

IR Report & Message vol.2

Fiscal Year from January 1, 2004 to December 31, 2004



MODEC, INC.

(company code: 6269)

To Our Shareholders



First of all, I would like to extend our heartfelt condolences to the victims and their families who suffered the earthquake and tsunami disaster in the Indian Ocean. MODEC has worked closely with Southeast Asian countries through offshore projects, and we wish a speedy recovery from the destruction in those countries.

In the fiscal year 2004, our construction projects progressed flawlessly. We completed the construction of CNR Baobab FPSO and Santos Mutineer-Exeter FPSO at Jurong shipyard in Singapore and the production from both units is expected to begin in the first half of 2005. In October 2004 MODEC International LLC was awarded an EPC contract of two TLPs by Amerada Hess for the development of the Oveng field and Okume/Ebano field, offshore Equatorial Guinea. Construction of the TLPs has begun at Samsung Heavy Industries in Korea.

Our FPSO/FSO charter projects made a steady advancement as well. Five years operation of the FPSO Buffalo Venture at Nexen's Buffalo field came to an end in November 2004 and the Buffalo FPSO is currently under modification for the relocation at PEARL's Jasmine field offshore Thailand. MEDCO/MOECO Langsa FPSO re-started the oil production in November 2004 after two years of suspended operations.

The offshore oil and gas industry is a growing market. While it attracts new players to enter the industry, only a handful of them have been successful in the severe business environment. We will sharpen our international competitiveness through every effort possible in order to survive in this tough yet exciting marketplace. We aim to become a premier contractor in the FPSO market and we keep our challenge to achieve this goal.

A handwritten signature in black ink that reads "K. Yamada". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Kenji Yamada
President & CEO
MODEC, Inc.

TOPICS

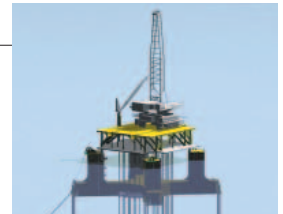
Two FPSOs Construction Works Completed

Conversion works of CNR Baobab FPSO and Santos Mutineer-Exeter FPSO were completed on schedule. Naming ceremonies were held in November and December 2004 respectively at Jurong shipyard in Singapore. (Please see Page 3)



MODEC International LLC Awarded Two TLPs for Eq. Guinea

MODEC International LLC was awarded an EPC contract of two TLPs for the development of Amerada Hess's Oveng field and Okume/Ebano field, offshore Equatorial Guinea. (Please see Page 5)



FPSO Buffalo Venture Re-Deployed for PEARL's Jasmine Field

Finishing its operation at Nexen's Buffalo field in November 2004, FPSO Buffalo Venture will be relocated at PEARL's Jasmine field offshore Thailand. First oil from Jasmine field is expected in May 2005.



Langsa FPSO Resumed Oil Production

MEDCO/MOECO Langsa FPSO resumed the oil production at Langsa field, offshore Sumatra in November 2004 after two years of production suspension.



MODEC, Inc. Transferred to the First Section of Tokyo Stock Exchange

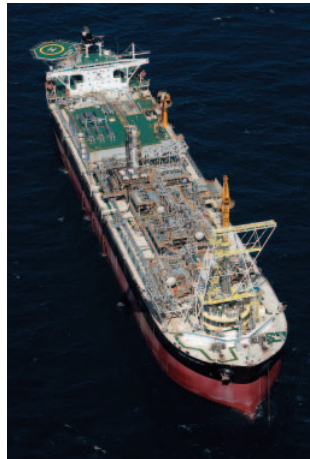
Following the IPO on the Second Section of the Tokyo Stock Exchange on July 2, 2003, MODEC, Inc.'s stock was successfully transferred to the First Section on June 1, 2004.



FPSO Project in 2004 — Santos Mutineer-Exeter FPSO



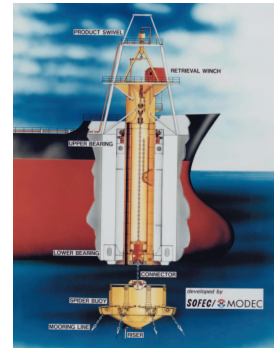
Mutineer-Exeter field is located in 156m of water depth, approximately 150km north of Dampier on the north west coast of Australia.



The conversion work of the MT Airway took place at Jurong Shipyard in Singapore. The Naming Ceremony was held on December 9, 2004 and the FPSO was named "MODEC Venture 11" since it was the eleventh lease project for MODEC.



One of the unique features of this project is its disconnectable turret system. When a cyclone approaches, the FPSO can be disconnected from the turret and evacuate to a safe place. When the FPSO returns to the field, the FPSO and the turret will be reconnected.

