

■ 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	2003	2003
Orders received	¥406,995	¥480,699	¥351,331	¥287,101	\$2,388,527
Construction	406,995	480,699	351,331	287,101	2,388,527
Real estate development	—	—	—	—	—
Other	—	—	—	—	—
Net sales	463,952	440,141	440,662	386,861	3,218,478
Construction	436,910	428,367	430,474	374,169	3,112,887
Real estate development	17,283	5,844	2,149	3,560	29,617
Other	9,759	5,930	8,039	9,132	75,974
Contract backlog	486,989	545,246	502,980	396,657	3,299,975
Construction	486,989	545,246	502,980	396,657	3,299,975
Real estate development	—	—	—	—	—
Other	—	—	—	—	—
Total assets	510,665	497,114	509,541	472,849	3,933,852
Shareholders' equity	46,110	51,715	51,685	33,682	280,216
Ordinary income	8,824	10,494	8,351	1,846	15,357
Income (loss) before income taxes	(19,054)	9,436	6,519	(21,316)	(177,338)
Net income (loss)	(13,395)	3,179	1,771	(16,261)	(135,283)
Cash dividends	904	1,807	904	—	—
Per share of common stock:			Yen		U.S. dollars
Shareholders' equity	¥127.59	¥143.10	¥143.01	¥93.21	\$0.77
Net income (loss)	(37.06)	8.80	4.90	(45.00)	(0.37)
Cash dividends	2.50	5.00	2.50	—	—
Number of employees	4,176	4,114	4,549	3,934	

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.
U.S.\$1=¥120.20 as at March 31, 2003

Financial Review

Business Performance

The domestic construction market, Penta-Ocean's main area of business, remained very depressed during the term under review, while government investment in public works projects dropped below the previous year's level.

In the private sector, housing investment also decline, owing to uncertainty about future employment conditions and lower consumer spending. In the Southeast Asian market, the Group's main area of business outside Japan, economic growth continued on an upward, albeit uncertain path. The slowdown in the U.S. economy also fueled worry that the global economy was slowing.

Against this backdrop, consolidated net sales decreased by 12.2% from the previous term's level to ¥386,861 million (US\$3,218.4 million). Consolidated operating income also declined, by 42.4% year-on-year to ¥6,136 million (US\$51.0 million), while consolidated ordinary income dropped by 77.9% year-on-year to ¥1,846 million (US\$15.3 million). Both loss before income taxes and consolidated net loss recorded substantial losses of ¥21,316 million (US\$177.3 million) and ¥16,261 million (US\$135.2 million), respectively. These unfavorable results were generated by the Group's improved financial condition, owing to the recording of large amounts of special losses, including ¥10,245 million (US\$85.2 million) taken in charges for loss allowance for liquidating development projects, and ¥4,081 million (US\$33.9 million) added to the loss allowance for development projects.

Segment Information

When examining the Group's consolidated financial results by business segment, the domestic construction market accounted for the majority of revenues. Throughout fiscal 2002, the environment surrounding the construction industry remained harsh, owing to the downturn in public investment at both the national and local government levels. Private

capital and housing investments also dropped to levels below the previous term.

Under these circumstances, consolidated sales for the construction segment decreased by 13.0% to ¥5,825 million (US\$48.4 million). This included both domestic and overseas results. Consolidated operating income amounted to ¥5,825 million (US\$48.4 million).

In the development segment, consolidated sales increased by 63.4% over the previous term, to ¥3,894 million (US\$32.3 million), despite a weak domestic real estate market. Although in the previous term Penta-Ocean recorded an operation loss, in the term under review, operating income amounted to ¥501 million (US\$4.1 million).

Total consolidated sales for other businesses amounted to ¥17,853 million (US\$148.5 million), a decrease of 3.3% year-on-year. This total included revenues from shipbuilding, sales and leasing of construction machinery and equipment, and rental of ocean vessels. The Group's golf business performed poorly, and so no operating profit was recorded. Operating loss amounted to ¥88 million (US\$0.7 million), representing a 22.1% drop from the previous year's level.

