

# IR Report & Message vol.3

Fiscal Year from January 1, 2005 to December 31, 2005



**MODEC, INC.**

(company code: 6269)

## To Our Shareholders

The year 2005 was a successful year for MODEC Group. MODEC was awarded three new contracts, namely KNOC Rong Doi FSO (Vietnam) in May, Petrobras Espadarte Sul FPSO (Brazil) in July and Petrobras PRA-1 FSO (Brazil) in December. MODEC also started the works for BHPBP Stybarrow FPSO (Australia) project in December 2005. These four lease projects will contribute to the growth of MODEC Group's financial results in the coming years.

Three FPSOs commenced oil production in 2005; Santos Mutineer-Exeter FPSO (Australia) in March, PEARL Jasmine FPSO (Thailand) in June and CNR Baobab FPSO (Cote d'Ivoire) in August. MODEC owns and operates these three FPSOs, leading the total number of MODEC operated FPSO/FSOs to nine at the year end of 2005.

In 2005, the offshore industry was challenged in its reliability by hurricanes Katrina and Rita. Two TLPs that MODEC had delivered in the Gulf of Mexico, Prince TLP and Marco Polo TLP, suffered no damage. However, we recognized the strong responsibility to tighten our safety and environmental consciousness once again.

Oil prices have shifted on high level due to the concerns for the refinery capacity. To support the stable energy supply, which has intensified more than ever, MODEC will keep our continued effort to improve the quality of floating production facilities and operation services.



Kenji Yamada  
President & CEO  
MODEC, INC.

## TOPICS

### KNOC Rong Doi FSO Project

MODEC was awarded an FSO charter contract from Korea National Oil Corporation for the Rong Doi / Rong Doi Tay fields, offshore Vietnam.



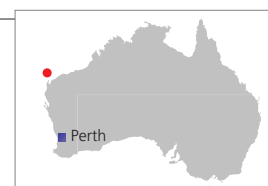
### Two Contract Awards from Petrobras

In 2005 MODEC was awarded Espadarte Sul FPSO project in July and PRA-1 FSO project in December from Brazilian state oil company Petrobras. (Please see Page 4)



### BHPBP Stybarrow FPSO Project

In December 2005 MODEC started the works to provide an FPSO for the Stybarrow field offshore Australia. The contract was signed with BHPBP in March 2006.



### Three FPSOs Started Charter Services

In 2005 three FPSOs commenced oil production; Santos Mutineer-Exeter FPSO (Australia) in March, PEARL Jasmine FPSO (Thailand) in June and CNR Baobab FPSO (Cote d'Ivoire) in August.