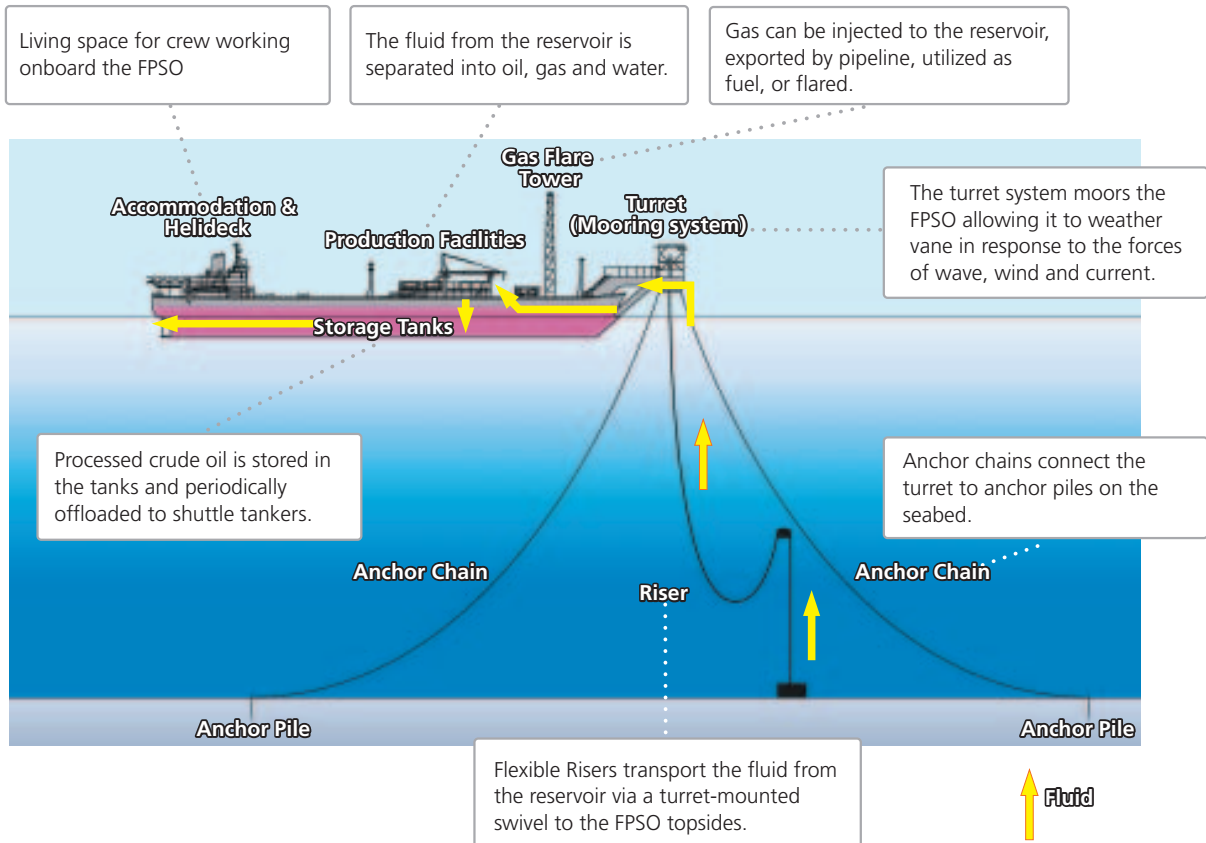


Disconnectable Turret
(JHN Lufeng FPSO)

Mutineer-Exeter field is expected to come on stream in the first half of 2005. MODEC will own and operate the FPSO for 5 years with possible extensions.

MODEC at a Glance — What is an FPSO?

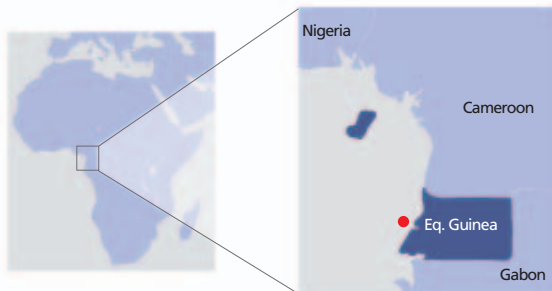
An FPSO (Floating Production, Storage and Offloading) is a floating production system that receives produced fluids from the subsurface reservoir via a turret-mounted swivel. Topside facilities separate the fluid into oil, gas and water and then, store the crude oil in the vessel's tanks. The crude oil is then periodically offloaded to shuttle tankers. FPSOs are the most widely used floating production systems for offshore oil and gas field development and currently more than 100 FPSOs are in operation worldwide.



