MODEC, INC. and Subsidiaries

Consolidated Financial Statements
As of December 31, 2005 and 2004

MODEC, INC. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

A S S E T S

	Thousands of Japanese yen		Thousands of U.S. dollars
	2005	2004	2005
CURRENT ASSETS:			
Cash and time deposits	¥ 25,061,948	¥14,061,927	$212,263
Accounts receivable – trade (Note 16)	16,409,320	14,059,343	138,980
Inventories (Note 2)	2,237,994	165,116	18,955
Short-term loans receivable (Note 16)	255,827	9,783,707	2,167
Short-term lease receivable	2,145,448	1,735,858	18,171
Deferred tax assets (Note 11)	156,195	451,866	1,323
Other current assets	2,568,466	2,448,341	21,754
Less- Allowance for bad debts	(3,013)	(5,392)	(26)
Total current assets	48,832,185	42,700,766	413,587
PROPERTY AND EQUIPMENT:			
Buildings and equipment	774,407	695,591	6,558
Vessel	10,236,883	11,744,758	86,702
Construction in progress	3,735,215	—	31,636
Less- Accumulated depreciation	(7,651,566)	(6,731,787)	(64,805)
	7,094,939	5,708,562	60,091
INTANGIBLE ASSETS (Note 4)	5,246,688	4,769,788	44,437
OTHER ASSETS:			
Investment securities (Note 3)	8,463,479	3,882,262	71,682
Long-term loans receivable from unconsolidated subsidiaries and affiliated companies (Note 16)	28,289,633	1,745,350	239,601
Long-term lease receivable	5,043,801	6,273,428	42,719
Deferred tax assets (Note 11)	1,345,512	1,081,245	11,396
Other investments	388,817	366,038	3,292
Less- Allowance for bad debts	(6,400)	(6,400)	(54)
	43,524,842	13,341,923	368,636
Total assets	¥104,698,654	¥66,521,039	$886,751

The accompanying notes are an integral part of these balance sheets.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of Japanese yen		Thousands of U.S. dollars
	2005	2004	2005
CURRENT LIABILITIES:			
Accounts payable - trade	¥ 18,889,959	¥10,255,786	$159,989
Short-term loans payable (Notes 5 and 6)	27,960,410	12,663,619	236,812
Current portion of long-term loans payable (Note 5)	3,107,316	6,652,649	26,318
Accrued expenses	1,692,027	1,280,488	2,927
Income taxes payable (Note 11)	345,594	1,517,446	14,330
Provision for product warranty	504,574	322,184	4,274
Deferred tax liabilities (Note 11)	725,719	238,298	6,147
Other current liabilities	3,205,519	1,979,190	27,149
Total current liabilities	56,431,118	34,909,660	477,946
LONG-TERM LIABILITIES:			
Long-term loans payable (Note 5)	6,478,169	6,345,467	54,867
Severance and retirement benefits			
For employees (Note 9)	113,839	103,109	964
For directors and corporate auditors	120,944	104,980	1,025
Deferred tax liabilities (Note 11)	1,548,182	1,378,991	13,112
Other long-term liabilities	355,674	–	3,013
Total long-term liabilities	8,616,808	7,932,547	72,981
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	1,807,072	1,393,822	15,305
CONTINGENT LIABILITIES (Note 12)			
SHAREHOLDERS' EQUITY (Note 7):			
Common stock;			
Authorized – 102,868,000 shares			
Issued – 37,408,000 shares and 34,008,000 shares at December 31, 2005 and 2004, respectively	12,391,600	7,159,000	104,951
Capital surplus	13,121,672	7,675,150	111,135
Retained earnings	10,434,178	7,531,745	88,373
Net unrealized holding gains on securities	865,195	575,834	7,328
Foreign currency translation adjustments	1,031,558	(656,489)	8,737
Less- Treasury stock at cost	(547)	(230)	(5)
	37,843,656	22,285,010	320,519
Total liabilities and shareholders' equity	¥104,698,654	¥66,521,039	$886,751

