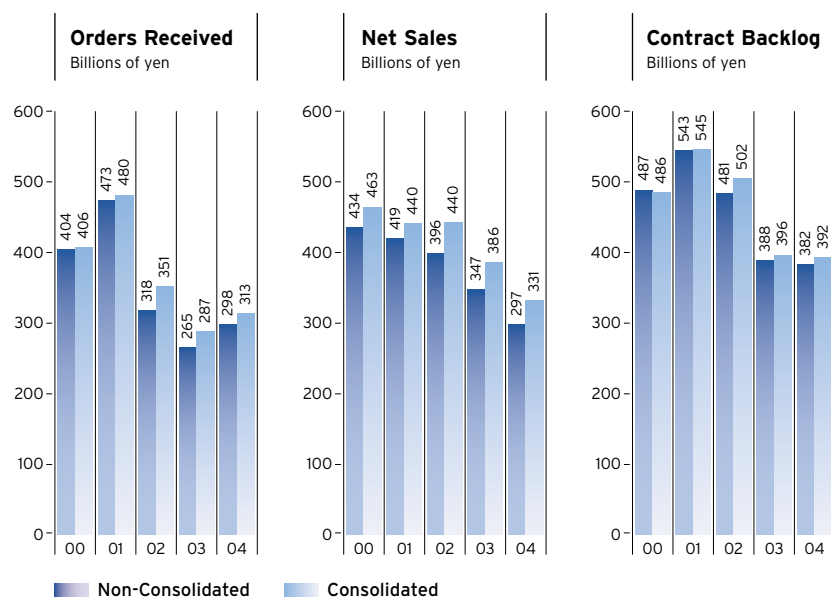


Consolidated Financial Highlights

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Orders received	¥287,101	¥313,751	\$2,968,597
Net sales	386,861	331,170	3,133,409
Contract backlog	396,657	392,377	3,712,527
Total assets	472,849	443,193	4,193,330
Shareholders' equity	33,682	39,860	377,141
Ordinary income	1,846	7,440	70,395
Income (loss) before income taxes	(21,316)	6,624	62,674
Net income (loss)	(16,261)	3,292	31,148
Cash dividends	—	—	—

Per share of common stock	Yen	U.S. dollars
Shareholders' equity	¥ 93.21	\$ 1.04
Net income (loss)	(45.00)	0.09
Cash dividends	—	—

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥105.69 per U.S.\$1, prevailing on March 31, 2004.



Message from the President

Fiscal 2003, the year ended March 31, 2004, marked Penta-Ocean's 54th business term. During this period, corporate profits improved overall owing to export-led business developments, while at home the business environment remained severe, as the Japanese economy continued to stagnate in the midst of eroding corporate and consumer confidence in the government's ability to turn the economy around.

In the domestic construction market, capital investments improved slightly, as did investment in new housing. However, funding for public works projects continued to stagnate, reflecting the trepidation of local and national governments to commit their limited funds to large-scale projects among less than optimistic economic forecasts. This trend resulted in continued shrinkage of the construction market overall.

In Southeast Asia, the major income market for Penta-Ocean, the Group's business activities increased in some countries, while severe competition in others made opportunities extremely challenging.

Business Results for Fiscal 2003

During the term under review, consolidated sales for Penta-Ocean's main construction business amounted to ¥314,626 million (US\$2,976 million), a 15.9% decrease from the previous term. Consolidated net sales for the Group also dropped, by 14.4% year-on-year to ¥331,170 million (US\$3,133 million).

Notwithstanding these declines, consolidated operating income increased by 74.9% to ¥10,734 million (US\$101.6 million). Consolidated ordinary income increased by 303.0% year-on-year to ¥7,440 million (US\$70.4 million). Consolidated income before income taxes amounted to ¥6,624 million (US\$62.7 million). In the previous term, substantial special losses were recorded in order to improve

the Group's overall financial condition and in the term under review, consolidated net income was \$3,292 million (US\$31.1 million).

In fiscal 2003, the Japanese economy remained stagnant, while private sector investment in housing grew over the previous year's level, albeit marginally. Investment in public works continued to decline, as a result of local and national government tightening of funding for civil engineering projects. Against this backdrop, domestic consolidated sales declined by 9.0% year-on-year to ¥296,812 million (US\$2,808 million). Operating income, however, increased by 45.9% to ¥12,367 million (US\$117.0 million).

Overseas, in Southeast Asia, the number of completed projects in Singapore decreased from the previous year. Consolidated sales decreased to ¥27,333 million (US\$258.6 million), a 45.3% year-on-year drop. Operating loss for this region amounted to ¥1,348 million (US\$12.8 million), or 31.4% below the previous term's level.

Consolidated sales derived from projects in Bulgaria, Romania, and other countries amounted to ¥7,025 million (US\$66.5 million), a 34.0% decline from the previous term. Operating loss also decreased for total revenues from this region, by 7.5%, to ¥347 million (US\$3.3 million).

Under these circumstances, regrettably, Penta-Ocean was unable to pay a dividend to shareholders for the term.

Prospering in the Challenging Times Ahead

The Japanese economy is expected to continue moving towards a recovery phase in the current term, supported by gradual increases in exports and capital investment in manufacturing. Unemployment and guarded personal spending contributed to a deflationary trend, however, and a full recovery is expected to take considerable time than initially anticipated.



In the domestic construction market, private sector capital investment increased slightly, although overall, investment in construction continued to decline. The drop in new housing starts reflected a falloff in the number of new families around the country, a trend expected to have a significant impact on Japan's economy from now on. Public sector investment, also, is not expected to grow in the near future, as local and national governments remain cautious in the current environment.

Against this backdrop, the Group continues to promote its medium-term management program, called "Challenge 21," a group-wide reorganization and strengthening effort formulated in October 2002.

In the current term, Penta-Ocean continues to bid for projects at home and overseas aiming to maintain its established position in those markets and increasing revenues and individual project profitability.

Its formidable technological expertise is responsible for its leadership position in the global construction market. The Group continues to develop and market reliable and more cost-effective construction methods and materials than its competitors and is an undisputed authority in such fields as land reclamation and anti-seismic technology development and construction.

As a leading marine construction company with more than a century of practical experience in this field, Penta-Ocean is expanding its capabilities through its involvement in and management of many very-large-scale landmark civil and architectural engineering construction projects worldwide.

In Japan, the Group's domestic construction business returned to profitability for the term under review, a full year sooner than expected. This was achieved through meticulous planning and coordination between sales, engineering and R&D teams, and by careful selection of

projects reflecting Penta-Ocean's growing expertise in various fields such as physical distribution and warehousing and medical technology-related businesses.

In overseas markets, competition grows increasingly severe every year, due both to the increase in the number of companies and consortia competing for projects, and to the severity of the bids. Historically, Penta-Ocean has maintained a strong foothold in Singapore, Hong Kong and other key locations in the region and will continue to exploit this presence and our reputation for excellence in our efforts to secure more business.

We are dedicated to enhancing Penta-Ocean's overall capabilities, strengthening its financial position by enhancing profitability, and increasing its contribution to the communities where it is actively involved at home and abroad. In these efforts, we ask for the continued support and understanding of our shareholders.

June 29, 2004

A handwritten signature in black ink, appearing to read "Hideaki Kato". The signature is fluid and cursive, written on a light-colored background.

Hideaki Kato,
President