TLP Project in 2004 — Amerada Hess Oveng & Okume/Ebano TLPs



In October 2004 MODEC International LLC was awarded a contract by Amerada Hess for the engineering, procurement, construction and delivery of two TLPs for the development of Oveng field (280m water depth) and Okume/Ebano field (500m water depth), offshore Equatorial Guinea. The development area is located approximately 55km south west of Bata and 250km south of Malabo.



TLP hulls for this project are designed using an innovative concept. In preceding TLP projects, the deck and the hull are fabricated separately at the shipyard and integrated offshore. This project's new hull designs, however, have enough free floating stability to allow the deck to be integrated with the hull at the shipyard. This design eliminates the need for lifting and setting of the deck structure offshore and does so without using expensive temporary stability modules.



Offshore integration of deck and hull (Marco Polo TLP)

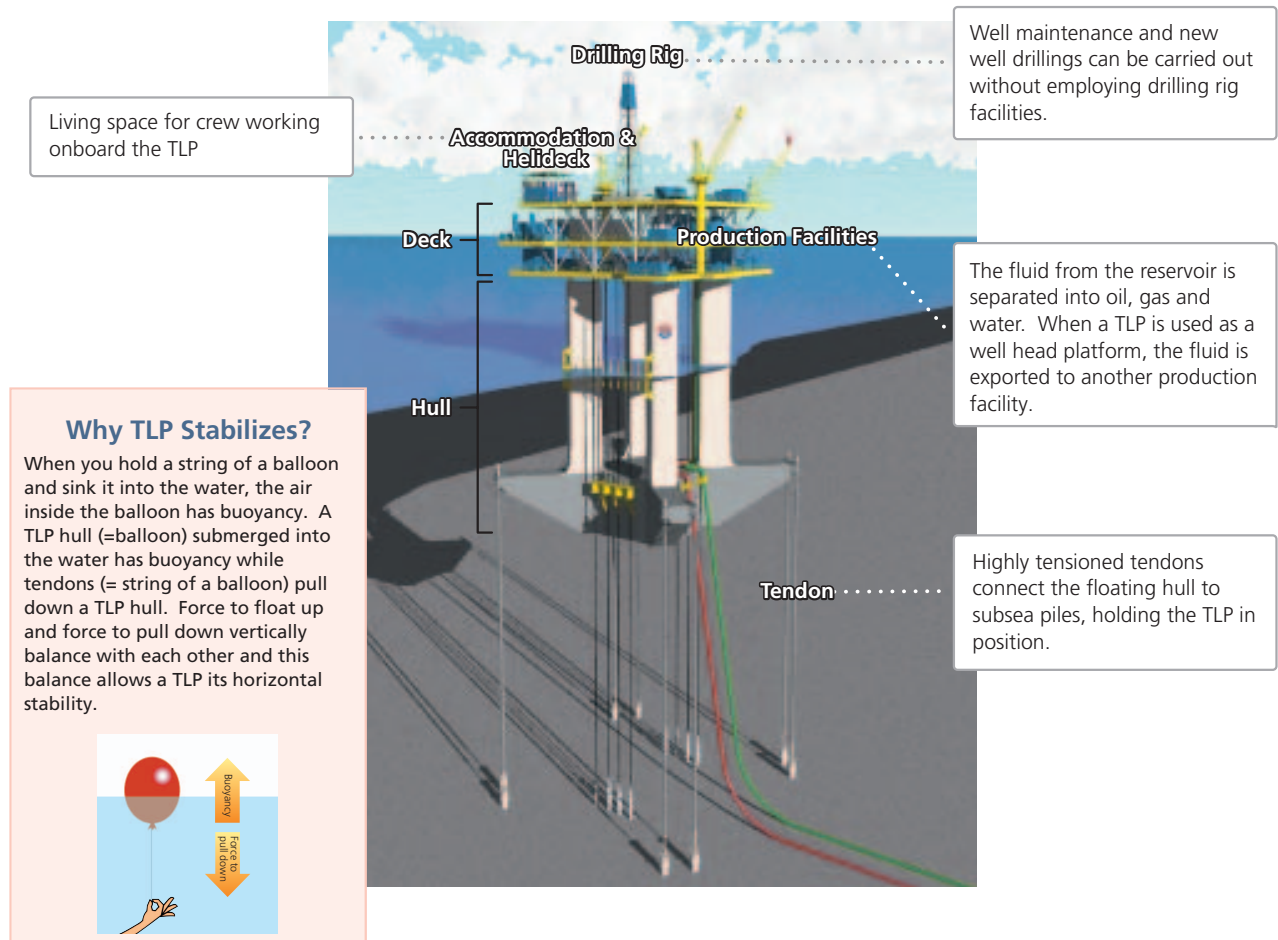
Previous success of the Prince TLP and Marco Polo TLP made way for the award of the third and fourth TLPs for MODEC. The construction work has commenced at Samsung Heavy Industries in Korea. The installation of the TLPs is planned in the second quarter of 2006.