PEARL Jasmine FPSO

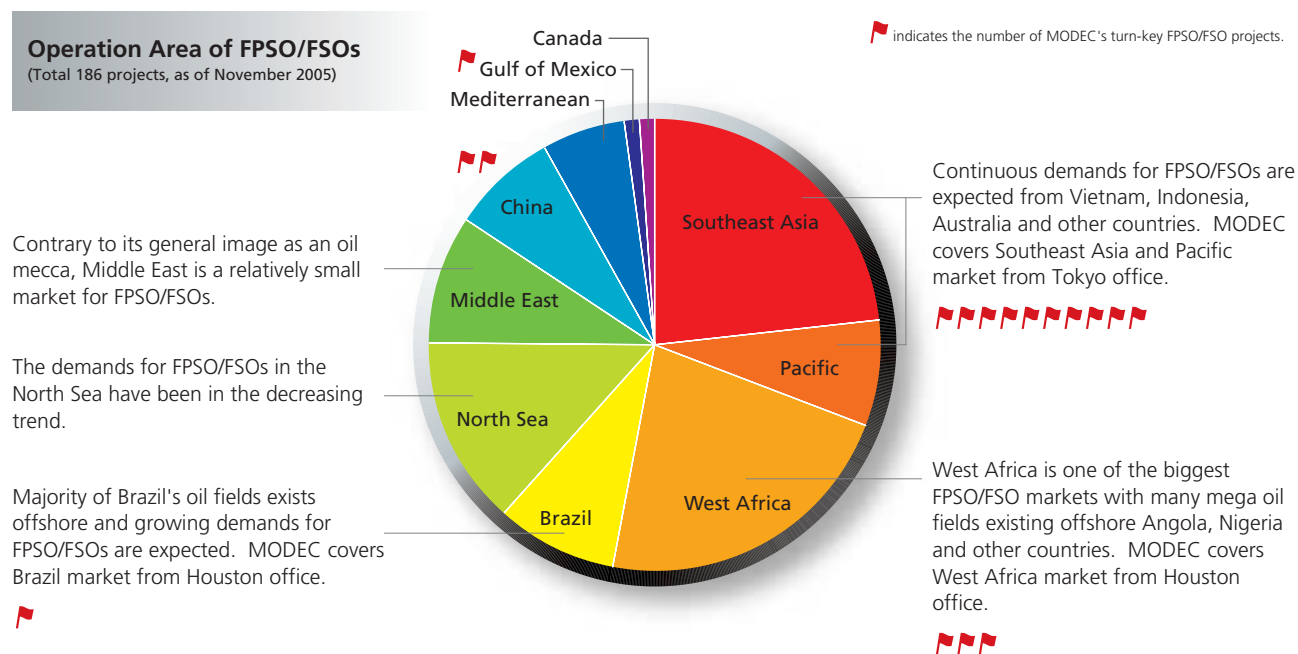
### Public Offering and Third Party Allotment

In December 2005 MODEC, INC. issued new shares and executed the secondary offering of the shares. Total number of issued shares increased to 37,408,000 shares and paid-in capital increased to 12,391.6 million yen.

## MODEC at a Glance — Operation Area of FPSO/FSOs

Currently approximately 110 FPSOs and 80 FSOs are in operation worldwide<sup>(NOTE)</sup>. FPSOs were first started to be in use in the 1970s, mainly in the North Sea. In recent years the demands for FPSOs have shifted from the North Sea to other areas including West Africa, Brazil, Southeast Asia and Pacific. According to the April 2005 report of International Maritime Associates, Inc., 59 to 72 FPSOs are expected to be ordered in the next five years and the majority of the units will be deployed in West Africa, Brazil, Southeast Asia and Pacific regions.

To cover the worldwide FPSO markets, MODEC Group has two headquarters, in Tokyo and in Houston. MODEC, INC. in Tokyo covers Southeast Asia and Pacific markets, while MODEC International LLC in Houston covers West Africa, Brazil and Gulf of Mexico markets.



(NOTE) Source: International Maritime Associates, Inc.  
FLOATING PRODUCTION SYSTEMS assessment of the outlook for FPSO vessels, production semis, TLPs and spars – November 2005 –

## FPSO Project in 2005 — Petrobras Espadarte Sul FPSO

Brazil is one of the most rapid growing FPSO markets in the world along with Southeast Asia, Pacific and West Africa. Large percentages of Brazil's oil fields exists offshore and among major offshore reservoir areas, Campos Basin, located northeast of Rio de Janeiro, holds numerous oil fields.

In July 2005 MODEC, INC. was awarded a contract from Brazilian state oil company Petrobras for the supply and operation of an FPSO. The FPSO will be installed on the Espadarte Sul field in the Campos Basin in 1,350 meters of water depth. MODEC will own and operate the FPSO for eight years with possible extensions.

The construction work to convert the tanker “Bright Jewel” to the FPSO is ongoing at Jurong Shipyard in Singapore. The oil production from the Espadarte Sul field is expected in the first half of 2007.



