

# FINANCIAL STATEMENTS

## Consolidated Summary

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

	Millions of yen			Thousands of U.S. dollars
	2000	2001	2002	2002
Orders received .....	¥406,995	¥480,699	<b>¥351,331</b>	<b>\$2,636,630</b>
Construction .....	406,995	480,699	<b>351,331</b>	<b>2,636,630</b>
Real estate development .....	—	—	—	—
Other .....	—	—	—	—
Net sales .....	463,952	440,141	<b>440,662</b>	<b>3,307,032</b>
Construction .....	436,910	428,367	<b>430,474</b>	<b>3,230,574</b>
Real estate development .....	17,283	5,844	<b>2,149</b>	<b>16,128</b>
Other .....	9,759	5,930	<b>8,039</b>	<b>60,330</b>
Contract backlog .....	486,989	545,246	<b>502,980</b>	<b>3,774,709</b>
Construction .....	486,989	545,246	<b>502,980</b>	<b>3,774,709</b>
Real estate development .....	—	—	—	—
Other .....	—	—	—	—
Total assets .....	510,665	497,114	<b>509,541</b>	<b>3,823,947</b>
Shareholders' equity .....	46,110	51,715	<b>51,685</b>	<b>387,880</b>
Ordinary income .....	8,824	10,494	<b>8,351</b>	<b>62,672</b>
Income before income taxes .....	(19,054)	9,436	<b>6,519</b>	<b>48,923</b>
Net income .....	(13,395)	3,179	<b>1,771</b>	<b>13,291</b>
Cash dividends .....	904	1,807	<b>904</b>	<b>6,784</b>
Per share of common stock:		Yen		U.S. dollars
Shareholders' equity .....	¥128	¥143	<b>¥143</b>	<b>\$1.07</b>
Net income .....	(37.06)	8.80	<b>4.90</b>	<b>0.04</b>
Cash dividends .....	2.50	5.00	<b>2.50</b>	<b>0.02</b>
Number of employees .....	4,176	4,114	<b>4,549</b>	

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

material effect to respective total amounts.  
US\$1=¥133.25 as at March 31, 2002

## FINANCIAL REVIEW

### Business Performance

In the domestic construction market, which is the principal area of business for Penta-Ocean's subsidiaries and affiliates, the number and scale of construction works declined to a level lower than in the previous term. This was due in part to a reduction in the number of public works projects resulting from government sector restructuring and stringent financial cutting. A falloff in private sector capital investment resulting from economic stagnation and the further deterioration in consumer confidence was also to blame. Overseas, increasingly severe competition among Japanese, North American and Southeast Asian construction companies exacerbated the already difficult operating environment.

In this environment, consolidated net sales increased only slightly, by 0.1% over the previous term, to ¥440,662 million (US\$3,307.0 million). Consolidated operating income decreased by 19.0% to ¥10,655 million (US\$80.0 million), while consolidated income before income tax dropped 30.9% year-on-year, to ¥6,519 million (US\$48.9 million). Consolidated net income also declined, by 44.3% to ¥1,771 million (US\$13.3 million).

### Segment Information

By category, consolidated sales for construction amounted to ¥430,475 million (US\$3,230.6 million), an increase of 0.5% from the previous term's level. However operating income for this category declined by 12.8% year-on-year to ¥10,954 million (US\$82.2 million).

In the real estate development category, consolidated sales were down by 59.8%, or ¥2,383 million (US\$17.9 million), owing to the protracted domestic real estate market. Operating losses amounted to ¥237 million (US\$1.8 million). Sales totals were less than half those in the previous term, and therefore it was not possible to obtain the level of operating income achieved in the previous term.

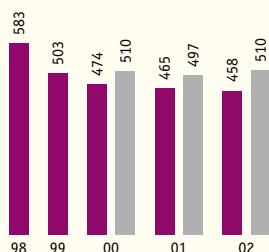
Consolidated sales in the other business category increased 23.8% over the previous term's level to ¥18,459 million (US\$138.5 million), owing to favorable business results in shipbuilding, sales and leasing of construction materials and equipment, and rentals of ocean vessels. However, that amount fell short of what was needed to record a profit, and operating losses amounted to ¥113 million (US\$0.8 million).

When examining the Company's business performance by region, the Japanese economy remained sluggish throughout the whole term under review and public works, private capital investment, and housing investment slowed to a level lower than that in the previous term. This was due mainly to a rapid decline in corporate business results and concurrent deceleration of the global economy.