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2005 and 2004

	Thousands of Japanese yen		Thousands of U.S. dollars
	2005	2004	2005
SALES	¥71,614,166	¥51,891,763	$606,540
COST OF SALES (Note 10)	63,053,293	44,553,251	534,033
Gross profit	8,560,873	7,338,512	72,507
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,665,333	3,559,153	39,514
Operating profit	3,895,540	3,779,359	32,993
OTHER INCOME (EXPENSES):			
Interest income and dividend income	1,287,727	842,171	10,907
Interest expense	(1,261,365)	(685,374)	(10,683)
Foreign exchange gain (loss), net	580,714	(420,480)	4,918
Equity in earnings of affiliates	763,396	128,327	6,466
Depreciation of idle assets	—	(229,126)	—
Gain from cancellation of derivative transaction	—	119,056	—
Loss on sale of property and equipment, net	—	(44,612)	—
Loss on bad debt	—	(242,808)	—
Other, net	142,046	167,744	1,203
Total other income (expenses)	1,512,518	(365,102)	12,811
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	5,408,058	3,414,257	45,804
INCOME TAXES (Note 11):			
Current	1,010,252	2,290,352	8,556
Adjustment to prior years	—	(489,908)	—
Deferred	841,903	(1,174,044)	7,131
INCOME BEFORE MINORITY INTERESTS	3,555,903	2,787,857	30,117
MINORITY INTERESTS	342,901	557,364	2,904
NET INCOME	¥ 3,213,002	¥ 2,230,493	$ 27,213

	Japanese yen		U.S. dollars
Net income per share (Note 8)	¥93.46	¥72.77	$0.79
Dividends per share	¥10.00	¥7.50	$0.08

The accompanying notes are an integral part of these statements.

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2005 and 2004

	Number of shares of common stock	Thousands of Japanese yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance, December 31, 2003	29,992,000	¥4,659,200	¥5,175,350	¥5,648,661	¥337,398	¥ (638,583)	–
Issuance of new shares	4,016,000	2,499,800	2,499,800	–	–	–	–
Net income	–	–	–	2,230,493	–	–	–
Cash dividends paid	–	–	–	(337,409)	–	–	–
Bonuses paid to directors	–	–	–	(10,000)	–	–	–
Change for the year	–	–	–	–	238,436	(17,906)	–
Purchases of treasury stock	–	–	–	–	–	–	¥(230)
Balance, December 31, 2004	34,008,000	7,159,000	7,675,150	7,531,745	¥575,834	(656,489)	(230)
Issuance of new shares	3,400,000	5,232,600	5,446,522	–	–	–	–
Net income	–	–	–	3,213,002	–	–	–
Cash dividends paid	–	–	–	(297,569)	–	–	–
Bonuses paid to directors	–	–	–	(13,000)	–	–	–
Change for the year	–	–	–	–	289,361	1,688,047	–
Purchases of treasury stock	–	–	–	–	–	–	(318)
Balance, December 31, 2005	37,408,000	¥12,391,600	¥13,121,672	¥10,434,178	¥865,195	¥1,031,558	¥ (547)

	Thousands of U.S. dollars					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance, December 31, 2004	$60,634	$65,005	$63,791	$4,877	$(5,560)	$(2)
Issuance of new shares	44,317	46,130	–	–	–	–
Net income	–	–	27,213	–	–	–
Cash dividends paid	–	–	(2,520)	–	–	–
Bonuses paid to directors	–	–	(111)	–	–	–
Change for the year	–	–	–	2,451	14,297	–
Purchases of treasury stock	–	–	–	–	–	(3)
Balance, December 31, 2005	$104,951	$111,135	$88,373	$7,328	$8,737	$(5)

The accompanying notes are an integral part of these statements.

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2005 and 2004

	Thousands of Japanese yen		Thousands of U.S. dollars
	2005	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 5,408,058	¥3,414,257	$45,804
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	1,116,419	635,640	9,456
Amortization of consolidated differences	26,486	26,486	224
Provision for (reversal of) allowance for bad debts	(2,379)	2,101	(20)
Provision for severance and retirement benefits for employees	10,730	7,250	91
Provision for severance and retirement benefits for directors and corporate auditors	15,964	54,556	135
Provision for product warranty	139,505	297,870	1,182
Interest income and dividend income	(1,287,727)	(842,171)	(10,906)
Interest expense	1,261,365	685,374	10,683
Foreign exchange loss	131,722	96,030	1,116
Equity in earnings of affiliates	(763,396)	(128,327)	(6,466)
Gain from cancellation of derivative transaction	—	(119,056)	—
Loss on sale of property and equipment, net	—	44,612	—
Changes in assets and liabilities:			
Decrease (Increase) in			
– Accounts receivable - trade	1,407,818	3,559,708	11,924
– Inventories	(2,072,878)	1,708,890	(17,556)
– Consumption taxes refund receivable	(51,674)	46,863	(438)
Increase (Decrease) in			
– Accounts payable - trade	7,614,825	(856,050)	64,494
Bonuses paid to directors	(13,000)	(10,000)	(110)
Other, net	1,424,803	1,002,337	12,066
	14,366,641	9,626,370	121,679
Interest and dividend received	1,132,849	619,103	9,595
Interest paid	(1,513,965)	(426,204)	(12,823)
Income taxes refund	—	489,908	—
Income taxes paid	(2,107,517)	(685,858)	(17,850)
Net cash provided by operating activities	11,878,008	9,623,319	100,601

