

# IR Report & Message vol.4

Fiscal Year from January 1, 2006 to December 31, 2006



**MODEC, INC.**

TSE 6269

# To Our Shareholders



Kenji Yamada  
President & CEO  
MODEC, INC.

A handwritten signature in black ink that reads "K. Yamada". The signature is written in a cursive, flowing style.

We are pleased to report to our shareholders the financial results and business activities of MODEC, INC. for fiscal year 2006 (from January 1, 2006 to December 31, 2006).

## Overview of Operations

Following several years of steep rises, oil prices have stabilized, due in part to the increase in stocks of petroleum products in the United States. However, consumption of primary energy continues to grow in China and India. Amid rising demand for energy production, oil companies are investing aggressively in offshore exploration and development, particularly in deepwater areas, and this is creating a favorable business environment for MODEC.

In 2006, the MODEC Group received orders for four new projects: BHPBP Stybarrow FPSO, JVPC Rang Dong FSO, Petrobras Opportunity Oil FPSO and BHPB Shenzi TLP. The Group was also providing charter and Operations and Maintenance (O&M) services for eight FPSO/FSOs as of the end of 2006.

Orders for fiscal year 2006 reached 179,353 million yen, while sales stood at 99,149 million yen, a result that reflects progress in construction work and the provision of charter and O&M service. While fiscal 2005 produced a temporary spike in profits with the realization of profits deferred during the construction period in the CNR Baobab FPSO project, significant amounts of unrealized profit were deferred in 2006. As a result, operating profit came to 3,494 million yen, ordinary income reached 4,664 million yen and net income stood at 3,305 million yen.

For fiscal 2006, MODEC, INC. paid an interim dividend of 6.25 yen per share and a year-end dividend of 6.25 yen per share, resulting in the total annual dividend of 12.50 yen.

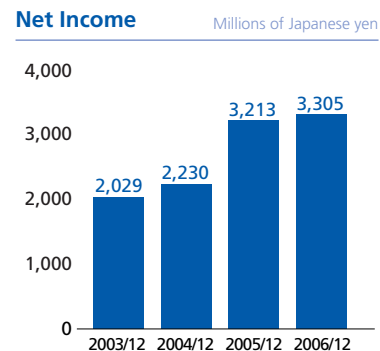
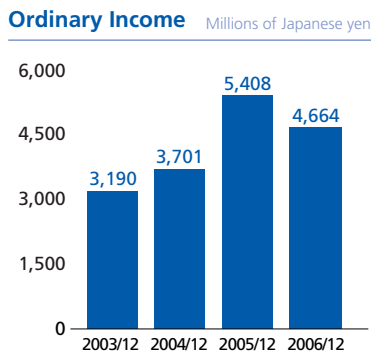
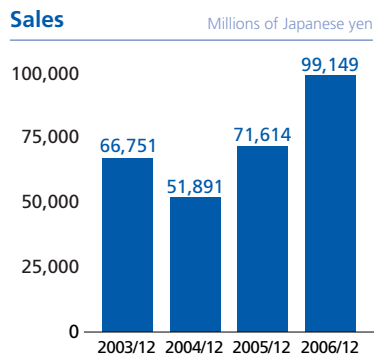
## Outlook for 2007

Demand for primary energy is expected to continue to increase. The business environment surrounding floating production systems will remain favorable, as oil companies have a large number of deepwater oil and gas fields under development and production facilities are growing in size.

In this environment, the MODEC Group is fully committed to winning new orders. For charter and O&M services, Petrobras Espadarte Sul FPSO and KNOC Rong Doi FSO began providing charter services in January 2007, while Petrobras PRA-1 FSO and BHPBP Stybarrow FPSO will commence charter services in the second and third quarters of 2007, respectively. As a result, the charter and O&M services offered by the MODEC Group are expected to increase to twelve projects by the end of 2007.