Installed in 1,311m water (the world record at that time), Marco Polo TLP started the production in July 2004.



MODEC at a Glance — What is a TLP?

A TLP (Tension Leg Platform) is a floating platform suitable for deepwater oil and gas field development. TLPs can be utilized as production platforms or as well head platforms with production undertaken at another facility such as an FPSO. Currently approximately twenty TLPs are in operation in the Gulf of Mexico and other areas.

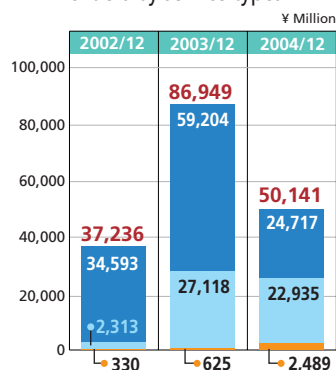


Financial Highlight for the Fiscal Year 2004

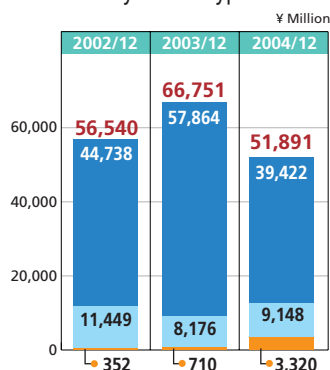
Financial Highlight for the Fiscal Year 2004

- Construction works progressed on schedule.
- MODEC was awarded two TLPs for Eq. Guinea and re-charter of Buffalo Venture FPSO.
- MEDCO/MOECO Langsa FPSO re-started the oil production.
- MODEC, Inc. was transferred to the First Section of the Tokyo Stock Exchange.
- New shares of MODEC, Inc. were issued by third party allotment.
- MODEC International LLC became 100% subsidiary of MODEC (U.S.A.), Inc.

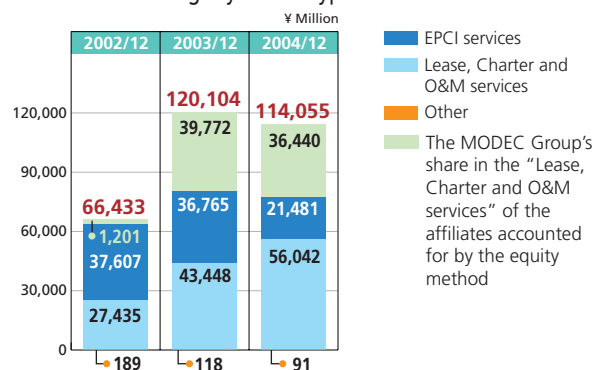
Orders by service types



Sales by service types



Order backlogs by service types



* As MODEC International LLC became a consolidated subsidiary in 2003, in the above graph chart, the yearly figures prior to 2003 were adjusted as if the subsidiary were consolidated.

Review of Operations

Review of Operations

High oil prices promoted the increasing trend of offshore oil and gas development projects in the fiscal year 2004. In this favorable business climate, MODEC Group continued the marketing activities in areas of South East Asia, Oceania, West Africa, Gulf of Mexico and Brazil.

In October 2004, MODEC International LLC was awarded construction work of two TLPs for the development of Amerada Hess's Oveng field and Okume/Ebano field, offshore Equatorial Guinea. Buffalo FPSO Pte Ltd., an affiliate company of MODEC, Inc., was awarded time charter contract of FPSO Buffalo Venture for PEARL's Jasmine field, offshore Thailand in December 2004. This is the first project for MODEC Group to re-deploy its owned FPSO unit to another field. Lastly, MEDCO/MOECO Langsa FPSO re-started the oil production at Langsa field, offshore Sumatra in November 2004 after two years of suspended operations.

As a result, the Consolidated Order totaled 50,141 million yen and Consolidated Sales totaled 51,891 million yen. On the profit side, Operating Profit declined to 3,779 million yen as a result of deferring some portion of profits from EPCI services as unrealized gain, while Ordinary Income and Net Income increased to 3,701 million yen and 2,230 million yen respectively.