	Thousands of Japanese yen		Thousands of U.S. dollars
	2005	2004	2005
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment and intangible assets	(4,399,785)	(3,785,888)	(37,264)
Proceeds from sale of property and equipment and intangible assets	―	1,486,812	―
Purchases of investment securities	―	(100,000)	―
Purchases of investments in affiliates	(2,613,862)	(1,624,995)	(22,138)
Decrease (Increase)in short-term loans receivable	10,699,185	(3,395,875)	90,617
Disbursement of long-term loans receivable	(25,660,021)	(4,504,064)	(217,329)
Collection of long-term loans receivable	426,203	2,521,307	3,610
Purchase of investment subsidiaries	―	(4,999,680)	―
Other, net	(1,500)	―	(13)
Net cash used in investing activities	(21,549,780)	(14,402,383)	(182,517)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in short-term loans payable	13,853,314	4,244,338	117,331
Proceeds from long-term loans payable	3,075,259	156,300	26,046
Repayment of long-term loans payable	(8,225,701)	(3,816,005)	(69,668)
Issuance of shares	10,679,122	4,999,600	90,447
Cash dividends paid to minority interests	(81,202)	(84,402)	(688)
Cash dividends paid	(297,379)	(334,960)	(2,518)
Other, net	(316)	(230)	(2)
Net cash provided by financing activities	19,003,097	5,164,641	160,948
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,668,696	(119,367)	14,133
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,000,021	266,210	93,165
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,061,927	13,795,717	119,098
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO ADDITIONAL CONSOLIDATED SUBSIDIARIES	―	0	―
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥25,061,948	¥14,061,927	$212,263

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting and Reporting Policies

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of MODEC, Inc. (the “Company) have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2005, which was ¥118.07 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(b) Principles of Consolidation and Equity Method

The accompanying consolidated financial statements include the accounts of the Company and 19 of its subsidiaries for the year ended December 31, 2005 and 15 of its subsidiaries for the year ended December 31, 2004. Material inter-company balances, transactions and profits have been eliminated in consolidation.

Investments in all of significant unconsolidated subsidiaries and affiliates, which were 10 companies for the year ended December 31, 2005 and 5 companies for the year ended December 31, 2004, were accounted for by using the equity method.

The consolidated financial statements are required to include the accounts of the Company and significant companies that are controlled by the Company through substantial ownership of more than 50% of the voting rights or through ownership of a high percentage of the voting rights, even if it is equal to or less than 50%, and existence of certain conditions evidencing control by the Company of decision-making bodies of such companies.

Investments in significant unconsolidated subsidiaries and affiliates, of which the Company has ownership of 20% or more but less than or equal to 50%, and of 15% or more and less than 20% and can exercise significant influences over operating financial policies of investees, have been accounted for by the equity method.

All consolidated subsidiaries have the same balance sheet date, December 31, corresponding with that of the Company.

(c) Valuation of Assets and Liabilities of Subsidiaries

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, were evaluated using the fair value at the time the Company acquired the control of the respective subsidiaries.

(d) Consolidated Differences

The differences between cost and net assets acquired of consolidated subsidiaries and affiliated companies which are accounted for by using the equity method are recognized as consolidated differences and amortized using the straight-line method over estimated useful lives, except that these differences recognized in a consolidated subsidiary in the U.S.A. are treated in accordance with U.S. GAAP.

(e) Securities

In accordance with the Japanese accounting standard for financial instruments, all companies required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, “trading securities”), (b) debt securities intended to be held to maturity (hereafter, “held-to-maturity debt securities”), (c) equity securities issued by unconsolidated subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, “available-for-sale securities”).

Based on the examination of the intent of holding, the Company classifies its securities as equity securities issued by unconsolidated subsidiaries and affiliated companies and available-for-sale securities. Available-for-sale securities maturing within one year from the balance sheet date are included in current assets. Other securities are included in investments securities. The Company does not have trading securities or held-to-maturity debt securities.

Equity securities issued by unconsolidated subsidiaries and affiliated companies that are not accounted for by equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value as of balance sheet dates. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated at moving-average cost.

(f) Inventories

Both raw materials and costs of uncompleted contracts are stated at cost, determined on an individual project basis.

(g) Property and Equipment

Property and equipment are carried substantially at cost. Depreciation of Floating Production Storage & Offloading ("FPSO") and Floating Storage & Offloading ("FSO"), owned by the consolidated overseas subsidiaries are calculated by using the straight-line method based on their lease term or their economic useful lives.