The business environment surrounding the Company's main business category remained severe throughout fiscal 2001. In these circumstances, domestic consolidated sales declined by 1.7% to ¥362,699 million (US\$2,721.9 million). However, this amount occupied 82.3% of total sales. Operating income decreased by 22.0% to ¥9,217 million (US\$69.2

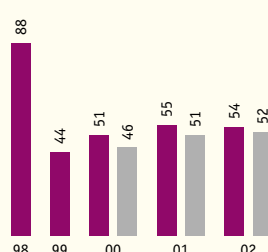
#### Total Assets

Billions of yen



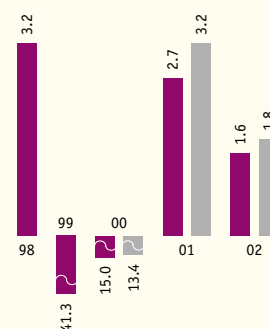
#### Shareholders' Equity

Billions of yen



#### Net Income (Loss)

Billions of yen



million).

Overseas revenues from large-scale reclamation projects in Singapore and construction work in Hong Kong amounted to ¥69,231 million (US\$519.6 million). This represented a year-on-year increase of 7.7%. Overseas operating income amounted to ¥326 million (US\$2.4 million), a 73.1% drop from the previous term. Sales from Southeast Asia accounted for 15.7% of total sales.

Consolidated sales from other areas amounted to ¥8,732 million (US\$65.5 million), increasing 25.8% over the previous year, thanks to an increase in completed works in Egypt, Bulgaria, and other countries. Operating income rose eightfold to ¥1,112 million (US\$8.3 million), compared with the previous term.

### Orders Received and Contract Backlog

The total number of new construction orders during the term amounted to ¥351,331 million (US\$2,636.6 million), a decrease of 26.9% from the previous term. The shortfall resulted from a sharp decline in new public works projects in Japan. A carryover to the current fiscal term amounting to ¥502,980 million (US\$3,774.7 million) for construction projects.

### Cash Flow

In cash flow generated by sales activities, net profit before tax and other adjustments amounted to ¥6,519 million (US\$48.9 million). This represented a year-on-year decrease of ¥2,917 million (US\$21.8 million). This 32.8%, or ¥12,230 million (US\$91.7 million) decline

was the result of a decrease in purchase liabilities, and excess income amounted to ¥25,110 million (US\$188.4 million).

Cash from investment activities increased by ¥1,816 million (US\$13.6 million), or 104.2% year-on-year, thanks to increased income from a growing number of consolidated subsidiaries, although expenditures were allocated for securities purchases and for lending activities. These figures represent an increase of ¥3,561 million (US\$26.7 million) over the previous term's results.

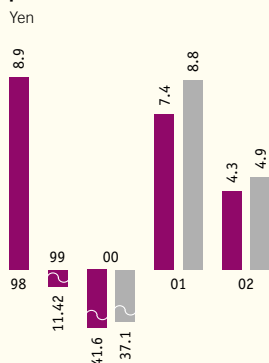
Cash from financial activities decreased by ¥9,429 million (US\$70.7 million) from the previous term's level, to an excess expenditure of ¥31,017 million (US\$232.8 million). This was due mainly to the deferment of long-term debts, as was the case with the previous term.

As a result, the amount of cash and cash equivalents reported by the Company at the end of the term decreased by 4.2%, or ¥2,256 million (US\$16.9 million), to ¥51,376 million (US\$385.6 million).

### Dividends

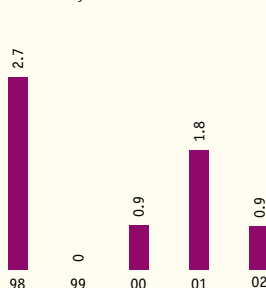
It is the Company's basic policy to pay dividends to its shareholders in a consistent manner, while at the same time endeavoring to accumulate internal reserves in order to maintain a strong financial base. Net profit was substantially reduced during the term under review. However, in keeping with its dividend policy, Penta-Ocean paid a dividend of ¥2.50 (US\$0.187) per share, or a total of ¥903 million (US\$6.7 million) to its shareholders at term-end. The pay out ratio was 58.0%.