Consequently, the Company forecasts sales of 110,000 million yen, ordinary income of 6,400 million yen and net income of 4,200 million yen on a consolidated basis for 2007. For these financial forecasts, the Company assumes an exchange rate of 110 yen per US dollar at the time of book closing (119.12 yen per US dollar for actual results in fiscal 2006).

In 2006, the Company acquired SOFEC, INC. and purchased 20% of shares in NATCO Japan Co., Ltd. and embarked on a restructuring of its worldwide functional organizations under the *MODEC Ichi-ban Revolution*. In 2007, MODEC will continue to move forward with its corporate re-organization by assuring that the *MODEC Ichi-ban Revolution* is executed fully. We remain determined to expand our business in the floating production systems market. I look forward to the continued understanding and support of our shareholders.



## MODEC Ichi-ban Revolution

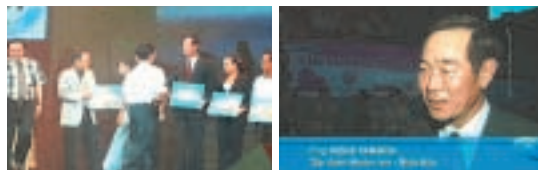
In the winter of 2006, the Company announced the *MODEC Ichi-ban Revolution*, an initiative to leverage its worldwide resources and to increase its project execution and operations capacity. MODEC will restructure its worldwide functional organizations and its business will be globally integrated under the auspices of key officers. Under the revised organization, the MODEC Group will aim to achieve further growth in the rapidly expanding floating production systems market.

## Acquisition of shares in SOFEC and NATCO Japan

In 2006, SOFEC and NATCO Japan joined the MODEC Group. SOFEC, INC. is a U.S. company that designs and fabricates the mooring systems which are key structural components for FPSO/FSOs. NATCO in the United States, the parent company of NATCO Japan Co., Ltd., is a global supplier of oil and gas processing systems. By adding these two companies—both boasting excellent technologies and track records—to the Group, MODEC will be able to bolster its competitive edge in the industry by proposing systems that meet the needs of oil companies.

## Donation of relief funds to victims of Typhoon Durian

Typhoon Durian hit Southeast Asia in late November and early December 2006, causing major damage in Vietnam where the MODEC Group provides charter services for two FPSO/FSO units. To assist in the recovery from this disaster, MODEC donated relief money of US \$50,000, with US \$25,000 given to both Ho Chi Minh City and Vung Tau City. We express our sympathy to the victims and sincerely hope that relief activities and reconstruction of the stricken areas proceed rapidly.



Charity concert in Ho Chi Minh City and Mr. Yamada's interview on local television

## BHPBP Stybarrow FPSO:

Overview of the project and its measures to protect the environment

In 2006, MODEC proceeded with construction of a Floating Production, Storage & Offloading system (FPSO) for the development of the Stybarrow field for Australia's BHP Billiton Petroleum. The Stybarrow oil field is located approximately 65km northwest of Exmouth, in Western Australia. Along the west coast of the North West Cape where Exmouth is located lies Ningaloo Marine Park, well known for its coral reefs and whale sharks.

Taking into consideration the natural environment surrounding the Stybarrow field, MODEC adopted a number of initiatives to protect the environment in the Stybarrow project. In a typical FPSO project, crude oil produced from the reservoir is processed in the production facilities on the FPSO, and gas separated from crude oil is flared. In the Stybarrow project, however, we have adopted a method of re-injecting gas back into the oil reservoir to prevent greenhouse gas emissions and to minimize the impact on the surrounding environment. MODEC will also discharge water to meet its own criteria, which are in fact more stringent than those required by the Australian government.

The *FPSO Stybarrow Venture MV16* sailed from the shipyard in February 2007 and is currently in Singapore where the topsides (production facilities) are being installed on the vessel. Production from the Stybarrow field is expected to start in the third quarter of 2007.