Depreciation of property and equipment other than FPSO and FSO is calculated as follows. The Company depreciates property and equipment using the declining-balance method based on their useful lives and residual value prescribed by the Japanese corporation tax laws and regulations, except that buildings, acquired after March 31, 1998, are depreciated using the straight-line method. Consolidated overseas subsidiaries depreciate property and equipment using the straight-line method based on their useful lives.

(h) Intangible Assets

The Company amortizes software costs using the straight-line method over the estimated useful life (5 years), and amortizes intangible assets using the straight-line method based on their useful lives and residual value prescribed by the Japanese corporation tax laws and regulations.

Goodwill of a consolidated overseas subsidiary is amortized using the straight-line method based on the terms of an agreement.

Mining rights of a consolidated overseas subsidiary is amortized using the production method based on the amount of production forecast.

(i) Impairment of Fixed Assets

Effective January 1, 2005, The Company adopts early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of adopting the new standard and the guidance, there is no effect on the consolidated financial statements.

(j) Allowance for Bad Debts

The Company provides for a sufficient allowance for bad debts to cover probable losses on collection by estimating uncollectable amounts individually in addition to amounts for possible losses based on actual losses on collection in the past.

(k) Accrued Employees' Bonuses

The Company accrues employees' bonuses based on the estimated amounts to be paid in the subsequent period.

(l) Provision for Product Warranty

Provision for product warranty is provided based on the estimated amounts for covering the probable product warranties.

(m) Severance and Retirement Benefits for Employees

The Company has an unfunded lump-sum severance and retirement payment plan for employees. The Company and some overseas consolidated subsidiaries also adopt defined contribution pension plans. Under the plan, employees whose employment is terminated or who retire are entitled to benefits which are, in general, determined on the basis of length of service and current basic salary at the time of termination or retirement. If the termination is involuntary, the employees are generally entitled to larger benefits than in the case of voluntary termination or retirement.

The Company provides allowance for employees' severance and retirement benefits based on the estimated amount of projected benefit obligation at the balance sheet date.

(n) Severance and Retirement Benefits for Directors and Corporate Auditors

Subject to shareholders' approval, directors and corporate auditors customarily receive lump-sum payments upon retirement under an unfunded retirement allowances plan.

The Company records severance and retirement benefits for directors and corporate auditors at the amounts payable if all directors and corporate auditors voluntarily terminated their employment at the balance sheet date.

(o) Translation of Foreign Currency Accounts

Foreign currency transactions are translated into Japanese yen using the exchange rate in effect at the time of each transaction or at the applicable exchange rates under forward exchange contracts.

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the year-end exchange rate, and the resulting gains or losses are included in other income (expenses) in the statement of income.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen using the exchange rates prevailing at the end of each fiscal year, except the exchange rates in effect at the date of transactions are used for shareholders' equity. The Company records foreign currency translation adjustments in the shareholders' equity.

(p) Finance Lease Transactions without Transfer of Ownership

Finance lease transactions, other than those that transfer ownership of the leased property to the lessee, are accounted for in the same way as operating lease transactions.

(q) Derivative Transactions and Hedge Accounting

Derivative financial instruments of the Company are stated at fair value and gains or losses are recognized for changes in the fair value unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner.

1) If a forward foreign exchange contract is executed to hedge existing foreign currency receivables or payables,
    a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
    b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Some consolidated overseas subsidiaries adopt hedge accounting in accordance with U.S.GAAP.

(r) Revenue Recognition

The Company recognizes revenues on contracts by the completed contract method, except for those items whose contract amount is over 1 billion yen and whose term of construction is over one year in which cases the percentage of completion method is used.

The U.S.A. consolidated subsidiary recognizes revenues on all contracts by the percentage of completion method.

(s) Income Taxes

The Company provides income taxes at the amounts currently payable based on taxable income for tax purposes that may be different from income for the accounting purposes. The Company recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(t) Cash Flow Statement

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2005 and 2004 were as follows:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits	¥25,061,948	¥14,061,927	$212,263
Cash and cash equivalents	¥25,061,948	¥14,061,927	$212,263

(u) Reclassification

Certain reclassifications have been made to the previously reported fiscal 2004 amounts to conform to fiscal 2005 presentation. These reclassifications had no effect on previously reported net income or total shareholders' equity.

