

Message from the CFO

Maximizing Shareholder Value Through Robust Risk Management, Enhanced Profitability and Strategic Allocation of Management Resources



Ryo Suzuki

● Director
Executive Managing Officer

Our business model is based on long-term, fixed-price contracts and provides a highly predictable revenue stream over the long term.

MODEC has established a leading presence in all major offshore oil and gas producing regions of the world, providing reliable one-stop total FPSO solutions to its clients across EPCI,¹ O&M² and charter services. Our financial structure is uniquely aligned with our business model, enabling us to deliver consistent, long-term value to our stakeholders.

During the FPSO construction phase, we deliver EPCI services to our clients in the upstream sector of the energy industry. As a fabless company, we do not own factories or shipyards. Instead, we specialize in project management, including the arrangement and oversight of various vendors and shipyards. Once the FPSO is completed, we provide charter and/or O&M services. The total period from FPSO construction to post-delivery charter and O&M services spans many years. Our business is almost entirely underpinned by long-term fixed contracts, a defining feature of both our business model and financial strength. Our large-scale EPCI contracts for FPSOs typically span three to five years, with construction costs ranging from USD 1 billion to USD 3 billion. To manage cash flow during construction, contracts are carefully structured to ensure that MODEC, as the general contractor, does not face a cash shortage. The charter business is based on long-term contracts, ranging from 10 to 25 years with fixed USD day rates, which are payable irrespective of oil prices or production volumes. O&M contracts are also structured with fixed day rates or cost-plus payment terms, allowing for cost recovery. This approach not only underpins our operational resilience but also ensures consistent and stable value creation for our shareholders.

While investors often ask how volatility in the oil and/or gas prices could impact our operating performance, it should be noted that MODEC's revenues are secured through long-term, fixed-price contracts, thus insulating us from commodity price volatility. MODEC operates in the midstream segment of the energy value chain. All the risks and rewards associated with the ownership of oil and gas reserves, including the impact of price volatility, are entirely for the account of our clients in the upstream sector.

1. Engineering, Procurement, Construction and Installation (EPCI)

2. Operations and Maintenance (O&M): A service in which MODEC Group employees, among others, stationed on FPSOs/FSOs installed offshore carry out oil and gas production operations, as well as perform maintenance, inspections and management.

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While the transition to a low-carbon society is a global priority, the growing population and concerns over energy security have renewed the focus on the importance of energy security through the stable supply of oil and gas. In addition, deepwater and ultra-deepwater oil and gas reserves, for which the majority of MODEC's FPSOs are being used, have a low breakeven cost and thus many of those reserves remain profitable even with depressed oil prices below USD 40 per barrel. As a result, major energy companies continue to actively explore and develop the deepwater or ultra-deepwater reserves, particularly in South America and West Africa. Proven expertise in constructing and operating FPSOs is the most critical requirement for production facilities for deepwater/ultra-deepwater reserves and MODEC has the leading position in this market because of its technological capabilities supported by a track record of success spanning more than 45 years in the offshore oil and gas development business.

EPCI earnings could fluctuate due to timing differences between the clients' development schedules and our capacity.

In view of the robust demand for FPSOs for deepwater and ultra-deepwater reserves, however, we are enhancing our construction and project management capabilities, which will lead to further growth and improved profitability. As of December 31, 2024, 17 FPSO/FSO units are being chartered worldwide, with three additional units under O&M-only contracts. The average remaining life of our charter contracts for the 17 units exceeds 12 years. Our large, diversified charter and O&M portfolio will not only support stable earnings and cash flow over the long term, but also minimize any potential downside impacts from any single unit.

The external environment remains favorable as energy companies continue the development of deepwater and ultra-deepwater reserves and MODEC, as the leading company in this market, is well positioned to take advantage of industry growth. From a financial perspective, long-term, fixed-price contracts are not only a core strength of our business model but they also contribute to the high predictability of our financial performance.

We continue to focus on enhancing dialogue with investors and meeting investor expectation to ensure that our share price reflects the fair value of our business.

One of the key highlights of FY2024 was the secondary offering of MODEC shares by MITSUI E&S Co., Ltd., which previously held 40.5% of our shares. This offering involved the sale of 36.9% of MODEC's outstanding shares. Prior to the offering, three Mitsui Group companies held significant stakes in MODEC, and thus the public float was just around 30% and our share price remained at a low level due to the

lack of market liquidity. The secondary offering, however, significantly improved the market liquidity of MODEC shares, satisfying the listing criteria of the Prime Market of Tokyo Stock Exchange, while preserving our strong relationship with the Mitsui Group. We anticipate further expansion of our investor base in the coming years.