Stybarrow Field



Construction work of  
*FPSO Stybarrow Venture MV16*



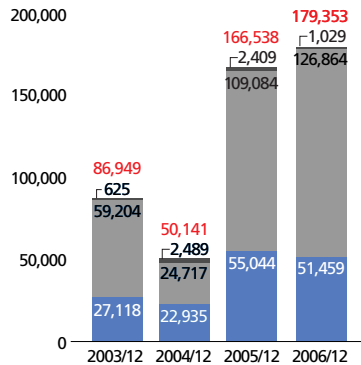
# Review of Operations

## Highlights in Consolidated Results for Fiscal Year 2006

- Strong orders for new projects
- Annual orders of 179 billion yen with a fiscal year-end order backlog of 264 billion yen
- Increased sales attributable to progress of construction work
- Rise in net income resulting from an increase in equity in the earnings of affiliates, offsetting a decline in operating profit and ordinary income caused by the deferment of a significant amount of unrealized profits

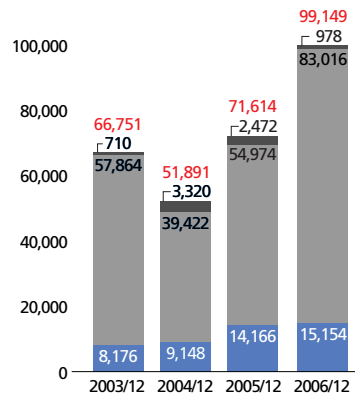
### Orders by service types

Millions of Japanese yen



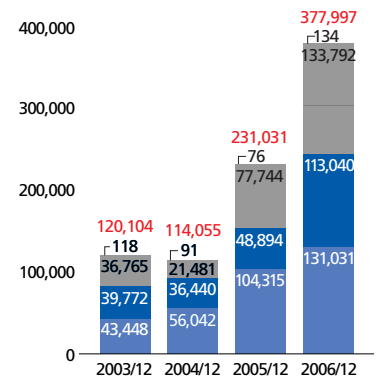
### Sales by service types

Millions of Japanese yen



### Order backlogs by service types

Millions of Japanese yen



- Other
- EPCI services
- Lease, Charter and O&M services
- MODEC Group's share in the "Lease, Charter and O&M services" of the affiliates accounted for by the equity method

## Review by Service

### EPCI Services

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MODEC made steady progress on construction work for projects that were new orders in 2006, while work for projects such as KNOC Rong Doi FSO, Petrobras Espadarte Sul FPSO, and Petrobras PRA-1 FSO, which were orders received in 2005, remained on schedule. Construction of the Amerada Hess Oveng TLP and Okume/Ebano TLP was completed. As a result, sales from EPCI services were 83,016 million yen.



Amerada Hess Oveng TLP



KNOC Rong Doi FPSO

### Lease, Charter and O&M Services

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Sales from Lease, Charter and O&M services reached 15,154 million yen, as the following projects offered operation services.

#### FPSO/FSOs operation services owned by the MODEC Group:

- ConocoPhillips Elang/Kakatua FPSO (East Timor/Australia)
- PEMEX Cantarell FSO (Mexico)
- CLJOC Su Tu Den FPSO (Vietnam)
- MEDCO/MOECO Langsa FPSO (Indonesia)
- Santos Mutineer-Exeter FPSO (Australia)
- CNR Baobab FPSO (Cote d'Ivoire)
- PEARL Jasmine FPSO (Thailand)

#### Operation services of an FPSO that the oil company owns:

- Shell Bijupira-Salema FPSO (Brazil)

### Other Services

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As after-sales services, the Company supplied spare parts and provided engineering support for FPSOs and other facilities the MODEC Group had constructed and delivered to oil development companies. Consequently, sales from other services totaled 978 million yen.