● EPCI Services

Conversion works of CNR Baobab FPSO and Santos Mutineer-Exeter FPSO progressed on schedule. Remaining construction works of Esso Chad FSO, Shell Bijupira-Salema FPSO and Anadarko Marco Polo TLP were completed as well. As a result, sales from EPCI services totaled 39,422 million yen.

● Lease, Charter and O&M Services

MODEC Group operated five units that the Group's subsidiaries and affiliate companies own, namely PEMEX

Cantarell FSO, ConocoPhillips Elang/Kakatua FPSO, Nexen Buffalo FPSO, CLJOC Su Tu Den FPSO, and MEDCO/MOECO Langsa FPSO. In addition the Group operated two units owned by oil companies; Petronas Carigali Ruby FPSO and Shell Bijupira-Salema FPSO. As a result, sales from Lease, Charter and O&M Services totaled 9,148 million yen.

● Other Services

As after-sales services, MODEC supplied spare parts and provided engineering support to the FPSO/FSOs that the Group had constructed and delivered to the oil development companies. Fee income for providing management services to affiliate companies flowed in steadily. As a result, sales from other services totaled 3,320 million yen.

Outlook for the Fiscal Year 2005

The investments in the offshore oil and gas field development in the fiscal year 2005 will likely shift on high level, backed up by high oil prices and continuous demands on energy supply. The number of new orders for offshore floating facilities will continue to increase.

Under this business environment, MODEC will keep refining the Group's engineering capability, project management capacity, and cost competitiveness, to receive awards of new projects.

In year 2005, two units, CNR Baobab FPSO and Santos Mutineer-Exeter FPSO, will start oil production. In addition, FPSO Buffalo Venture will be re-deployed at PEARL's Jasmine field. In summary, the Group will operate seven self-owned units and two units owned by oil companies. For the fiscal year 2005, the Company forecast Sales of 55,000 million yen, Ordinary Income of 4,500 million yen and Net Income of 2,500 million yen.

Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of Japanese yen.
Amounts are rounded down to
the nearest million.)

| | Fiscal year 2004 (December 31, 2004) | Fiscal year 2003 (December 31, 2003) |
|---|---|---|
| –Assets– | | |
| Current Assets | 42,700 | 42,782 |
| Cash and time deposits | 14,061 | 12,264 |
| Accounts receivable - trade | 14,059 | 15,326 |
| Inventories | 165 | 1,924 |
| Short-term loans receivable | 9,783 | 8,945 |
| Short-term lease receivables | 1,735 | 1,542 |
| Other | 2,894 | 2,779 |
| Non-Current Assets | 23,820 | 17,480 |
| Property and Equipment | 5,708 | 4,677 |
| Machinery and equipment | 5,606 | 4,563 |
| Other | 102 | 114 |
| Intangible Assets | 4,769 | 994 |
| Other Assets | 13,341 | 11,807 |
| Investment securities | 3,882 | 2,492 |
| Long-term lease receivables | 6,273 | 8,256 |
| Other | 3,186 | 1,059 |
| Total Assets | 66,521 | 60,262 |
| –Liabilities– | | |
| Current Liabilities | 34,909 | 26,222 |
| Accounts payable - trade | 10,255 | 11,329 |
| Short-term loans payable | 12,663 | 8,529 |
| Current portion of long-term loans payable | 6,652 | 3,314 |
| Other | 5,337 | 3,049 |
| Long-term Liabilities | 7,932 | 16,230 |
| Long-term loans payable | 6,345 | 13,897 |
| Other | 1,587 | 2,332 |
| Total Liabilities | 42,842 | 42,453 |
| Minority Interests in Consolidated Subsidiaries | 1,393 | 2,627 |
| –Shareholders' Equity– | | |
| Common stock | 7,159 | 4,659 |
| Capital surplus | 7,675 | 5,175 |
| Retained earnings | 7,531 | 5,648 |
| Net unrealized holding gains on securities | 575 | 337 |
| Foreign currency translation adjustments | △656 | △638 |
| Treasury stock | △0 | — |
| Total Shareholders' Equity | 22,285 | 15,182 |
| Total Liabilities and Shareholders' Equity | 66,521 | 60,262 |

Intangible assets increased as a result of MODEC International LLC becoming a 100% subsidiary of MODEC (U.S.A.), Inc.

Investments and other assets increased due to funds paid to MODEC FPSO B.V. and MODEC Venture 11 B.V. that own and lease FPSOs to oil companies.

Common stock and Capital Surplus increased as a result of Stock Option Exercise and new share issuance by Third Party Allotment.