That said, there is still much work to be done to ensure that our stock price accurately reflects MODEC's intrinsic value. Since the May 2024 secondary offering, we have prioritized IR activities to enhance market awareness and understanding about MODEC. While we had been issuing various disclosure materials, including quarterly and annual consolidated financial statements, the extent of the disclosure was relatively limited compared with 10-K reports issued by companies listed in U.S. markets. This integrated report marks our first publication of its kind and will provide investors with deeper insights into MODEC's business.

Both our share price and trading volume have shown steady growth, driven by our strong financial performance and progress with dedicated IR efforts. Nevertheless, we believe that MODEC's share price is still undervalued as evidenced by the relatively low price-earnings ratio (PER) or low EV/EBITDA multiple. Since the secondary offering in May 2024, we have seen a significant increase in investor inquiries and requests for meetings. By attracting more investors through consistent and proactive communication and steadily growing the secondary trading volume, we expect to further increase our share price as well as reduce share price volatility. In the past, there was only limited understanding of the nature of our business and a misunderstanding in the market that MODEC's business was highly sensitive to fluctuations in oil and gas prices or foreign exchange rates. We believe that as investors gain a deeper understanding of our business model, built on the long-term, fixed-price contracts and a stable cash flow, our stock price will rise and our capital cost will decrease.

Message from the CFO

In April 2024, MODEC received a Fitch rating of BBB- with a Positive outlook. On the other hand, the Company incurred net losses in FY2020 and FY2021 due to the COVID-19 pandemic. Notably, despite the significant net loss recorded in FY2021, Fitch maintained an investment grade rating for MODEC. We believe that this rating reflects the strength of our business model, supported by the probability of new project awards in a favorable industry landscape, stable and predictable cash flow from our charter business and solid financial conditions. Moreover, Fitch upgraded our rating to BBB in April 2025 as a reflection of our improved performance, higher EBITDA and solid financial position in FY2024. As of December 31, 2024, the debt-to-EBITDA ratio stood at just 1.6 times. Our EPS is also solid, and our financial metrics make MODEC an attractive investment opportunity for both new and follow-on investors. In FY2025, we plan to raise cash dividends by JPY 40 per share, bringing the total to JPY 120 per share. MODEC will continuously review the shareholder return policy to provide investors with stable and sustainable returns over the long term.

We have made upward revisions to our mid-term financial targets to reaffirm our commitment to maximizing shareholder value.

We have revised the financial targets of Mid-term Business Plan 2024–2026 upward. This revision reflects the higher-than-expected profitability we achieved through various strategic measures, including the intensive special maintenance campaign for older FPSOs. We anticipate further earnings growth through better cost and schedule management. We believe that the revised net profit and EBITDA targets, though they may appear ambitious, are within an achievable level.

Our growth investments focus on delivering added value to clients such as FPSOs equipped with GTCC³ power generation systems. We expect these FPSOs to achieve the industry's lowest CO₂ emissions. We have obtained approval in principle (AiP) from the American Bureau of Shipping (ABS) for an FPSO designed to produce blue ammonia from surplus associated gas. In addition, we have enhanced our business development capabilities and plan to accelerate initiatives that leverage our existing competitive advantages and strategically allocate management resources. We also aim to acquire

necessary new resources, such as human capital, while fostering external partnerships.

We fully recognize that maximizing shareholder value is the core mission of the Company. With this goal in mind, we remain committed to prioritizing growth in collaboration with all our stakeholders. We have already laid a strong foundation and warmly invite our stakeholders to share in our optimism for the future.

3. A gas turbine combined cycle (GTCC) power generation system is a highly efficient power generation system that, in addition to conventional gas turbine power generation, utilizes the exhaust heat to drive an additional steam turbine for further power generation.

Financial KPIs

	FY2023 (Actual)	FY2024 (Actual)	FY2025 (Forecast)	(Million USD)	
				FY2026 Initial targets in February 2024	FY2026 Revised targets in February 2025
Net Profit ⁴	96	220	270	175	300
ROE	10.7%	20.3%	—	12.0%	20.0%
PBR	1.1	1.2	—	> 1.0	> 1.0
Adjusted EBITDA ⁵	218	328	—	300	450