**Net Income (Loss) per Share**



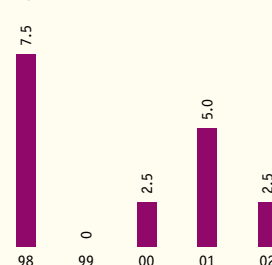
**Cash Dividends**

Billions of yen



**Cash Dividends per Share**

Yen



■ Non-Consolidated ■ Consolidated

## Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries  
March 31, 2001 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
<b>Current assets:</b>			
Cash and time deposits (Note 5) .....	¥ 54,499	¥ 52,423	\$ 393,418
Securities (Notes 3(4), 4 and 5) .....	72	177	1,328
Trade receivables:			
Note .....	24,668	14,455	108,480
Account .....	150,163	158,733	1,191,242
Inventories: (Note 3(7))			
Cost of uncompleted contracts .....	45,832	63,172	474,086
Real estate for trade and real estate in progress .....	53,255	53,828	403,963
Other inventories .....	1,994	2,351	17,644
Deferred tax assets (Note 15) .....	10,231	8,966	67,287
Other current assets .....	7,359	4,423	33,194
Allowance for doubtful receivables (Note 3(6)) .....	(1,236)	(1,585)	(11,895)
Total current assets .....	<u>346,837</u>	<u>356,943</u>	<u>2,678,747</u>
<b>Investments and non-current assets:</b>			
Investment in securities (Notes 3(4), 4 and 5) .....	23,249	23,612	177,201
Long-term loans and receivables .....	2,115	4,236	31,790
Sundry investments .....	25,890	22,451	168,488
Deferred tax assets (Note 15) .....	8,925	10,496	78,769
Allowance for doubtful receivables (Note 3(6)) .....	(13,689)	(12,203)	(91,580)
Total investments and non-current assets .....	<u>46,490</u>	<u>48,592</u>	<u>364,668</u>
<b>Property, plant and equipment: (Note 3(8))</b>			
Land (Note 5) .....	51,688	51,309	385,058
Buildings and structures (Note 5) .....	41,346	39,885	299,325
Machinery, equipment and vehicles .....	19,164	22,752	170,747
Dredgers and vessels .....	42,592	52,387	393,148
Construction in progress .....	1,175	652	4,893
Other property, plant and equipment .....	3,790	3,740	28,067
Total property, plant and equipment .....	<u>159,755</u>	<u>170,725</u>	<u>1,281,238</u>
Less accumulated depreciation .....	(57,031)	(67,490)	(506,491)
Property, plant and equipment — net .....	<u>102,724</u>	<u>103,235</u>	<u>774,747</u>
<b>Other assets:</b>			
Consolidation adjustments .....	144	—	—
Other (Note 3(9)) .....	919	771	5,785
Total other assets .....	<u>1,063</u>	<u>771</u>	<u>5,785</u>
<b>Total assets</b> .....	<u>¥497,114</u>	<u>¥509,541</u>	<u>\$3,823,947</u>

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
<b>Current liabilities:</b>			
Bank loans (Note 6) .....	¥102,815	¥ 81,459	\$ 611,325
Commercial paper .....	3,000	—	—
Current portion of long-term debt (Note 6) .....	22,048	20,437	153,373
Trade payables:			
Note .....	58,108	62,816	471,415
Account .....	91,754	98,530	739,437
Advance on contracts in progress .....	46,695	57,566	432,015
Deposit received .....	14,353	16,478	123,662
Accrued taxes on income .....	521	1,192	8,946
Accrued expenses .....	3,058	3,273	24,563
Other current liabilities .....	3,961	6,553	49,178
Total current liabilities .....	<u>346,313</u>	<u>348,304</u>	<u>2,613,914</u>
<b>Long-term liabilities:</b>			
Long-term debt (Note 6) .....	80,692	86,596	649,876
Reserve for retirement benefits (Notes 3(11) and 19) .....	8,030	9,622	72,210
Reserve for directors' and statutory auditors' retirement (Note 3(12)) .....	1,231	1,422	10,672
Deferred tax liabilities for land revaluation (Note 17(2)) .....	3,418	4,074	30,574
Consolidation adjustments .....	—	1,838	13,794
Other long-term liabilities .....	5,715	6,000	45,027
Total long-term liabilities .....	<u>99,086</u>	<u>109,552</u>	<u>822,153</u>
<b>Shareholders' equity:</b>			
Common stock .....	33,971	33,971	254,942
Common stock			
Authorized — 599,135,000 shares			
Issued — 361,407,443 shares at March 31, 2002 and 2001			
Additional paid-in capital (Note 17(1)) .....	10,635	10,635	79,812
Land revaluation excess (Note 17(2)) .....	4,711	5,614	42,131
Retained earnings (Note 2(5)) .....	317	251	1,884
Valuation difference of other securities (Note 17(3)) .....	1,766	859	6,447
Cumulative foreign currency translation adjustments (Note 3(2)) .....	315	356	2,672
Less: Treasury shares .....	(0)	(1)	(8)
Total shareholders' equity .....	<u>51,715</u>	<u>51,685</u>	<u>387,880</u>
<b>Total liabilities and shareholders' equity</b> .....	<u>¥497,114</u>	<u>¥509,541</u>	<u>\$3,823,947</u>

