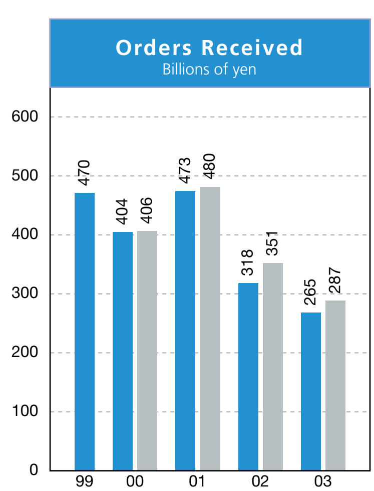
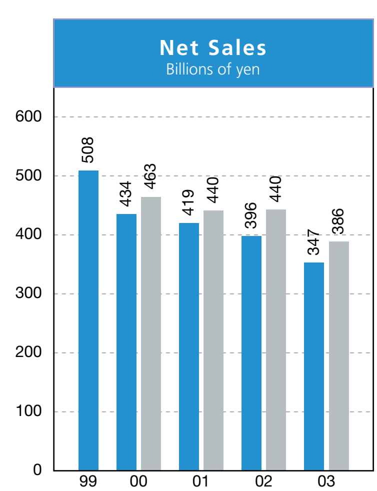
Consolidated Financial Highlights

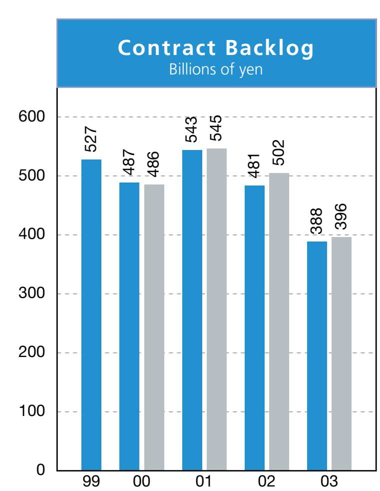
	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Orders received	¥351,331	**¥287,101**	**$2,388,527**
Net sales	440,662	**386,861**	**3,218,478**
Contract backlog	502,980	**396,657**	**3,299,975**
Total assets	509,541	**472,849**	**3,933,852**
Shareholders' equity	51,685	**33,682**	**280,216**
Ordinary income	8,351	**1,846**	**15,357**
Income (loss) before income taxes	6,519	**(21,316)**	**(177,338)**
Net income (loss)	1,771	**(16,261)**	**(135,283)**
Cash dividends	904	**—**	**—**

Per share of common stock	Yen		U.S. dollars
Shareholders' equity	¥143.01	**¥93.21**	**$0.77**
Net income (loss)	4.90	**(45.00)**	**(0.37)**
Cash dividends	2.50	**—**	**—**

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥120.20 per U.S.$1, prevailing on March 31, 2003.







■ Non-Consolidated ■ Consolidated

Message from the President

Fiscal 2002, the year ended March 31, 2003, marked Penta-Ocean's 53rd business term and 107th year in business. During this period, the Japanese economy remained stagnated, mirroring the uncertain state of the global economy. The problems in Iraq, deflationary trends worldwide, and a weak stock market in Japan all contributed to the slowdown in economic growth.

In the Japanese construction market, investment in public sector projects dropped below the previous term's level, owing to the ongoing downturn in government spending. In the private sector, housing investments also declined from the previous term's level, due to growing uncertainty about job security and other issues. Overseas, in the Southeast Asian markets where Penta-Ocean is most involved, growth remained marginal, reflecting a worldwide slowdown in investment in new construction caused by slowing economic growth.

Owing to these circumstances, in October 2002, the Company and its consolidated subsidiaries formulated a two-year medium-term management plan, "Challenge 21." The plan aims to improve performance by increasing profitability. Further downsizing and streamlining of the Group's operations is key to adapting to the rapidly changing business environment surrounding waterfront and coastal civil engineering and construction projects, Penta-Ocean's primary area of expertise.