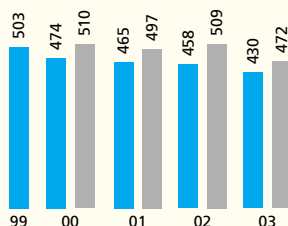
In analyzing business results by region, consolidated sales in Japan amounted to ¥326,217 million (US\$2,713.9 million), a decrease of 10.1% year-on-year. Operating income declined by 7.7% year-on-year to ¥8,476 million (US\$70.5 million).

Consolidated net sales in the Southeast Asian region decreased by 27.8% to ¥49,997 million (US\$415.9 million) and operating loss amounted to ¥1,966 million (US\$16.3 million).

Consolidated net sales in other regions increased by 21.9% year-on-year to ¥10,647 million (US\$88.5 million), thanks mainly to the completion of construction works in Rumania and Bulgaria. However, the Group did not record any operating profit: Operating loss amounted to ¥375 million (US\$3.1 million).

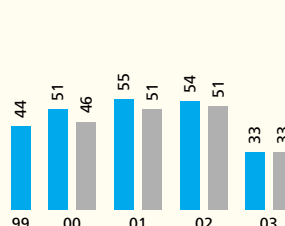
Total Assets

Billions of yen



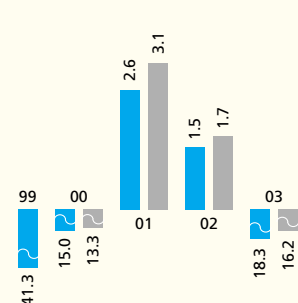
Shareholders' Equity

Billions of yen



Net Income (Loss)

Billions of yen



Orders Received and Contract Backlog

Consolidated orders received by the Group amounted to ¥287,101 million (US\$2,388.5 million) in the term under review. This represented a decline of 18.3% from the previous term. While orders received from the domestic market decreased by 12.7% year-on-year to ¥267,739 million (US\$2,227.4 million), orders from overseas markets dropped substantially, by 56.5%, to ¥19,362 million (US\$161.0 million). This decline was the result of increased 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. Contract backlog decreased by 21.1% year-on-year to ¥396,657 million (US\$3,299.9 million).

Financial Position

Total assets belonging to the Penta-Ocean Group decreased by 7.2%, or ¥36,692 million (US\$305.2 million) from the previous year to ¥472,849 million (US\$3,933.8 million). This was due largely to the reduction in accounts receivable from completed works, payments to uncompleted works, and notes payable/debt service related to these projects. The Group received fewer orders during the term, and it made strenuous efforts to collect accounts receivable from completed works earlier than usual. Net losses amounted to ¥17,259 million (US\$143.5 million).

Cash Flows

For cash flow generated by sales activities, net profit before tax and other adjustments decreased by ¥38,136 million (US\$317.2 million) for an excess payment of ¥13,026 million

(US\$108.3 million). As a result of an increase of ¥24,490 million (US\$203.7 million) owing to a reduction in trade receivables against decreases in net loss before tax and other adjustments of ¥21,316 million (US\$177.3 million) in term under review, trade payables amounted to ¥39,277 million (US\$326.7 million).

Cash flow from investment activities resulted in an excess expenditure of ¥6,214 million (US\$51.6 million), a reduction of ¥9,775 million (US\$81.3 million) from the previous term, as a result of acquisition of new fixed assets and payments for loans.

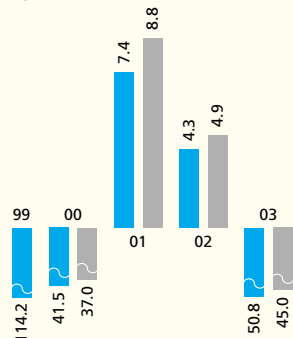
Cash flow from financial activities increased by ¥48,934 million (US\$407.1 million) year-on-year to an excess income of ¥17,917 million (US\$149.0 million): Long and short-term debts increased by ¥15,662 million (US\$130.2 million) and ¥3.1 million (US\$25.7 million), respectively.