Consolidated Financial Statements

Consolidated Statements of Income

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

| | Fiscal year 2004 (January 1, 2004 thru December 31, 2004) | Fiscal year 2003 (January 1, 2003 thru December 31, 2003) |
|--|---|---|
| Sales | 51,891 | 66,751 |
| Cost of Sales | 44,553 | 59,062 |
| Gross Profit | 7,338 | 7,689 |
| Selling, General and Administrative Expenses | 3,559 | 3,541 |
| Operating Profit | 3,779 | 4,147 |
| Other Income | 1,342 | 379 |
| Interest income | 836 | 191 |
| Dividend income | 5 | 1 |
| Equity in earnings of affiliates | 128 | 148 |
| Other | 372 | 38 |
| Other Expenses | 1,420 | 1,336 |
| Interest expenses | 685 | 652 |
| Foreign exchange loss, net | 420 | 226 |
| Depreciation of idle assets | 229 | 366 |
| Other | 85 | 90 |
| Ordinary Income | 3,701 | 3,190 |
| Extraordinary Profits | 41 | 731 |
| Recovery of repair costs | — | 369 |
| Gain on forgiveness of debt | — | 361 |
| Gain on sales of fixed assets | 41 | — |
| Extraordinary Loss | 329 | — |
| Bad debt loss | 242 | — |
| Loss on sales of fixed assets | 86 | — |
| Income before Income Taxes and Minority Interests | 3,414 | 3,922 |
| Income Taxes | | |
| Current | 2,290 | 1,037 |
| Adjustment to prior years | △489 | △191 |
| Deferred | △1,174 | 197 |
| Minority Interests | 557 | 849 |
| Net Income | 2,230 | 2,029 |

Sales from EPCI services declined reflecting the delayed awards of new projects and less change orders received from the clients compared to the previous year.

Increase of loans advanced to the affiliate companies for the construction work expenditures led to the increase of interest income, which pushed up Ordinary Income.

Extraordinary loss was incurred as a result of Langsa FPSO Pte Ltd. providing a bad debt loss on collection of the credit to Matrix Oil.

The 2004 results renewed the Company's highest Net income record.

Consolidated Financial Statements

Consolidated Statements of Earned Surplus

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

| | Fiscal year 2004 (January 1, 2004 thru December 31, 2004) | Fiscal year 2003 (January 1, 2003 thru December 31, 2003) |
|-------------------------------|---|---|
| -Capital Surplus- | | |
| Beginning balance | 5,175 | 2,683 |
| Increase in capital surplus | 2,499 | 2,492 |
| Issuance of new shares | 2,499 | 2,492 |
| Decrease in capital surplus | — | — |
| Ending balance | 7,675 | 5,175 |
| -Retained Earnings- | | |
| Beginning balance | 5,648 | 3,822 |
| Increase in retained earnings | 2,230 | 2,029 |
| Net income | 2,230 | 2,029 |
| Decrease in retained earnings | 347 | 202 |
| Cash dividends paid | 337 | 192 |
| Bonuses paid to directors | 10 | 10 |
| Ending balance | 7,531 | 5,648 |

Consolidated Statements of Cash Flows

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

| | Fiscal year 2004 (January 1, 2004 thru December 31, 2004) | Fiscal year 2003 (January 1, 2003 thru December 31, 2003) |
|--|---|---|
| Cash flows from operating activities | 9,623 | 5,452 |
| Cash flows from investing activities | △14,402 | △8,629 |
| Cash flows from financing activities | 5,164 | 7,290 |
| Effect of exchange rate changes on cash and cash equivalents | △119 | △84 |
| Net increase in cash and cash equivalents | 266 | 4,028 |
| Increase in cash and cash equivalents due to additional consolidated subsidiaries | — | 2,914 |
| Cash and cash equivalents at beginning of year | 13,795 | 6,852 |
| Cash and cash equivalents at ending of year | 14,061 | 13,795 |

Cash flows from operating activities increased considerably due to steady progress of construction works and collection of accounts receivable - trade to affiliate companies.

Non-Consolidated Financial Statements

Non-consolidated Balance Sheets

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

| | Fiscal year 2004 (December 31, 2004) | Fiscal year 2003 (December 31, 2003) |
|---|---|---|
| –Assets– | | |
| Current Assets | 25,620 | 31,710 |
| Non-Current Assets | 16,815 | 4,663 |
| Property and Equipment | 29 | 33 |
| Intangible Assets | 5 | 7 |
| Other Assets | 16,780 | 4,623 |
| Total Assets | 42,435 | 36,374 |
| –Liabilities– | | |
| Current Liabilities | 22,877 | 17,580 |
| Long-term Liabilities | 503 | 5,816 |
| Total Liability | 23,380 | 23,396 |
| –Shareholders' Equity– | | |
| Common stock | 7,159 | 4,659 |
| Capital surplus | 7,675 | 5,175 |
| Capital reserve | 7,675 | 5,175 |
| Retained earnings | 3,645 | 2,806 |
| Earned reserve | 68 | 68 |
| Voluntary reserve | 2 | 2 |
| Unappropriated retained earnings | 3,574 | 2,734 |
| Net unrealized holding gains on securities | 575 | 337 |
| Treasury stock | △0 | — |
| Total Shareholders' Equity | 19,054 | 12,978 |
| Total Liabilities and Shareholders' Equity | 42,435 | 36,374 |