FPSO Construction Works at Jurong Shipyard

# MODEC Project Location

## Southeast Asia



CLJOC Su Tu Den FPSO  
(Vietnam)

CLJOC Su Tu Den FPSO \*\*

KNOC Rong Doi FPSO \*\*  
(Under Construction)

Vietsovpetro White Tiger FPSO

PEARL Jasmine FPSO \*\*

PTTEP Bongkot FPSO

MEDCO/MOECO Langsa FPSO \*\*

CNR Baobab FPSO \*\*

Chevron Escravos LPG FPSO

Esso Chad FPSO

Amerada Hess Oveng TLP & Okume/Ebano TLP

(Marathon Tchatamba FPSO & MOPU)

BHPBP Stybarrow FPSO \*\*  
(Under Construction)

Santos Mutineer-Exeter FPSO \*\*

(Nexen Buffalo FPSO)

ConocoPhillips Elang/Kakatua FPSO \*\*

JHN Lufeng FSO

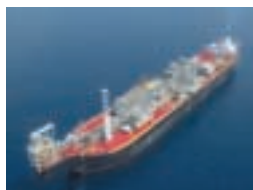
Amoco Liuhua FPSO

MODEC, INC.  
(Tokyo)

Marathon Kakap FPSO \*

Chevron Anoa FPSO

## West Africa



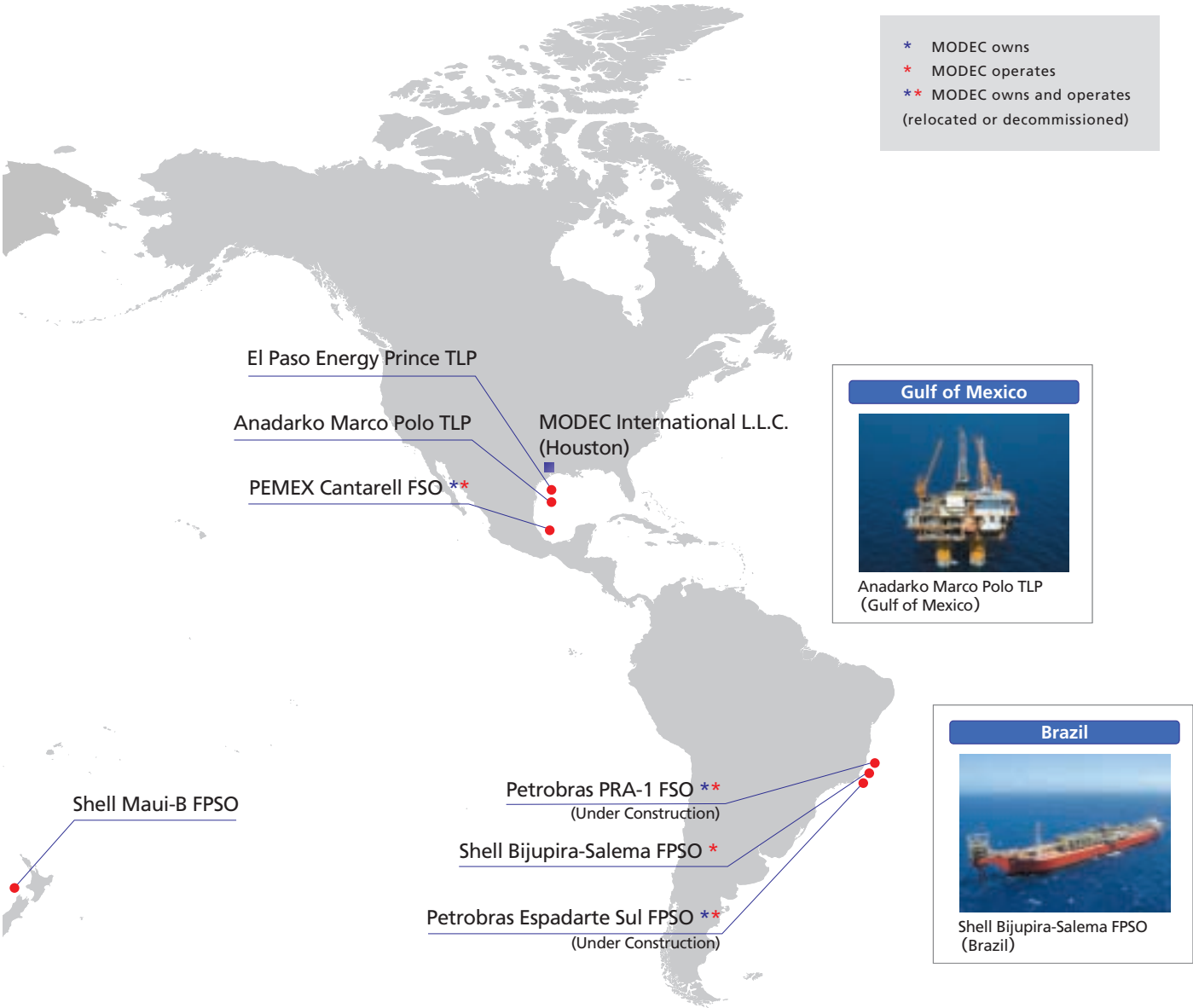
CNR Baobab FPSO  
(Cote d'Ivoire)