2. <u>Inventories</u>

Inventories as of December 31, 2005and 2004 consisted of the following:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2005	2004	2005
Raw materials	¥1,836,861	—	$15,557
Costs of uncompleted contracts	401,133	¥165,116	3,398
	¥2,237,994	¥165,116	$18,955

3. Marketable Securities and Investment Securities

(a) The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of December 31, 2005and 2004

2005	Thousands of Japanese Yen Acquisition cost	 Book value	 Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥310,587	¥1,777,020	¥1,466,433
Total	¥310,587	¥1,777,020	¥1,466,433

2004 :	Thousands of Japanese Yen Acquisition cost	 Book value	 Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥310,587	¥1,286,576	¥975,989
Total	¥310,587	¥1,286,576	¥975,989

2005 :	Thousands of U.S. dollars Acquisition cost	 Book value	 Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	$2,631	$15,051	$12,420
Total	$2,631	$15,051	$12,420

(b) The following table summarizes book values of securities with no available fair values as of December 31, 2005and 2004

	Thousands of Japanese Yen 2005	 2004	Thousands of U.S. dollars 2005
Available-for-sale securities:			
Unlisted equity securities	¥ 200,000	¥ 200,000	$ 1,694
Investments in non-consolidated subsidiaries and affiliates:	6,486,459	2,395,685	54,937
Total	¥6,686,459	¥2,595,685	$56,631

4. Consolidated Differences

Consolidated differences included in intangible assets as of December 31, 2005 and 2004 were ¥3,866,433 thousand ($32,747 thousand) and ¥3,768,431 thousand, respectively.

5. Loans Payable

Short-term loans payable represent notes payable to banks due generally in twelve months and bearing an average interest rate of 5.1% and 2.1% as of December 31, 2005 and 2004, respectively.

Long-term loans payable as of December 31, 2005 and 2004 are summarized below:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2005	2004	2005
Loans from banks and others, at average rate of 4.1% due through 2008	¥9,585,485	¥12,998,116	$81,185
Less: Current portion included in current liabilities	(3,107,316)	(6,652,649)	(26,318)
	¥6,478,169	¥6,345,467	$54,867

The aggregate annual maturities of long-term loans payable are summarized below:

Year ended December 31,	Thousands of Japanese Yen	Thousands of U.S. dollars
2006	¥ 3,107,316	$ 26,318
2007	4,125,355	34,390
2008	2,352,814	19,927
	¥9,585,485	$81,185

6. Lending Commitment

The Company has a commitment line provided by co-financing consisted of five correspondent financial institutions for the purpose of efficient providing operating funds. The commitment line amount is $150,000 thousand, and the amount of loans as of December 31, 2005 is $48,000 thousand.

7. Shareholders’ Equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code.

The Company issued 1,774,000 of common stock by public offering on December 13, 2005 and 1,626,000 shares of common stock to Mitsui Engineering & Shipbuilding Co., Ltd., the parent company, on December 13, 2005, respectively. Consequently, common stock increased from ¥7,159,000 thousand to ¥12,391,600 thousand ($104,951 thousand), and additional paid-in capital increased from ¥7,675,150 thousand to ¥13,121,672 thousand ($111,135 thousand).

8. Per Share Data

Net income per share is calculated based on the weighted average number of shares of common stock outstanding during the fiscal year.

Diluted net income per share reflects the effect of potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. There is no outstanding potential common stock for the year ended December 31, 2005 and 2004.

9. Severance and Retirement Benefits for Employees

The company has an unfunded lump-sum severance and retirement payment plan for employees. The Company and some overseas consolidated subsidiaries also adopt defined contribution pension plans. In accordance with the Japanese accounting standard for employees’ severance and pension benefits, a “simpler method” can be adopted to calculate severance and retirements benefits employees if the number of employees is less than 300. Therefore the Company adopts the “simpler method”, and records severance and retirement benefits for employees at the amounts payable if all employees voluntarily terminated their employment at the balance sheet date. None of the consolidated subsidiaries have any termination and retirement allowances plan for employees.

The severance and retirement benefits for employees included in the liability section of the consolidated balance sheets as of December 31, 2005 and 2004 consisted of the following:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥113,839	¥103,109	$964
Severance and retirement benefits for employees	¥113,839	¥103,109	$964

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended December 31, 2005 and 2004 were comprised of the following:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2005	2004	2005
Service costs – benefits earned during the year	¥22,638	¥16,109	$192
Others	11,180	—	94
Severance and retirement benefit expenses	¥33,818	¥16,109	$286

10. Research and Development Costs

Costs relating to research and development activities charged to income for the years ended December 31, 2005 and 2004 are ¥17,108 thousand ($145 thousand) and ¥6,828 thousand, respectively.

11. Income Taxes

The normal statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes are 41% for the year ended December 31, 2005 and 42% for the year ended December 31, 2004.