4. Profit attributable to owners of parent

5. Adjusted EBITDA represents EBITDA before adjustments of non-recurring extraordinary items

Note: Targets revised in February 2025

Reasons for FY2026 Target Revisions

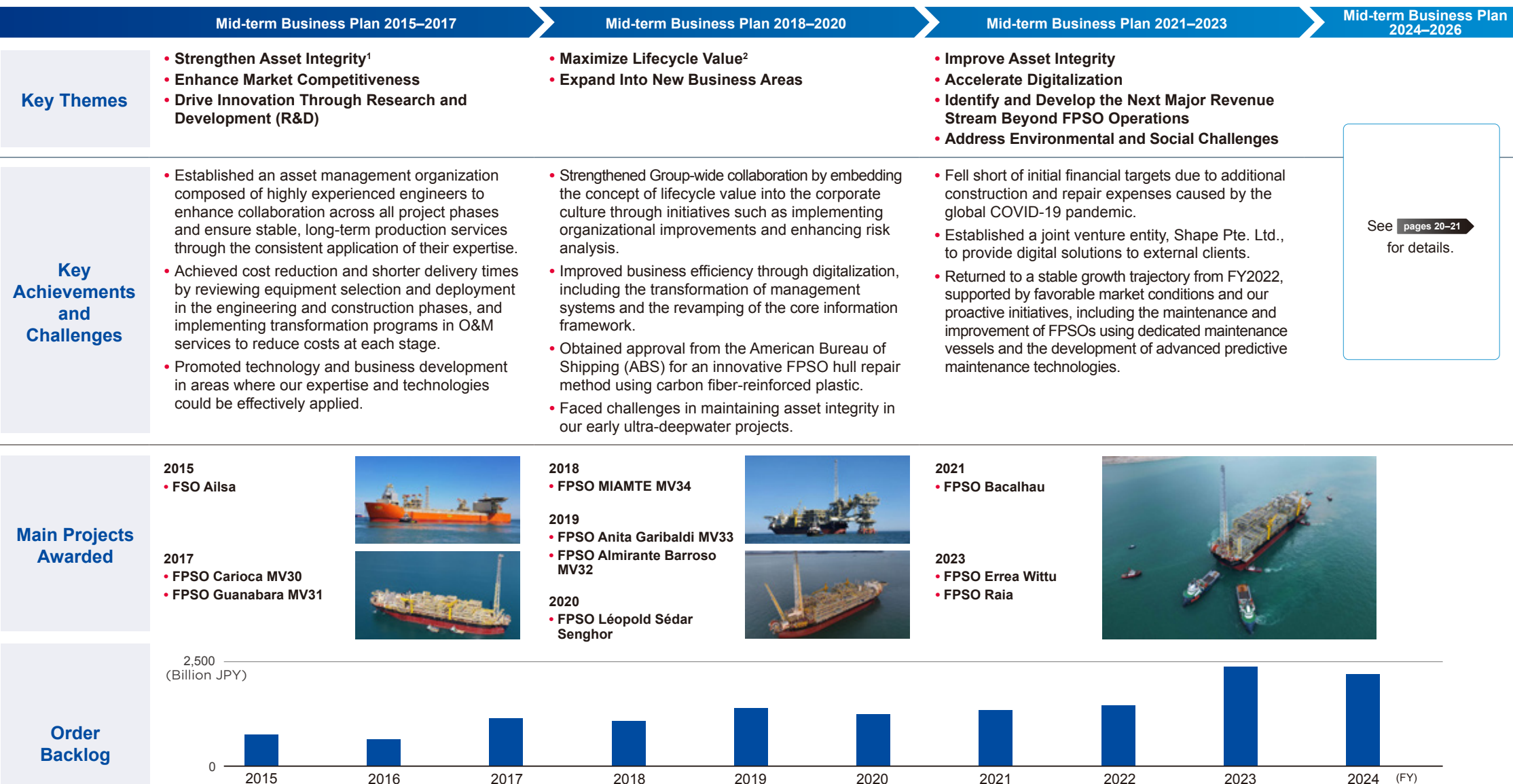
- Improved operating performance of existing FPSOs due to the intensive special maintenance campaign and cost management
- Improved profits on FPSO projects achieved through steady project management and effective cost and schedule control

Basic Policy

- Maximize customer value through the steady implementation of projects under construction
- Invest a portion of free cash flow in future growth (Decarbonization of our business and development of new businesses)
- Maximize corporate value based on management that considers capital costs
- Provide performance-based shareholder returns

Evolution of Our Strategy

We have demonstrated resilience in the face of significant challenges posed by the external environment, including the COVID-19 pandemic, and are now on a steady path to recovery. By leveraging stable cash flows, we are committed to embracing new opportunities and driving sustainable growth for the future.



1. Asset integrity refers to the ability of equipment and facilities to operate safely and efficiently throughout their lifecycle.

2. Lifecycle value refers to the value delivered to customers and other stakeholders throughout the entire lifecycle of an FPSO, from design to operation.