## Pacific



Santos Mutineer-Exeter FPSO  
(Australia)

MODEC was awarded its first FPSO contract in 1985 and since then MODEC has delivered eleven FPSOs and seven FSOs. MODEC aims to strengthen its presence in Brazil and West Africa as well as in Southeast Asia and Pacific.

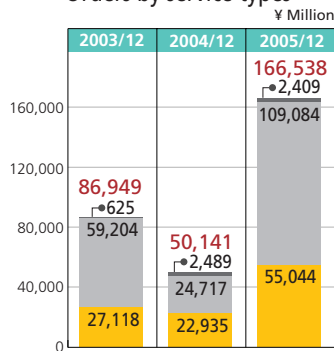


# Financial Highlights for the Fiscal Year 2005

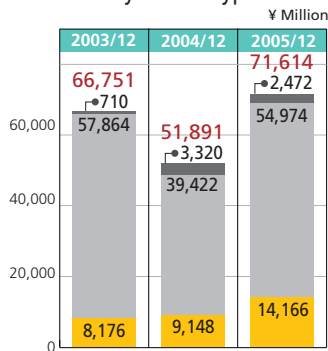
## Financial Highlights for the Fiscal Year 2005

- New FPSO/FSO contract awards boosted
- Annual orders were 166.5 billion yen; order backlogs at the year end were 182.1 billion yen
- Three FPSOs started charter services
- Number of lease units increased to seven
- Both revenue and profit increased due to the progress of construction works and the provision of lease, charter and O&M services
- 10.6 billion yen was procured by the new share issue and the third party allotment for the purpose of financing to expanding lease projects

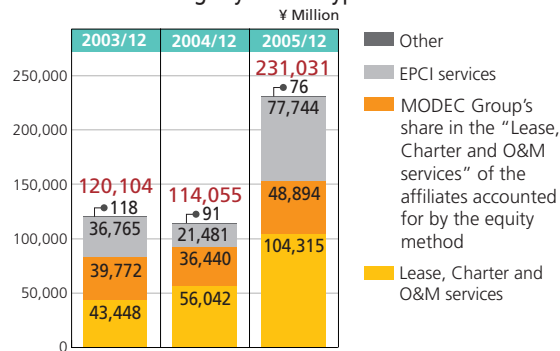
Orders by service types



Sales by service types



Order backlogs by service types





## Review of Operations

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In the fiscal year 2005 high oil prices backed the increasing trend of offshore oil and gas development. In this business climate, the Company was awarded three new contracts; KNOC Rong Doi FSO (Vietnam), Petrobras Espadarte Sul FPSO (Brazil) and Petrobras PRA-1 FSO (Brazil). The Company also started the works for BHPBP Stybarrow FPSO (Australia) project in 2005. Construction works of the four new FPSO/FSO projects progressed on schedule. On the operations side, three FPSOs commenced oil production in 2005, leading the total number of FPSO/FSOs that the Company owns and operates to seven at the year end of 2005.

