the results of its operations for the years then ended, in conformity with accounting principles and practices generally accepted in Japan, applied on a consistent basis.

As described in Note 2 to the non-consolidated financial statements, PENTA-OCEAN CONSTRUCTION CO., LTD. adopted new accounting standards for retirement benefits, financial instruments and translation of foreign currency transactions effective April 1, 2000, and new accounting standards for research and development costs and tax-effect accounting effective April 1, 1999 in the preparation of the non-consolidated financial statements.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for the convenience of the reader. 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 non-consolidated financial statements.

Tokyo, Japan
June 28, 2001

Century Ota Showa & Co.
CENTURY OTA SHOWA & CO.

See note to the non-consolidated financial statements which explains the basis of preparing the non-consolidated financial statements of PENTA-OCEAN CONSTRUCTION CO., LTD. under Japanese accounting principles and practices.

(As of June 28, 2001)

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	¥33,971 million
No. of Employees	3,710
Website	www.penta-ocean.co.jp

Board of Directors and Auditors

Chairman and President	Rempei Mizuno *
Executive Vice Presidents	Yasuro Mizuno * Jitsuo Takashina * Kazujiro Tetsumura * Hisao Nakashita Tadayoshi Saeki
Executive Directors	Michio Morihira Yasuhiro Mizuno Toshiro Yamada Tojiro Kimura Hideaki Kato
Managing Directors	Yasukazu Sato Nagahiro Asano Eisuke Anryu Masakatsu Matsushita Mitsuto Yokota Hiroshi Okada Hiroshi Sato Kazuyuki Kawakami Takeo Yagi Masaru Nakamura Nobutaka Horie Hitoshi Fujibayashi Yoshio Murashige Motoki Egashira Terumi Tawara Mitsuhide Takenaga
Directors	Yoshio Ishiguro Kunio Matsumura Toshihiko Ueki Fujihiro Uyama Morio Kusano Toshinori Tajimi Hayuru Tsuda Akira Tamura
Corporate Auditors	Nobuki Koizumi Yuji Watanabe Toshiaki Yamane Tatsuhiko Tsukuda

* Representative Director
(As of June 28, 2001)

Organization Chart

Investor Information

(As of June 28, 2001)

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: 361,407,443

Stock Listing Tokyo Stock Exchange, First Section

Shareholders 49,757

Transfer Agency Mizuho Trust & Banking Co., Ltd.
6-2, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-0005, Japan

Major Shareholders

Shareholder	Shares held (thousands)	Percentage
The Yasuda Fire & Marine Insurance Co., Ltd.	16,305	4.5%
The Fuji Bank, Ltd.	15,352	4.2
The Asahi Bank, Ltd.	13,530	3.7
The Yasuda Mutual Life Insurance Company	13,112	3.6
The Yasuda Trust & Banking Co., Ltd.	11,611	3.2
The Tokyo Marine & Fire Insurance Co., Ltd.	9,184	2.5
The Industrial Bank of Japan, Ltd.	8,216	2.3
The Mizuho Trust & Banking Co., Ltd.	7,199	2.0
The Hiroshima Bank, Ltd.	5,811	1.6
Nippon Life Insurance Company	5,565	1.5

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