Vision 2034

With the aspiration of becoming a “Global Leading Player in Connecting Ocean and Humanity,” we are dedicated to contributing to society through our core FPSO business by balancing the stable supply of energy with the reduction of carbon dioxide emissions. Furthermore, we aim to leverage our unique floating and digital solutions to advance floating offshore wind, alternative energy and digital businesses, thereby supporting the realization of an environmentally friendly world. We will also focus on expanding and strengthening our human capital to support these initiatives, while continuously enhancing our corporate culture. Vision 2034 outlines the long-term aspirations of MODEC, and is the foundation on which Mid-term Business Plan 2024–2026 was formulated.



Mid-term Business Plan 2024–2026

In February 2024, we announced Mid-term Business Plan 2024–2026, titled “Explore a Sustainable Future with Innovation,” covering the three-year period up to FY2026. Recognizing the accelerating global trends toward decarbonization and sustainability, the plan prioritizes strengthening profitability while addressing the evolving external environment. Key initiatives include promoting the decarbonization of the core FPSO business, exploring and developing new business opportunities, and reinforcing the overall business foundation through strategic investments in human capital. The MODEC Group’s performance has significantly exceeded initial assumptions made during the formulation of the plan. Notably, the net profit target for the final year of the plan, USD 175 million, was achieved in FY2024, two years ahead of schedule—reflecting the success of various initiatives. Ongoing efforts focus on promoting decarbonization in the FPSO business, developing new business areas and reinforcing the business foundation. Other efforts include strengthening governance, improving internal controls and ensuring steady progress on all fronts during the remainder of the plan period.

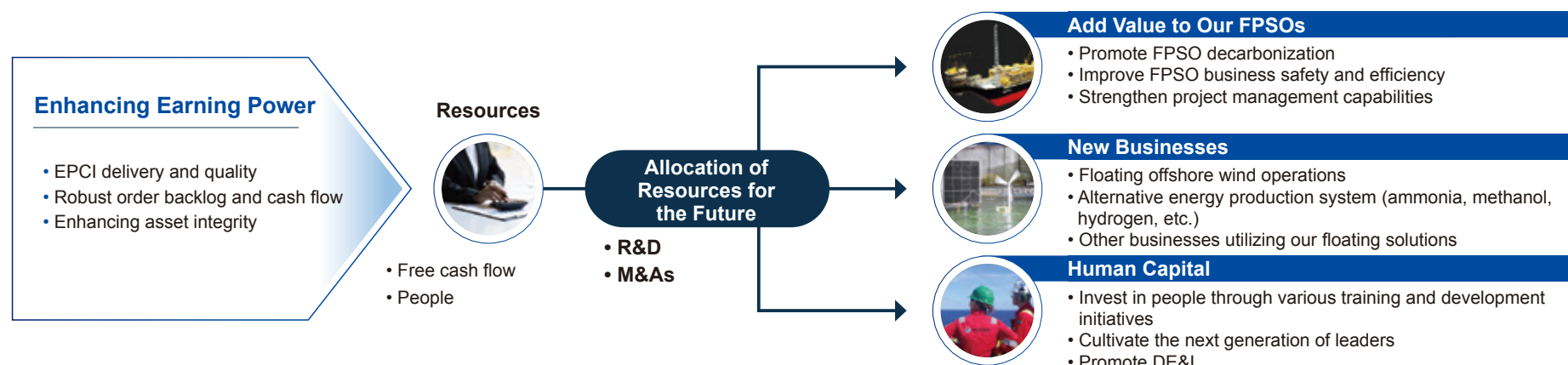
01 Enhancing Earning Power

In addition to steady progress in construction projects, our recent focus on maintenance and repair work has significantly enhanced the operational performance of existing vessels, contributing to the achievement of our highest profit level since before the COVID-19 pandemic. We will continue to strengthen relationships with key clients, pursue promising new projects and further enhance our asset management capabilities.

Note: See page 17 for information on the revised quantitative targets of the mid-term business plan.