The following table summarizes the significant differences between the statutory tax rate and the Company and its consolidated subsidiaries' effective tax rate for financial statement purposes for the years ended December 31, 2005 and 2004:

	2005	2004
Statutory tax rate	41.0%	42.0%
Non-deductible expenses for tax purposes	0.3	0.5
Additional payment or refund based on tax examination	0.1	(15.4)
Offset of dividends from overseas consolidated subsidiaries	6.2	–
Taxation on revenue basis of foreign subsidiaries	4.8	3.8
Deductible income excluded from accounting purposes	–	2.1
Deductible expenses excluded from accounting purposes	1.9	–
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(8.9)	(10.3)
Credit for foreign taxes	(5.9)	–
Tax loss carry forward	1.8	2.8
Equity in earning of affiliates	(5.8)	(1.6)
Realization of tax loss carry forward	(2.1)	(4.8)
Others	0.8	(0.8)
Effective tax rate	34.2%	18.3%

Significant components of deferred tax assets and liabilities as of December 31, 2005 and 2004 were as follows:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Current assets:			
Enterprise tax payable	—	¥105,959	—
Accrued employees' bonuses	¥ 19,469	18,807	$165
Provision for product warranty	31,152	—	264
Undistributed profits in a tax haven	—	31,110	—
Tax loss carry forward	194,534	—	1,648
Credit for foreign taxes	156,440	—	1,325
Foreign exchange losses	22,077	288,444	187
Others	28,318	7,546	239
Sub total	451,990	451,866	3,828
Offset to deferred tax liabilities (short-term)	(295,795)	—	(2,505)
Total	156,195	451,866	1,323
Fixed assets:			
Unrealized inter-company profit on fixed assets	868,100	954,623	7,352
Tax loss carry forward	273,698	134,482	2,318

Depreciation	280,649	117,766	2,377
Severance and retirement benefits for employees	44,807	38,541	380
Others	270,467	112,299	2,291
Sub total	1,737,721	1,357,711	14,718
Valuation allowance	(295,886)	(134,482)	(2,506)
Offset to deferred tax liabilities (long-term)	(96,323)	(141,984)	(816)
Total	1,345,512	1,081,245	11,396
Total deferred tax assets	¥1,501,707	¥1,533,111	$12,719
Deferred tax liabilities:			
Current liabilities:			
Reduction of tax rate in foreign subsidiaries	¥ (121,229)	¥ (102,045)	$(1,027)
Refund repair costs	(81,412)	(79,033)	(690)
Foreign exchange gains	(606,263)	—	(5,135)
Others	(212,610)	(57,220)	(1,800)
Sub total	(1,021,514)	(238,298)	(8,652)
Offset to deferred tax assets (short-term)	295,795	—	2,505
Total	(725,719)	(238,298)	(6,147)
Long-term liabilities:			
Finance lease	(962,548)	(986,488)	(8,152)
Depreciation	—	(36,150)	—
Net unrealized holding gains on securities	(601,237)	(400,156)	(5,092)
Gain from forgiveness of debt	—	(87,417)	—
Others	(80,720)	(10,764)	(684)
Sub total	(1,644,505)	(1,520,975)	(13,928)
Offset to deferred tax assets (long-term)	96,323	141,984	816
Total	(1,548,182)	(1,378,991)	(13,112)
Total deferred tax liabilities	(2,273,901)	(1,617,289)	(19,259)
Net deferred tax liabilities	¥(772,194)	¥(84,178)	$(6,540)

12. Contingent Liabilities and Commitments

As of December 31, 2005 and 2004, the Company was contingently liable for the following:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2005	2004	2005
Guarantees of bank loans and other indebtedness	¥510,450	¥9,745,928	$4,323

13. Leases

(a) As Lessee

i) Information on a "as if capitalized" basis of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation equivalent of finance leases that do not transfer ownership of the leased property to the lessee for the years ended December 31, 2005 and 2004, were as follows:

	Thousands of Japanese Yen	
2005:	Buildings and equipment	Total
Acquisition cost	¥9,700	¥9,700
Accumulated depreciation	(8,070)	(8,070)
Net leased property	¥ 1,630	¥ 1,630

	Thousands of Japanese Yen	
2004:	Buildings and equipment	Total
Acquisition cost	¥9,700	¥9,700
Accumulated depreciation	(5,250)	(5,250)
Net leased property	¥ 4,450	¥ 4,450

	Thousands of U.S. dollars	
2005:	Buildings and equipment	Total
Acquisition cost	$82	$82
Accumulated depreciation	(68)	(68)
Net leased property	$ 14	$ 14

ii) Obligations under finance leases:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 906	¥ 3,094	$8
Due after one year	942	1,848	8
Total	¥1,848	¥4,942	$16

iii) Annual lease payments and depreciation equivalent:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2005	2004	2005
Annual lease payments	¥3,094	¥5,084	$26
Depreciation equivalent	2,820	4,653	24
Interest expense equivalent	174	380	1

Depreciation equivalent is computed by a straight-line method over the lease period with no residual value. The difference between total lease payments and acquisition costs under finance leases is recognized as interest expense equivalent, which is allocated to relevant accounting period based on the interest method.