The new action plan offered early retirement incentives and called for drastic cost-cutting measures that included the dissolution of the employee pension fund system, and the recording of losses in subsidiary company development projects on Penta-Ocean's consolidated balance sheet. It also called for a more closely monitored compliance system.

Business Results for the Term under review

During the term under review, consolidated sales for the Group's development business amounted to ¥3,560 million (US$29.6 million), a year-on-year decrease of 65.6%. Consolidated sales for other categories, however, increased by 13.5% over the previous term to ¥9,132 million (US$75.9 million). Consolidated sales for Penta-Ocean's main construction business declined by 13.0% year-on-year to ¥374,169 million (US$3,112 million). This resulted in a 12.2% decrease in consolidated net sales for the Group for fiscal 2002 to ¥386,861 million (US$3,218 million).

Consolidated operating income declined by 42.4% from the previous term, to ¥6,136 million (US$51.0 million), while consolidated ordinary income dropped 77.9% year-on-year to ¥1,846 million (US$15.3 million). Aiming to improve the Group's financial condition, a large volume of special losses were recorded for the term, including ¥10,245 million (US$85.2 million) taken in charges for loss allowance for liquidation of development projects, and ¥4,081 million (US$33.9 million) for development projects. As a result, consolidated loss before income taxes amounted to ¥21,316 million (US$177 million) for the term under review. Net loss amounted to ¥16,261 million (US$135 million).

Consolidated orders received for the construction segment during the term amounted to ¥287,101 million (US$2,388 million), or 18.3% below the previous term's level. Domestic orders accounted for ¥267,739 million (US$2,227 million) for a year-on-year decrease of 12.7%. Overseas orders represented ¥19,362 million (US$161 million), a decline of 56.5%. Orders independently received by the construction segment amounted to ¥259,430 million (US$2,158 million), a 17.9% decrease from the previous year's level. This decline was attributed to both an increase in competition for new orders and the Group's decision to reject less profitable projects. It was further hampered by Penta-Ocean being barred from participating in bidding for certain projects for the first half of the fiscal term. In these circumstances, regrettably, the Group was unable to pay a dividend to its shareholders for the term under review, as promised last October.

Creating Momentum for Growth

Economic forecasters predict negligible growth in the Japanese economy for the foreseeable future. With capital investment and consumer spending at all-time lows, and a general slowdown in the U.S. and global economies, hard times still lie ahead for Japanese companies.

The protracted falloff in investment for both private and public sector construction projects has created an extremely harsh operating environment for companies in the construction field. This situation has led to increasingly severe competition for projects exhibiting high projected profit margins. To compete successfully in this marketplace, Japanese construction companies must not only take an aggressive approach to business by maintaining solid financial standings and operating profitably, they must also actively market their technological prowess and project execution skills in order to win the highly sought-after very-large-scale projects planned by the governments of emerging economies throughout Southeast Asia. Penta-Ocean is well on its way to becoming the leading contender in this burgeoning new market.

Under the circumstances, our business group has to promote the medium-term management program, "Challenge 21" that was formulated in October 2002 and make company-wide efforts to improve profitability.

In the current term, Penta-Ocean's domestic civil engineering segment will focus on procurement of construction projects in marine environments throughout Japan and will utilize its formidable technological expertise to outpace its competitors. The domestic construction segment will continue to monitor project selection with extreme caution, a practice that has all but eliminated unprofitable projects in recent years.

Through these efforts, we anticipate a reversal in the current downturn in profitability and a return to sustainable economic growth. As we work towards this goal, we will continue to improve transparency and more closely

monitor management practices and performance, while continuing to streamline the Company and unify the efforts of its subsidiary and affiliate companies.

In these challenging times, we ask our shareholders for their forbearance, and for their understanding concerning the reallocation of legal reserves to dispose of losses for the purpose of improving the Company's financial standing in anticipation of a reduction in paid-in capital.

June 27, 2003

Hideaki Kato,
President