As a result, both Consolidated Order and Consolidated Sales recorded the highest; Consolidated Order totaled 166,538 million yen and Consolidated Sales totaled 71,614 million yen. On the profit side, Ordinary Income and Net Income increased to 5,408 million yen and 3,213 million yen respectively.

### ● EPCI Services

Construction of newly awarded FPSO/FSO projects and two TLPS for Amerada Hess's Oveng and Okume/Ebano fields progressed on schedule. Construction works of CNR Baobab FPSO, Santos Mutineer-Exeter FPSO and PEARL Jasmine FPSO were completed. As a result, sales from EPCI services totaled 54,974 million yen.

### ● Lease, Charter and O&M Services

Three FPSOs commenced oil production in 2005, adding the number of the Company's self-owned FPSO/FSOs to seven. In addition the Company operated two FPSOs owned by oil companies. As a result, sales from Lease, Charter and O&M Services totaled 14,166 million yen.

### ● Other Services

As after-sales services, the Company supplied spare parts and provided engineering support to the FPSO/FSOs that the Company had constructed and delivered to the oil development companies. As a result, sales from other services totaled 2,472 million yen.

## Outlook for the Fiscal Year 2006

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Driving forces for offshore oil and gas development are strong and the project size of floating production facilities are getting bigger. Under this business environment, the Company will continue the marketing activities vigorously to sign new contracts. The Company intends to make a strong commitment in the safety execution of EPCI works and the high uptime performance of Operation & Maintenance services. For the fiscal year 2006, the Company forecasts Sales of 80,000 million yen, Ordinary Income of 4,500 million yen and Net Income of 3,100 million yen.

# Consolidated Financial Statements

## Consolidated Balance Sheets

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

	Fiscal year 2005 (December 31, 2005)	Fiscal year 2004 (December 31, 2004)
<b>–Assets–</b>		
<b>Current Assets</b>	<b>48,832</b>	<b>42,700</b>
Cash and time deposits	25,061	14,061
Accounts receivable - trade	16,409	14,059
Inventories	2,237	165
Short-term loans receivable	255	9,783
Short-term lease receivable	2,145	1,735
Other	2,721	2,894
<b>Non-Current Assets</b>	<b>55,866</b>	<b>23,820</b>
<b>Property and Equipment</b>	<b>7,094</b>	<b>5,708</b>
Machinery and equipment	3,168	5,606
Construction in progress	3,735	–
Other	191	102
<b>Intangible Assets</b>	<b>5,246</b>	<b>4,769</b>
<b>Other Assets</b>	<b>43,524</b>	<b>13,341</b>
Investment securities	8,463	3,882
Long-term loans receivable from an affiliated company	28,289	1,745
Long-term lease receivable	5,043	6,273
Other	1,727	1,440
<b>Total Assets</b>	<b>104,698</b>	<b>66,521</b>
<b>–Liabilities–</b>		
<b>Current Liabilities</b>	<b>56,431</b>	<b>34,909</b>
Accounts payable - trade	18,889	10,255
Short-term loans payable	27,960	12,663
Current portion of long-term loans payable	3,107	6,652
Other	6,473	5,337
<b>Long-term Liabilities</b>	<b>8,616</b>	<b>7,932</b>
Long-term loans payable	6,478	6,345
Other	2,138	1,587
<b>Total Liabilities</b>	<b>65,047</b>	<b>42,842</b>
Minority Interests in Consolidated Subsidiaries	1,807	1,393
<b>–Shareholders' Equity–</b>		
Common stock	12,391	7,159
Capital surplus	13,121	7,675
Retained earnings	10,434	7,531
Net unrealized holding gains on securities	865	575
Foreign currency translation adjustments	1,031	△656
Less-Treasury stock at cost	△0	△0
<b>Total Shareholders' Equity</b>	<b>37,843</b>	<b>22,285</b>
<b>Total Liabilities, Minority Interests and Shareholders' Equity</b>	<b>104,698</b>	<b>66,521</b>

Investments and other assets increased due to the investments in and financing to the Company's affiliates that will own and lease FPSO/FSO units to oil companies.