**Commitments and contingent liabilities (Note 14)**

## Consolidated Statements of Income, and Retained Earnings or Deficit

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
<b>Construction business:</b>			
Net sales .....	¥428,367	<b>¥430,474</b>	<b>\$3,230,574</b>
Cost of sales .....	383,471	<b>385,840</b>	<b>2,895,610</b>
	44,896	<b>44,634</b>	<b>334,964</b>
<b>Real estate and other:</b>			
Net sales .....	11,774	<b>10,188</b>	<b>76,458</b>
Cost of sales .....	10,090	<b>9,655</b>	<b>72,458</b>
	1,684	<b>533</b>	<b>4,000</b>
Total net sales .....	440,141	<b>440,662</b>	<b>3,307,032</b>
Total cost of sales .....	393,561	<b>395,495</b>	<b>2,968,068</b>
Total gross profit .....	46,580	<b>45,167</b>	<b>338,964</b>
<b>Selling, general and administrative expenses</b> .....	33,418	<b>34,512</b>	<b>259,002</b>
Operating income .....	13,162	<b>10,655</b>	<b>79,962</b>
<b>Other income:</b>			
Interest and dividends .....	856	<b>514</b>	<b>3,857</b>
Other (Note 7) .....	1,042	<b>1,156</b>	<b>8,676</b>
	1,898	<b>1,670</b>	<b>12,533</b>
<b>Other expenses:</b>			
Interest .....	4,001	<b>3,529</b>	<b>26,484</b>
Other (Note 8) .....	565	<b>445</b>	<b>3,339</b>
	4,566	<b>3,974</b>	<b>29,823</b>
Ordinary income .....	10,494	<b>8,351</b>	<b>62,672</b>
Extraordinary gain (Note 9) .....	17,321	<b>1,882</b>	<b>14,124</b>
Extraordinary loss (Note 10) .....	18,379	<b>3,714</b>	<b>27,873</b>
Income before income taxes .....	9,436	<b>6,519</b>	<b>48,923</b>
<b>Income taxes: (Notes 3(16) and 15)</b>			
Current .....	872	<b>1,748</b>	<b>13,118</b>
Tax effect adjustment .....	5,385	<b>3,000</b>	<b>22,514</b>
Net income .....	3,179	<b>1,771</b>	<b>13,291</b>
<b>Income per share of common stock (Note 3(13))</b>			
	Yen		U.S. dollars
Primary .....	¥8.80	<b>¥4.90</b>	<b>\$0.04</b>
Assuming full dilution .....	—	—	—

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Shareholders' Equity

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
<b>Common stock:</b>			
Balance at the beginning of the period .....	¥33,971	¥33,971	\$254,942
Balance at the end of the period .....	33,971	33,971	254,942
<b>Additional paid-in capital: (Note 17(1))</b>			
Balance at the beginning of the period .....	10,635	10,635	79,812
Balance at the end of the period .....	10,635	10,635	79,812
<b>Land revaluation excess: (Note 17(2))</b>			
Balance at the beginning of the period .....	4,628	4,711	35,355
Transferred to retained earnings .....	83	903	6,776
Balance at the end of the period .....	4,711	5,614	42,131
<b>Retained earnings (deficit): (Note 2(5))</b>			
Balance at the beginning of the period .....	(3,124)	317	2,379
Increase in retained earnings resulting from change in scope of consolidation .....	—	873	6,552
Decrease in deficit resulting from change in scope of consolidation .....	1,249	—	—
Cash dividends .....	(904)	(1,807)	(13,561)
Transferred from land revaluation excess .....	(83)	(903)	(6,777)
Net income .....	3,179	1,771	13,291
Balance at the end of the period .....	317	251	1,884
<b>Valuation difference of other securities (Note 17(3)) .....</b>	<b>1,766</b>	<b>859</b>	<b>6,447</b>
<b>Cumulative foreign currency translation adjustments (Note 3(2)) .....</b>	<b>¥ 315</b>	<b>¥ 356</b>	<b>\$ 2,672</b>