(b) As Lessor

Future lease receivables from operating lease transactions as of December 31, 2005 and 2004, were as follows:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥1,474,165	¥754,408	$12,486
Due after one year	9,731,307	–	82,419
Total	¥11,205,472	¥754,408	$94,905

14. Derivative Transactions of the Company and its Consolidated Subsidiaries

The Company and its consolidated subsidiaries utilize forward foreign currency contracts in order to hedge currency fluctuation risks arising from export of products in addition to hedging through increases in overseas production and overseas procurement of materials.

The Company and its consolidated subsidiaries also utilize interest rate swaps as derivative transactions in order to hedge interest rate risks of bonds and loans payable.

As the derivative transactions are made solely with leading financial institutions, the Company and its consolidated subsidiaries do not expect any credit risks.

The Company follows its internal regulations for derivatives, which stipulates the policy, objective, scope, organization, procedures, and financial institutions to deal with, and has a reporting system for derivative transactions reflecting proper internal control functions.

The following summarizes hedging derivative financial instruments used and items hedged:

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency receivables and payables including future transactions
Currency swap contracts	Foreign currency receivables and payables
Interest rate swap contracts	Foreign currency bonds and loans payable

The Company evaluates hedge effectiveness on a semi-annual basis by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items with the corresponding changes in the hedging derivative instruments.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Some consolidated overseas subsidiaries adopt hedge accounting in accordance with U.S.GAAP.

The following tables summarize market value information as of December 31, 2005 and 2004 of derivative transactions for which hedge accounting has not been applied:

	Thousands of Japanese Yen			
	Notional amount			
2005:	Total	Due after one year	Market value	Unrealized gain (loss)
Currency related derivatives:				
Forward contracts:				
To sell U.S. dollars	¥5,316,056	–	¥5,348,855	(¥34,986)
				(¥34,986)

	Thousands of Japanese Yen			
	Notional amount			
2004:	Total	Due after one year	Market value	Unrealized gain (loss)
Currency related derivatives:				
Forward contracts:				
To sell U.S. dollars	¥320,612	–	¥310,592	¥10,020
				¥10,020

2005:	Thousands of U.S. dollars: Notional amount: Total	Due after one year	Market value	Unrealized gain (loss)
Currency related derivatives:				
Forward contracts:				
To sell U.S. dollars	$45,025	–	$45,302	($296)
				($296)

15. Segment Information

Industry segment information for the years ended December 31, 2005 and 2004 is not disclosed because the Company and its consolidated subsidiaries operate a single business relevant to floating production facilities.

Geographical segment information by area for the years ended December 31, 2005 and 2004 is as follows:

	Thousands of Japanese Yen							
2005:	Japan	Asia	Central and South America	North America	Others	Total	Corporate and Elimination	Consolidated
Sales:								
Outside customers	¥19,314,068	¥ 8,416,882	¥ 2,497,624	¥41,385,592	–	¥71,614,166	–	¥ 71,614,166
Inter segment	4,588,182	–	–	1,107,069	–	5,695,251	¥ (5,695,251)	–
Total	23,902,250	8,416,882	2,497,624	42,492,661	–	77,309,417	(5,695,251)	71,614,166
Operating expenses	23,517,371	6,726,316	1,406,035	41,399,583	¥ 32,814	73,082,119	(5,363,493)	67,718,626
Operating profit	¥ 384,879	1,690,566	1,091,589	1,093,078	(32,814)	4,227,298	(331,758)	3,895,540
Assets	¥72,208,210	¥13,592,948	¥12,295,612	¥20,747,989	¥1,921,812	¥120,766,571	¥ (16,067,917)	¥104,698,654

	Thousands of Japanese Yen							
2004:	Japan	Asia	Central and South America	North America	Others	Total	Corporate and Elimination	Consolidated
Sales:								
Outside customers	¥18,328,752	¥4,437,888	¥ 2,450,724	¥26,674,399	–	¥51,891,763	–	¥51,891,763
Inter segment	1,108,790	51,991	–	943,855	–	2,104,636	¥ (2,104,636)	–
Total	19,437,542	4,489,879	2,450,724	27,618,254	–	53,996,399	(2,104,636)	51,891,763
Operating expenses	17,943,502	3,263,683	1,200,960	27,798,730	–	50,206,875	(2,094,471)	48,112,404
Operating profit	¥ 1,494,040	¥1,226,196	¥ 1,249,764	¥ (180,476)	–	¥ 3,789,524	¥ (10,165)	¥3,779,359
Assets	¥42,165,399	¥10,179,518	¥12,555,986	¥14,280,875	¥3,781	¥79,185,559	¥(12,664,520)	¥66,521,039