The amount of consolidated cash and cash equivalents reported by the Group at the end of the term decreased by ¥2,055 million (US\$17.0 million), or 4.0%, to ¥49,321 million (US\$410.3 million). The balance of interest-bearing liabilities amounted to ¥207,256 million (US\$1,724.2 million).

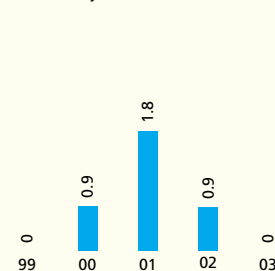
Dividends

It is Penta-Ocean'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, however, it was decided not to pay a dividend, owing to a substantial net loss in the term under review. This was due in part to the reporting of a large number of special losses in order to strengthen the Group's financial standing.

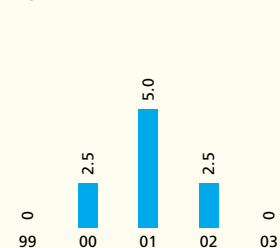
Net Income (Loss) per Share
Yen



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, 2002 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Current assets:			
Cash and deposits (Note 5)	¥ 52,423	¥ 49,969	\$ 415,715
Securities (Notes 3 (4), 4, and 5)	177	728	6,057
Trade receivable:			
Notes	14,455	14,316	119,101
Accounts	158,733	134,811	1,121,556
Inventories: (Note 3 (7))			
Cost of uncompleted contracts..	63,172	50,355	418,927
Real estate for trade and real estate in progress	53,828	52,520	436,938
Other inventories	2,351	3,058	25,441
Deferred tax assets (Note 15)	8,966	10,500	87,354
Other current assets	4,423	5,414	45,042
Allowance for doubtful accounts (Note 3 (6))	(1,585)	(1,006)	(8,369)
Total current assets	<u>356,943</u>	<u>320,665</u>	<u>2,667,762</u>
Investments and non-current assets:			
Investment in securities (Notes 3 (4), 4 and 5)	23,612	18,743	155,932
Long-term loans and accounts receivable	4,236	7,480	62,230
Sundry investments	22,451	21,398	178,019
Deferred tax assets (Note 15)	10,496	15,550	129,368
Allowance for doubtful accounts (Note 3 (6))	(12,203)	(11,858)	(98,652)
Total investments and non-current assets	<u>48,592</u>	<u>51,313</u>	<u>426,897</u>
Property, plant and equipment: (Note 3(8))			
Land (Note 5)	51,309	50,860	423,128
Buildings and structures (Note 5)	39,885	39,509	328,694
Machinery, equipment and vehicles	22,752	20,454	170,166
Dredgers and vessels	52,387	53,283	443,287
Construction in progress	652	1,851	15,399
Other property and equipment	3,740	3,645	30,324
Total property, plant and equipment	<u>170,725</u>	<u>169,602</u>	<u>1,410,998</u>
Less accumulated depreciation	(67,490)	(69,332)	(576,805)
Property, plant and equipment — net	<u>103,235</u>	<u>100,270</u>	<u>834,193</u>
Other assets	<u>771</u>	<u>601</u>	<u>5,000</u>
Other (Note 3 (9))			
Total assets	<u>¥509,541</u>	<u>¥472,849</u>	<u>\$3,933,852</u>