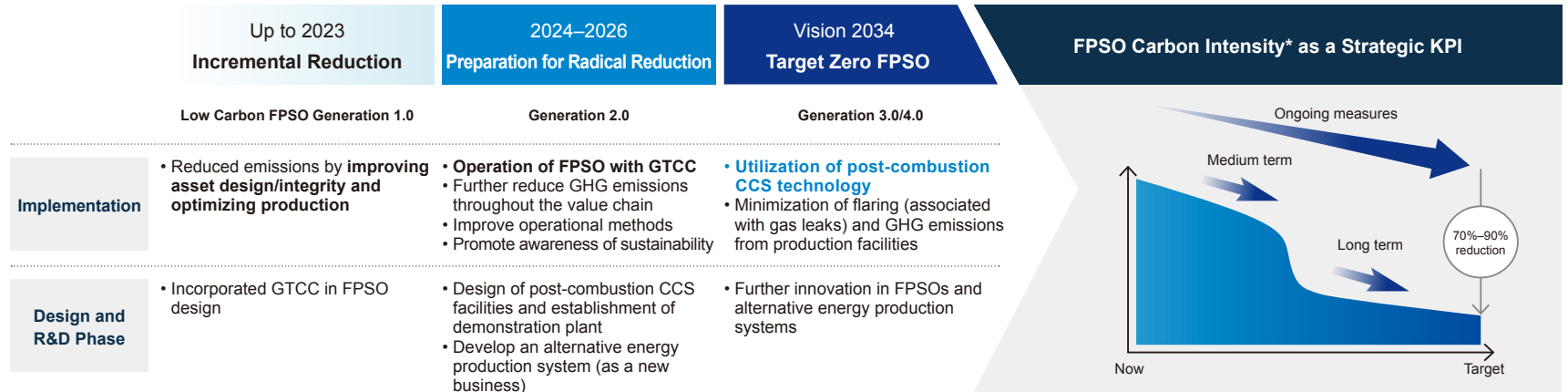
02 Strategic Resource Allocation and Acquisition

We are reassessing our core strengths and position within the industry. In light of evolving oil and gas market trends, climate change and other external factors, we are prioritizing the allocation of management resources to enhancing the value of FPSOs and developing new businesses. Additionally, we have begun to strategically acquire new resources, including talent acquisition and the formation of external partnerships.



03 Promoting FPSO Decarbonization

We are promoting the development of next-generation FPSO vessels to ensure the long-term sustainability and growth of our FPSO business. As part of our commitment to FPSO decarbonization, we are actively engaging with potential business partners specializing in carbon capture and storage (CCS) technologies. Additionally, we are focused on developing and validating innovative technologies that contribute to decarbonization. To further these efforts, we will continue to prioritize research and development (R&D) of decarbonization technologies, including CCS, while exploring opportunities for new business development.



* t-CO₂e per unit of hydrocarbon production

04 Paving the Way for Developing New Business

We are actively advancing the development of innovative floating technologies for offshore wind power generation and alternative energy sectors, contributing to the global transition from a fossil fuel-based society to a low-carbon society. These efforts align with our commitment to sustainability and the creation of long-term value. To further accelerate progress, a dedicated organization for new business development was established in January 2025. This centralized structure streamlines efforts in emerging areas and enhances our ability to drive innovation and capitalize on new opportunities.

05 Enhancing Group Collaboration and Synergy

We are implementing a Group-wide management tool powered by digital technology to enhance operational efficiency and decision-making. To advance human capital management, a dedicated working group has been established to develop a comprehensive Group-wide human capital strategy.

Employee Spotlight



Sophie Lim
Singapore
Deputy Section
Lead, Tech

Shaping MODEC's Future Through Data and AI

At Digital & Analytics (DnA), innovation goes beyond being just a catchphrase—it is the driving force behind everything we do, transforming innovation ideas into reality. In the DnA Tech section, we focus on leveraging advanced technology while creating data driven products—nemo™, MODEC Sensei and other innovative enterprise products.

nemo™ (MODEC's Global Data Platform) stands at the forefront in collecting data from across the Group. Through nemo™, DnA materializes our vision as One MODEC, where data is gathered, structured, and made ready for use throughout the MODEC business lifecycle—benefiting both internal stakeholders and clients.

MODEC Sensei (an enterprise chat tool leveraging LLM/VLM)* is another groundbreaking product in DnA. Utilizing advanced AI technology, our team has designed this tool specifically for MODEC's use, empowering everyone to access generative AI technology and enhance employees' productivity.

Engineering DX (digital transformation) leverages digital technology to improve engineers' productivity and quality of work. By integrating software applications and automating calculations, we seek to reduce manual tasks and enable engineers to focus on critical thinking tasks. In essence, our mission as DnA in MODEC is to make use of the power of technology to replace daily manual work, equipping our employees with advanced technological skills.

* Large language model (LLM)/Vision-language model (VLM)

06 Improving Group Governance and Pursuing Sustainability

After selecting "climate change," "human rights" and "human capital and diversity" as key focus areas for our important sustainability challenges, we established dedicated working groups for each one. These groups have started taking concrete actions and are developing detailed roadmaps to guide their long-term efforts. Regarding GHG reduction measures, we have expanded the scope of GHG emission disclosure and begun working to attain third-party verification.