Short-term loans payable increased due to the financing to the Company's affiliates during the EPCI periods.

Common stock and Capital surplus increased as a result of the public offering and the third party allotment.

# Consolidated Financial Statements

## Consolidated Statements of Income

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

	Fiscal year 2005 (December 31, 2005)	Fiscal year 2004 (December 31, 2004)
Sales	71,614	51,891
Cost of Sales	63,053	44,553
<b>Gross Profit</b>	<b>8,560</b>	<b>7,338</b>
Selling, General and Administrative Expenses	4,665	3,559
<b>Operating Profit</b>	<b>3,895</b>	<b>3,779</b>
Other Income	2,978	1,342
Interest income	1,282	836
Dividend income	5	5
Foreign exchange gain	580	–
Equity in earnings of affiliates	763	128
Other	346	372
Other Expenses	1,465	1,420
Interest expense	1,261	685
Foreign exchange loss	–	420
Depreciation of idle assets	–	229
Other	204	85
<b>Ordinary Income</b>	<b>5,408</b>	<b>3,701</b>
Extraordinary Profits	–	41
Gain from sale of fixed assets	–	41
Extraordinary Loss	–	329
Loss on bad debt	–	242
Loss on sale of fixed assets	–	86
<b>Income before Income Taxes and Minority Interests</b>	<b>5,408</b>	<b>3,414</b>
Income taxes:		
Current	1,010	2,290
Adjustment to prior years	–	△489
Deferred	841	△1,174
Minority Interests	342	557
<b>Net Income</b>	<b>3,213</b>	<b>2,230</b>

Newly awarded projects pushed up Sales from EPCI services. Increasing number of charter and O&M projects raised the Sales from Lease, Charter and O&M services.

Three FPSOs owned by the Company's affiliates started oil production. As a result, equity in earnings of affiliates increased.

Ordinary Income and Net Income recorded the highest.

# Consolidated Financial Statements

## Consolidated Statements of Earned Surplus

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

	Fiscal year 2005 (January 1, 2005 thru December 31, 2005)	Fiscal year 2004 (January 1, 2004 thru December 31, 2004)
<b>–Capital Surplus–</b>		
Beginning balance	7,675	5,175
Increase in capital surplus	5,446	2,499
Issuance of new shares	5,446	2,499
Ending balance	13,121	7,675
<b>–Retained Earnings–</b>		
Beginning balance	7,531	5,648
Increase in retained earnings	3,213	2,230
Net income	3,213	2,230
Decrease in retained earnings	310	347
Cash dividends paid	297	337
Bonuses paid to directors	13	10
Ending balance	10,434	7,531

## Consolidated Statements of Cash Flows

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

	Fiscal year 2005 (January 1, 2005 thru December 31, 2005)	Fiscal year 2004 (January 1, 2004 thru December 31, 2004)
Cash flows from operating activities	11,796	9,623
Cash flows from investing activities	△21,528	△14,402
Cash flows from financing activities	19,063	5,164
Effect of exchange rate changes on cash and cash equivalents	1,668	△119
Net increase in cash and cash equivalents	11,000	266
Cash and cash equivalents at beginning of year	14,061	13,795
Cash and cash equivalents at ending of year	25,061	14,061

Cash flows from investing activities increased due to the investments in and financing to the Company's affiliates.

Cash flows from financing activities increased due to the capital increase through the public offering and the third party allotment.