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
<b>Cash flows from operating activities:</b>			
Income before income taxes .....	¥ 9,436	¥ 6,519	\$ 48,923
Adjustment to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization .....	4,947	6,539	49,073
Amortization of consolidation adjustments .....	48	(435)	(3,265)
Increase (decrease) in allowance for doubtful receivables .....	1,819	(1,626)	(12,203)
Increase (decrease) in reserve for retirement benefits .....	2,218	1,481	11,114
Increase (decrease) in reserve for directors' and statutory auditors' retirement .....	(2)	81	608
Interest and dividends received .....	(856)	(514)	(3,857)
Interest paid .....	4,495	4,053	30,417
Foreign exchange loss (gain) .....	318	(141)	(1,058)
Equity loss of affiliates .....	330	167	1,253
Loss (gain) on sales and disposals of property, plant and equipment .....	(409)	905	6,792
Loss (gain) on sales of investment in securities .....	(3,441)	3	23
Loss on valuation of securities and investment in securities .....	1,863	849	6,371
Gain on establishment of trusts of financial assets to cover retirement benefit obligations .....	(8,069)	—	—
Costs for establishment of trusts of financial assets to cover retirement benefit obligations .....	14,845	—	—
Gain on redemption of long-term debt .....	(4,130)	—	—
Change in assets and liabilities:			
Decrease in trade receivables .....	3,769	17,467	131,084
(Increase) decrease in cost of uncompleted contracts .....	14,711	(2,232)	(16,750)
(Increase) decrease in real estate for trade and real estate in progress and other inventories .....	2,538	(599)	(4,495)
Increase (decrease) in trade payables .....	6,137	(9,871)	(74,079)
Increase (decrease) in advance on contracts in progress .....	(2,105)	(1,757)	(13,186)
Increase (decrease) in accrued expenses .....	(930)	(178)	(1,336)
Other — net .....	(5,410)	9,344	70,124
Sub total .....	42,122	30,055	225,553
Interest and dividends received .....	777	504	3,782
Interest paid .....	(4,680)	(3,903)	(29,291)
Income taxes paid .....	(879)	(1,546)	(11,601)
Net cash provided by (used in) operating activities .....	37,340	25,110	188,443

See accompanying Notes to Consolidated Financial Statements.



	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
<b>Cash flows from investing activities:</b>			
Purchases of securities .....	¥ (15)	¥ (17)	\$ (128)
Proceeds from sales of securities .....	125	90	675
Purchases of investment in securities .....	(1,357)	(2,748)	(20,623)
Proceeds from sales of investment in securities .....	6,473	39	293
Purchases of property, plant and equipment .....	(5,160)	(3,771)	(28,300)
Proceeds from sales of property, plant and equipment .....	2,203	3,223	24,188
Disbursements for loans receivable .....	(2,534)	(2,563)	(19,235)
Collection of loans receivable .....	1,488	102	765
Acquisition of new consolidated subsidiaries, net of cash and cash equivalents acquired .....	3	9,239	69,336
Other — net .....	518	(33)	(247)
Net cash provided by (used in) investing activities .....	1,744	3,561	26,724
<b>Cash flows from financing activities:</b>			
Net decrease in short-term bank loans .....	(29,043)	(25,106)	(188,413)
Net decrease in commercial paper .....	—	(3,000)	(22,514)
Borrowings .....	44,464	21,838	163,887
Reimbursement of long-term debt .....	(36,103)	(22,960)	(172,308)
Cash dividends paid .....	(905)	(1,788)	(13,418)
Other — net .....	(0)	(1)	(7)
Net cash provided by (used in) financing activities .....	(21,587)	(31,017)	(232,773)
<b>Difference resulting from conversion of foreign cash and cash equivalents to yen .....</b>			
	264	253	1,899
<b>Net increase (decrease) in cash and cash equivalents .....</b>	17,761	(2,093)	(15,707)
<b>Cash and cash equivalents at the beginning of the period .....</b>	35,871	53,632	402,492
<b>Decrease in cash and cash equivalents resulting from change in scope of consolidation .....</b>			
	—	(163)	(1,224)
<b>Cash and cash equivalents at the end of the period .....</b>	¥53,632	¥51,376	\$385,561
<b>(Note) Cash and cash equivalents are comprised as follows:</b>			
Cash and deposits .....	¥54,499	¥52,423	\$393,418
Less—Time deposits which can be drawn over three months .....	(867)	(1,047)	(7,857)
Cash and cash equivalents .....	¥53,632	¥51,376	\$385,561