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Current liabilities:			
Short-term debt (Note 6)	¥ 81,459	¥ 84,646	\$ 704,210
Current portion of long-term debt (Note 6)	20,437	22,979	191,173
Trade payable:			
Notes	62,816	37,536	312,280
Accounts	98,530	87,125	724,834
Advance on contract works in progress	57,566	49,337	410,458
Deposits received	16,478	16,209	134,850
Accrued income taxes	1,192	649	5,398
Provision for loss on liquidation of a subsidiary (Note 3 (11))	—	10,245	85,233
Accrued expenses	3,273	2,430	20,216
Other current liabilities	6,553	4,691	39,027
Total current liabilities	<u>348,304</u>	<u>315,847</u>	<u>2,627,679</u>
Long-term liabilities:			
Long-term debt (Note 6)	86,596	99,833	830,558
Reserve for retirement benefits (Notes 3 (12) and 19)	9,622	7,357	61,206
Reserve for directors' and statutory auditors' retirement (Note 3 (13))	1,422	694	5,774
Deferred tax liabilities for land revaluation (Note 17 (2))	4,074	4,012	33,378
Consolidation adjustments	1,838	1,402	11,664
Other long-term liabilities	6,000	10,022	83,377
Total long-term liabilities	<u>109,552</u>	<u>123,320</u>	<u>1,025,957</u>
Shareholders' equity:			
Common stock	33,971	33,971	282,621
Authorized — 599,135,000 shares			
Issued — 361,407,443 shares at March 31, 2002 and 2003			
Capital surplus reserve (Note 17 (1))	10,635	10,635	88,478
Retained earnings (deficit) (Note 2 (5))	251	(17,008)	(141,499)
Land revaluation excess (Note 17 (2))	5,614	5,800	48,253
Unrealized valuation gain or (loss) on other securities — net (Note 17 (3))	859	(64)	(532)
Cumulative foreign currency translation adjustments (Note 3 (2))	356	352	2,928
Less: Treasury stock	(1)	(4)	(33)
Total shareholders' equity	<u>51,685</u>	<u>33,682</u>	<u>280,216</u>
Total liabilities and shareholders' equity	<u>¥509,541</u>	<u>¥472,849</u>	<u>\$3,933,852</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, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Construction business:			
Net sales	¥430,474	¥374,169	\$3,112,887
Cost of sales	385,840	340,170	2,830,033
	44,634	33,999	282,854
Real estate and other:			
Net sales	10,188	12,692	105,591
Cost of sales	9,655	11,629	96,747
Gross profit	533	1,063	8,844
Total net sales	440,662	386,861	3,218,478
Total cost of sales	395,495	351,799	2,926,780
Total gross profit	45,167	35,062	291,698
Selling, general and administrative expenses	34,512	28,926	240,650
Operating income	10,655	6,136	51,048
Other income:			
Interest and dividends	514	477	3,968
Other (Note 7)	1,156	1,254	10,433
	1,670	1,731	14,401
Other expenses:			
Interest	3,529	3,462	28,802
Other (Note 8)	445	2,559	21,290
	3,974	6,021	50,092
Ordinary income	8,351	1,846	15,357
Extraordinary gain (Note 9)	1,882	2,561	21,306
Extraordinary loss (Note 10)	3,714	25,723	214,001
Income (loss) before income taxes	6,519	(21,316)	(177,338)
Income taxes: (Notes 3 (17) and 15)			
Current	1,748	812	6,755
Income taxes deferred	3,000	(5,867)	(48,810)
Net income (loss)	1,771	(16,261)	(135,283)
Income per share of common stock (Note 3 (14))			
	Yen		U.S. dollars
Primary	¥4.90	¥(45.00)	\$(0.37)
Assuming full dilution	—	—	—

Consolidated Statements of Shareholders' Equity

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Common stock:			
Balance at the beginning of the period	¥33,971	¥33,971	\$282,621
Balance at the end of the period	33,971	33,971	282,621
Capital surplus: (Note 17 (1))			
Balance at the beginning of the period	10,635	10,635	88,478
Balance at the end of the period	10,635	10,635	88,478
Earned surplus: (Note 2 (5))			
Balance at the beginning of the period	317	251	2,088
Increase resulting from change in scope of consolidation	873	—	—
Decrease resulting from change in scope of consolidation	—	(23)	(192)
Cash dividends	(1,807)	(903)	(7,513)
Transferred from land revaluation excess — net	(903)	(72)	(599)
Net income (loss)	1,771	(16,261)	(135,283)
Balance at the end of the period	251	(17,008)	(141,499)
Land revaluation excess — net: (Note 17 (2))			
Balance at the beginning of the period	4,711	5,614	46,705
Transferred to earned surplus	903	72	599
Increase in excess — net	0	114	949
Balance at the end of the period	5,614	5,800	48,253
Unrealized valuation gain or (loss) on other securities — net (Note 17 (3))	859	(64)	(532)
Cumulative foreign currency translation adjustments (Note 3 (2))	¥ 356	¥ 352	\$ 2,928
Treasure stock	¥ (1)	¥ (4)	\$ (33)