# Non-Consolidated Financial Statements

## Non-consolidated Balance Sheets

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

	Fiscal year 2005 (December 31, 2005)	Fiscal year 2004 (December 31, 2004)
<b>–Assets–</b>		
Current Assets	22,928	25,620
Non-Current Assets	48,291	16,815
Property and Equipment	101	29
Intangible Assets	7	5
Other Assets	48,182	16,780
<b>Total Assets</b>	<b>71,220</b>	<b>42,435</b>
<b>–Liabilities–</b>		
Current Liabilities	38,919	22,877
Long-term Liabilities	1,344	503
<b>Total Liabilities</b>	<b>40,263</b>	<b>23,380</b>
<b>–Shareholders' Equity–</b>		
Common stock	12,391	7,159
Capital surplus	13,121	7,675
Capital reserve	13,121	7,675
Retained earnings	4,579	3,645
Earned reserve	68	68
Voluntary reserve	1	2
Unappropriated retained earnings	4,509	3,574
Net unrealized holding gains on securities	865	575
Less-Treasury stock at cost	△0	△0
<b>Total Shareholders' Equity</b>	<b>30,956</b>	<b>19,054</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>71,220</b>	<b>42,435</b>

## Appropriation Statements

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

	Fiscal year 2005 (January 1, 2005 thru December 31, 2005)	Fiscal year 2004 (January 1, 2004 thru December 31, 2004)
Unappropriated retained earnings at end of year	4,509	3,574
Transfer from voluntary reserve		
Transfer from special reserve for depreciation	0	0
<b>Total</b>	<b>4,509</b>	<b>3,575</b>
<b>To be appropriated as follows:</b>		
Cash dividends	187	127
Bonuses to directors	18	13
Retained earnings carried forward	4,304	3,434

## Non-consolidated Statements of Income

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

	Fiscal year 2005 (January 1, 2005 thru December 31, 2005)	Fiscal year 2004 (January 1, 2004 thru December 31, 2004)
Sales	23,864	19,426
Cost of Sales	22,250	16,226
<b>Gross Profit</b>	<b>1,614</b>	<b>3,200</b>
Selling, General and Administrative Expenses	1,263	1,043
<b>Operating Profit</b>	<b>351</b>	<b>2,156</b>
Other Income	2,705	984
Interest income	1,261	817
Dividend income	522	5
Foreign exchange gain	764	–
Other	157	161
Other Expenses	1,138	959
Interest expense	970	477
New share issuance expense	58	25
Foreign exchange loss	–	406
Other	110	51
<b>Ordinary Income</b>	<b>1,917</b>	<b>2,181</b>
<b>Income before Income Taxes</b>	<b>1,917</b>	<b>2,181</b>
Income Taxes:		
Current	9	1,455
Adjustment to prior years	△158	–
Deferred	822	△459
<b>Net Income</b>	<b>1,244</b>	<b>1,186</b>
Retained earnings at beginning of year	3,434	2,500
Interim dividends	170	112
<b>Unappropriated retained earnings at end of year</b>	<b>4,509</b>	<b>3,574</b>

The Company paid a dividend of 5 yen per share as of December 31, 2005. In combination with interim dividends of 5 yen per share, the annual dividends totaled 10 yen per share.

## Corporate Data (as of December 31, 2005)

- **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:** 12,391,600,000 Japanese yen
- **Number of employees:** 116 (non-consolidated, including temporary employees)  
1,166 (consolidated, including temporary employees)
- **Main banks:** Sumitomo Mitsui Banking Corporation  
Mizuho Corporate Bank, Ltd.  
The Chuo Mitsui Trust and Banking Co., Ltd.  
The Sumitomo Trust & Banking Co., Ltd.  
The Norinchukin Bank