Appropriation Statements

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

| | Fiscal year 2004 (January 1, 2004 thru December 31, 2004) | Fiscal year 2003 (January 1, 2003 thru December 31, 2003) |
|--|---|---|
| Unappropriated retained earnings at end of year | 3,574 | 2,734 |
| Transfer from voluntary reserve | | |
| Transfer from special reserve for depreciation | 0 | 0 |
| Total | 3,575 | 2,735 |
| To be appropriated as follows: | | |
| Cash dividends | 127 | 224 |
| Bonuses to directors | 13 | 10 |
| Retained earnings carried forward | 3,434 | 2,500 |

Non-consolidated Statements of Income

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

| | Fiscal year 2004 (January 1, 2004 thru December 31, 2004) | Fiscal year 2003 (January 1, 2003 thru December 31, 2003) |
|--|---|---|
| Sales | 19,426 | 39,473 |
| Cost of Sales | 16,226 | 37,016 |
| Gross Profit | 3,200 | 2,456 |
| Selling, General and Administrative Expenses | 1,043 | 1,078 |
| Operating Profit | 2,156 | 1,377 |
| Other Income | 984 | 583 |
| Interest income | 817 | 222 |
| Dividend income | 5 | 325 |
| Other | 161 | 35 |
| Other Expenses | 959 | 538 |
| Interest expense | 477 | 188 |
| Foreign exchange loss | 406 | 263 |
| New share issuance expense | 25 | 54 |
| Other | 51 | 33 |
| Ordinary Income | 2,181 | 1,422 |
| Extraordinary Loss | — | 130 |
| Bad debt loss | — | 130 |
| Income before Income Taxes | 2,181 | 1,291 |
| Income Taxes | 1,455 | 464 |
| Income Tax Adjustment | △459 | 31 |
| Net Income | 1,186 | 795 |
| Retained earnings at beginning of year | 2,500 | 1,938 |
| Interim dividends | 112 | — |
| Unappropriated retained earnings at end of year | 3,574 | 2,734 |

MODEC, Inc. paid a dividend of 3.75 yen per share for six months ended December 31, 2004. In combination with interim dividends of 3.75 yen per share, the annual dividends totaled 7.5 yen per share.

Corporate Data (as of December 31, 2004)

- **Company name:** MODEC, INC.
- **Founded:** June 1, 1987
- **Head office:** 2-8, Kohinata 4-chome, Bunkyo-ku
Tokyo 112-0006, Japan
TEL: +81-3-5800-6081
FAX: +81-3-5800-6060/6070
- **Paid-in capital:** 7,159 million Japanese yen
- **Number of employees:** 106 (non-consolidated, including temporary employees)
837 (consolidated, including temporary employees)
- **Main banks:** Sumitomo Mitsui Banking Corporation
Mizuho Corporate Bank, Ltd.
Chuo Mitsui Trust and Banking Co., Ltd.
Sumitomo Trust & Banking Co., Ltd.
The Norinchukin Bank

● **Management** (as of March 29, 2005)

| | |
|---------------------------|---|
| Kenji Yamada | President & CEO |
| Mitsuhiro Mokumoto | Managing Director & CFO |
| Nobuhiro Yaji | Managing Director & COO |
| Masaki Kawase | Director - FPSO & FSO Division |
| Shashank Karve | Director MODEC International LLC - President & CEO |
| Naomasa Kosaka | Director - FPSO Operations Division |
| Shoichi Yabuki | Director |
| Takao Sunami | Director |
| Yasuhiro Iwanami | Corporate Auditor |
| Toshiro Miyazaki | Corporate Auditor |
| Yasuo Asama | Corporate Auditor |
| Yoshihiro Takizawa | Corporate Auditor |

● **Main Subsidiaries**

MODEC International L.L.C.
EPCI service of FPSO/FSO, TLP and Production Semisubmersibles in
North & South America and West Africa