Consolidated Statements of Cash Flows

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash flows from operating activities:			
Income before income taxes..	¥ 6,519	¥(21,316)	\$(177,338)
Adjustment to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	6,539	6,016	50,050
Amortization of consolidation adjustments	(435)	(435)	(3,619)
Increase (decrease) in allowance for doubtful receivables	(1,626)	(924)	(7,687)
Increase (decrease) in reserve for retirement benefits	1,481	(2,265)	(18,844)
Increase (decrease) in reserve for directors' and statutory auditors' retirement	81	—	—
Interest and dividends received	(514)	(477)	(3,968)
Interest expense	4,053	3,555	29,576
Foreign exchange loss (gain)	(141)	754	6,273
Equity loss of affiliates	167	569	4,734
Loss (gain) on sales and disposals of property, plant and equipment	905	283	2,354
Loss (gain) on sales of investment in securities	3	(5)	(42)
Write-down of securities and investment in securities	849	505	4,201
Change in assets and liabilities:			
Decrease in trade receivables	17,467	24,490	203,744
(Increase) decrease in cost of uncompleted contracts	(2,232)	12,817	106,631
(Increase) decrease in real estate for trade and real estate in progress and other inventories	(599)	517	4,301
Increase (decrease) in trade payables	(9,871)	(39,277)	(326,764)
Increase (decrease) in advance on contracts in progress	(1,757)	(8,229)	(68,461)
Increase (decrease) in accrued expenses	(178)	13,446	111,864
Other — net.....	9,344	1,287	10,707
Sub total	30,055	(8,689)	(72,288)
Interest and dividends received	504	528	4,394
Interest paid	(3,903)	(3,511)	(29,210)
Income taxes paid	(1,546)	(1,354)	(11,265)
Net cash provided by (used in) operating activities	25,110	(13,026)	(108,369)

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash flows from investing activities:			
Purchases of securities	(17)	(523)	(4,351)
Proceeds from sales of securities	90	183	1,522
Purchases of investment in securities	(2,748)	(1,179)	(9,809)
Proceeds from sales of investment in securities	39	1,558	12,962
Purchases of property, plant and equipment	(3,771)	(3,955)	(32,903)
Proceeds from sales of property, plant and equipment	3,223	1,002	8,336
Loans made	(2,563)	(5,106)	(42,479)
Collection of loans receivable	102	1,470	12,230
Acquisition of new consolidated subsidiaries, net of cash and cash equivalents acquired	9,239	—	—
Other — net	(32)	336	2,795
Net cash provided by (used in) investing activities	3,561	(6,214)	(51,697)
Cash flows from financing activities:			
Net decrease in short-term bank loans	(25,106)	3,159	26,281
Net decrease in commercial paper	(3,000)	—	—
Borrowings	21,838	36,883	306,847
Repayment of long-term debt	(22,960)	(21,222)	(176,555)
Cash dividends paid	(1,788)	(900)	(7,488)
Other — net	(1)	(3)	(25)
Net cash provided by (used in) financing activities	(31,017)	17,917	149,060
Difference resulting from conversion of foreign cash and cash equivalents to yen			
	253	(732)	(6,091)
Net increase (decrease) in cash and cash equivalents	(2,093)	(2,055)	(17,097)
Cash and cash equivalents at beginning of the period	53,632	51,376	427,421
Decrease in cash and cash equivalents resulting from change in scope of consolidation			
	(163)	—	—
Cash and cash equivalents at end of the period	¥51,376	¥49,321	\$410,324
(Note) Cash and cash equivalents are comprised as follows:			
Cash and deposits	¥52,423	¥49,969	\$415,715
Less — Time deposits which can be drawn over three months	(1,047)	(648)	(5,391)
Cash and cash equivalents (Note 3 (15))	¥51,376	¥49,321	\$410,324