### ● Management (as of March 28, 2006)

<b>Kenji Yamada</b>	President & CEO
<b>Nobuhiro Yaji</b>	Senior Managing Director & COO
<b>Mitsuhiro Mokumoto</b>	Senior Managing Director & CFO
<b>Masaki Kawase</b>	Director - FPSO & FSO Division
<b>Naomasa Kosaka</b>	Director - FPSO Operations Division
<b>Shashank Karve</b>	Director MODEC International LLC – President & CEO
<b>Saburo Sakamaki</b>	Director
<b>Tamiyoshi Iwasaki</b>	Director
<b>Takao Sunami</b>	Director
<b>Yasuo Asama</b>	Director
<b>Yasuhiro Iwanami</b>	Corporate Auditor
<b>Makoto Yamazaki</b>	Corporate Auditor
<b>Toshiro Miyazaki</b>	Corporate Auditor
<b>Yoshihiro Takizawa</b>	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.	Operator of FPSO/FSOs in Asia and Pacific
JASMINE FPSO PTE LTD.	PEARL Jasmine Owner Operator
MODEC FPSO B.V.	CLJOC Su Tu Den FPSO Owner Operator
MODEC VENTURE 10 B.V.	CNR Baobab FPSO Owner Operator
MODEC VENTURE 11 B.V.	Santos Mutineer-Exeter FPSO Owner Operator
RONG DOI MV12 PTE LTED.	KNOC Rong Doi FSO Owner Operator
ESPADARTE MV14 B.V.	Petrobras Espadarte Sul FPSO Owner Operator
PRA-1 MV15 B.V.	Petrobras PRA-1 FSO Owner Operator
STYBARROW MV16 B.V.	BHPBP Stybarrow FPSO Owner Operator

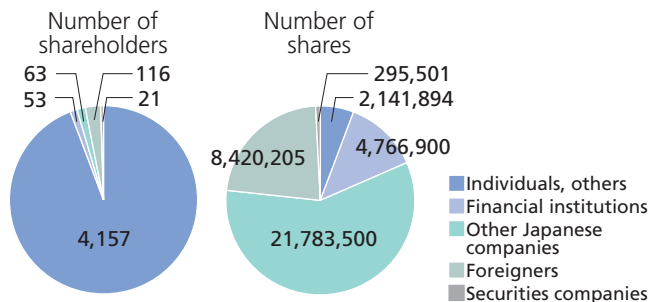
## Stock Information (as of December 31, 2005)

- Number of Authorized Shares ..... 102,868,000
- Number of Issued Shares ..... 37,408,000
- Number of Shareholders ..... 4,410

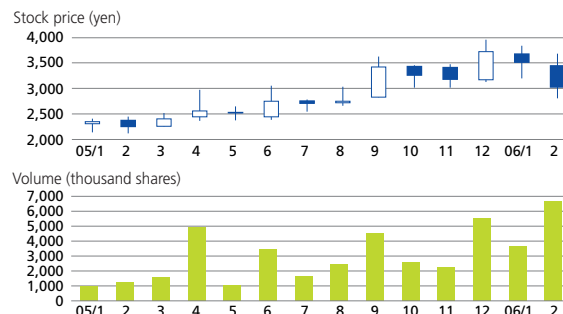
### ● Major Shareholders

Name	Number of Shares Held (thousand shares)	Ratio of shareholding (%)
Mitsui Engineering & Shipbuilding Co., Ltd.	18,742	50.10
Mitsui & Co., Ltd.	2,466	6.59
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,980	5.29
The Bank of New York Jasdic Treaty Account	1,046	2.79
Mitsubishi UFJ Trust and Banking Corporation (Trust Account)	727	1.94
Morgan Stanley & Company International Ltd.	700	1.87
The Chase Manhattan Bank, NA London SL Omnibus Account	621	1.66
Credit Suisse First Boston Europe PB Sec Int Non-Treaty Client	457	1.22
Bank of New York GCM Client Accounts E ISG	455	1.21
Deutsche Bank AG London PB Non-Treaty Clients 613	452	1.21
Total	27,650	73.91

### ● 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.

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

  
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