Cantarell FSO, Inc., S.A. de C.V.
PEMEX Cantarell FSO Owner Operator

Elang EPS Pte Ltd.
ConocoPhillips Elang/Kakatua FPSO Owner Operator

Langsa FPSO Pte Ltd.
MEDCO/MOECO Langsa FPSO Owner Operator

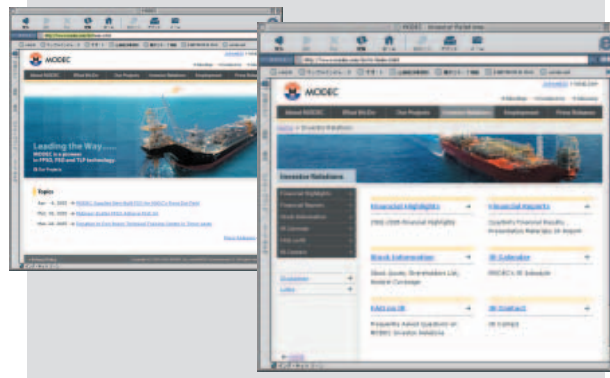
MODEC Management Services Pte Ltd.
Petronas Carigali Ruby FPSO & CLJOC Su Tu Den FPSO Operator

Buffalo FPSO Pte Ltd.
Nexen Buffalo FPSO (⇒PEARL Jasmine FPSO) Owner Operator

MODEC FPSO B.V.
CLJOC Su Tu Den FPSO Owner Operator

<http://www.modec.com/>

Please visit our website for up-to-date
Investor Relations information.

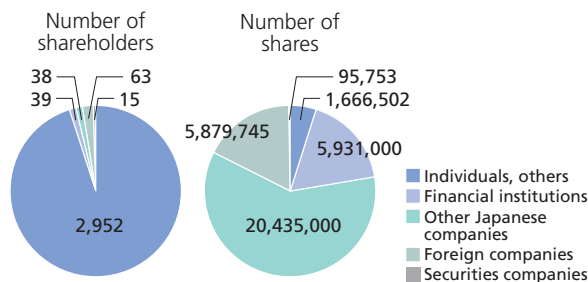


Stock Information (as of December 31, 2004)

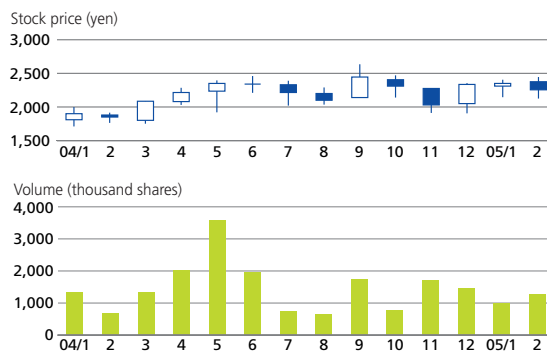
- Number of Authorized Shares 102,868,000
- Number of Issued Shares 34,008,000
- Number of shareholders 3,107
- Major Shareholders

| Name | Number of Shares Held (thousand shares) | Ratio of shareholding (%) |
|---|---|---------------------------|
| Mitsui Engineering & Shipbuilding Co., Ltd. | 17,116 | 50.32 |
| FMC Technologies, Inc. | 2,600 | 7.64 |
| Mitsui & Co., Ltd. | 2,466 | 7.25 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 2,262 | 6.65 |
| UFJ Trust Bank Ltd. (Trust Account A) | 743 | 2.18 |
| Sojitz Corporation | 700 | 2.05 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 693 | 2.03 |
| The Chase Manhattan Bank, NA London SL Omnibus Account | 575 | 1.69 |
| Government of Singapore Investment Corporation Pte Ltd. | 443 | 1.30 |
| Goldman Sachs International | 436 | 1.28 |
| Total | 28,036 | 82.43 |

Shareholders Breakdown



Stock Quote



Fiscal year end: December 31 of each year

General meeting of shareholders: March of each year

Shareholder registration date for year-end dividend: December 31 of each year

Shareholder registration date for interim dividend: June 30 of each year

Shareholding unit: 100 shares

Transfer agent:
Chuo Mitsui Trust and Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

Transfer agent office:
Chuo Mitsui Trust and Banking Co., Ltd.
Transfer Agent Dept. (Transfer Agent Administration Center)
8-4, Izumi 2-chome, Sugunami-ku, Tokyo 168-0063, Japan
Tel: +81-3-3323-7111

Agents:
Chuo Mitsui Trust and Banking Co., Ltd.: Branch offices in Japan
Japan Securities Agents, Ltd.: Head office and branch offices

MODEC, INC. Administration Dept.

2-8, Kohinata 4-chome, Bunkyo-ku Tokyo 112-0006, Japan
TEL: +81-3-5800-6081

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