2005:	Thousands of U.S. dollars							
	Japan	Asia	Central and South America	North America	Others	Total	Corporate and Elimination	Consolidated
Sales:								
Outside customers	$163,582	$71,287	$21,154	$350,517	–	$606,540	–	$606,540
Inter segment	38,859	–	–	9,377	–	48,236	$(48,236)	–
Total	202,441	71,287	21,154	359,894	–	654,776	(48,236)	606,540
Operating expenses	199,181	56,969	11,909	350,636	$ 278	618,973	(45,426)	573,547
Operating profit	$ 3,260	$14,318	$ 9,245	$ 9,258	$(278)	$ 35,803	$ (2,810)	$ 32,993
Assets	$611,571	$115,126	$104,138	$175,726	$16,278	$1,022,839	$136,088	$886,751

The overseas sales of the Company and its consolidated subsidiaries for the years ended December 31, 2005 and 2004 consisted of the following:

2005:	Thousands of Japanese Yen					
	Asia	Africa	Oceania	Central and South America	North America	Total
Overseas sales	¥7,883,375,	¥20,821,801	¥13,414,920	¥28,880,883	¥588,397	¥71,589,376
Consolidated sales	0	0	0	0	0	¥71,614,166
The ratio of consolidated sales	11.%	29.1%	18.8%	40.3%	0.8%	100.0%

2004:	Thousands of Japanese Yen					
	Asia	Africa	Oceania	Central and South America	North America	Total
Overseas sales	¥4,613,475	¥24,202,490	¥17,098,572	¥5,677,457	¥288,294	¥51,880,288
Consolidated sales						¥51,891,763
The ratio of consolidated sales	8.9%	46.6%	33.0%	10.9%	0.6%	100.0%

2005:	Thousands of U.S. dollars					
	Asia	Africa	Oceania	Central and South America	North America	Total
Overseas net sales	$66,769	$176,351	$113,618	$244,608	$4,984	$606,330
Consolidated sales	0	0	0	0	0	$606,540
The ratio of consolidated sales	11%	29.1%	18.8%	40.3%	0.8%	100.0%

16. <u>Related Party Transactions</u>

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries and affiliates for the year ended December 31, 2005 and 2004 are as follows:

		Thousands of Japanese Yen		Thousands of U.S. dollars
Related party	Transactions	2005	2004	2005
Jasmine FPSO PTE LTD.	Construction of FPSO	—	¥1,341,128	—
Jasmine FPSO PTE LTD.	Guarantees of bank loans	—	406,702	—
MODEC FPSO B.V.	Construction of FPSO	¥53,643	25,074	$454
MODEC FPSO B.V.	Guarantees of bank loans	—	588,779	—
MODEC VENTURE 10 B.V.	Guarantees of bank loans	—	8,750,446	—
MODEC VENTURE 11 B.V.	Construction of FPSO	—	15,311,351	—
STYBARROW MV 16 B.V.	Construction of FPSO	8,458,765	—	71,642
IMC-MODEC JV 1 PTE LTD.	Disbursement of loans receivable	—	771,705	—

		Thousands of Japanese Yen		Thousands of U.S. dollars
Related party	Balances	2005	2004	2005
Jasmine FPSO PTE LTD.	Accounts receivable - trade	—	¥1,292,080	—
Jasmine FPSO PTE LTD.	Long-term loans receivable	¥1,957,285	—	$16,577
MODEC FPSO B.V.	Accounts receivable - trade	2,477,603	3,070,588	20,984
MODEC FPSO B.V.	Long-term loans receivable	1,977,673	1,745,350	16,750
MODEC VENTURE 10 B.V.	Short-term loans receivable	—	3,344,539	—
MODEC VENTURE 10 B.V.	Long-term loans receivable	2,361,400	—	20,000
MODEC VENTURE 11 B.V.	Accounts receivable - trade	—	2,516,529	—
MODEC VENTURE 11 B.V.	Short-term loans receivable	—	6,097,784	—
MODEC VENTURE 11 B.V.	Long-term loans receivable	1,289,324	—	10,920
IMC-MODEC JV 1 PTE LTD.	Short-term loans receivable	—	771,705	—
ESPADORETE MV14 B.V.	Long-term loans receivable	11,408,986	—	96,629
PRA-1 MV 15 B.V.	Long-term loans receivable	8,642,724	—	73,200
STYBARROW MV 16 B.V.	Accounts receivable - trade	7,029,790	—	59,539