# Consolidated Financial Statements

## Consolidated balance sheet

Millions of Japanese yen

	Fiscal year 2006 December 31, 2006	Fiscal year 2005 December 31, 2005		Fiscal year 2006 December 31, 2006	Fiscal year 2005 December 31, 2005
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets</b>	<b>74,982</b>	<b>48,832</b>	<b>Current liabilities</b>	<b>64,244</b>	<b>56,431</b>
Cash and time deposits	28,827	25,061	Accounts payable - trade	16,265	18,889
Accounts receivable - trade	10,641	16,409	Short-term loans payable	34,172	27,960
Inventories	2,518	2,237	Current portion of long-term loans payable	2,955	3,107
Short-term loans receivable	27,270	255	Accrued expenses	4,953	1,644
Short-term lease receivable	2,352	2,145	Accounts payable - other	1,623	—
Other	3,375	2,724	Income taxes payable	1,842	345
Less-allowance for bad debts	△3	△3	Other	2,431	4,483
<b>Non-current assets</b>	<b>48,367</b>	<b>55,866</b>	<b>Long-term liabilities</b>	<b>16,882</b>	<b>8,616</b>
<b>Property and equipment</b>	<b>3,928</b>	<b>7,094</b>	Long-term loans payable	12,822	6,478
Machinery and equipment	3,502	3,168	Severance and retirement benefits		
Other	425	3,926	For employees	125	113
<b>Intangible assets</b>	<b>15,119</b>	<b>5,246</b>	For directors and corporate auditors	189	120
Goodwill	7,238	—	Deferred tax liabilities	3,167	1,548
Consolidated differences	—	3,866	Other	578	355
Other	7,881	1,380	<b>Total liabilities</b>	<b>81,127</b>	<b>65,047</b>
<b>Other assets</b>	<b>29,319</b>	<b>43,524</b>	Minority interests in consolidated subsidiaries	—	1,807
Investments securities	11,127	8,463	<b>Shareholders' equity</b>		
Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	13,782	28,289	Common stock	—	12,391
Long-term lease receivable	2,565	5,043	Capital surplus	—	13,121
Other	1,846	1,734	Retained earnings	—	10,434
Less-allowance for bad debts	△2	△6	Net unrealized holding gains on securities	—	865
<b>Total assets</b>	<b>123,350</b>	<b>104,698</b>	Foreign currency translation adjustments	—	1,031
			<b>Less-treasury stock at cost</b>	<b>—</b>	<b>△0</b>
			<b>Total shareholders' equity</b>	<b>—</b>	<b>37,843</b>
			<b>Total liabilities and shareholders' equity</b>	<b>—</b>	<b>104,698</b>
			<b>Net assets</b>		
			Shareholders' equity	38,832	—
			Common stock	12,391	—
			Capital surplus	13,121	—
			Retained earnings	13,319	—
			Less-treasury stock at cost	△0	—
			Discrepancies in appraisals and conversions	2,017	—
			Net unrealized holding gains on securities	780	—
			Foreign currency translation adjustments	1,237	—
			Minority interests in consolidated subsidiaries	1,373	—
			<b>Total net assets</b>	<b>42,222</b>	<b>—</b>
			<b>Total liabilities, net assets</b>	<b>123,350</b>	<b>—</b>



## Consolidated statement of income

Millions of Japanese yen

	Fiscal year 2006 From January 1, 2006 to December 31, 2006	Fiscal year 2005 From January 1, 2005 to December 31, 2005
Sales	99,149	71,614
Cost of sales	89,767	63,053
<b>Gross profit</b>	<b>9,381</b>	<b>8,560</b>
Selling, general and administrative expenses	5,887	4,665
<b>Operating profit</b>	<b>3,494</b>	<b>3,895</b>
Other income	4,941	2,978
Interest income	3,545	1,282
Dividend income	7	5
Foreign exchange gain	—	580
Equity in earnings of affiliates	1,132	763
Other	256	346
Other expenses	3,771	1,465
Interest expense	2,555	1,261
Foreign exchange loss	1,106	—
Other	110	204
<b>Ordinary income</b>	<b>4,664</b>	<b>5,408</b>
Extraordinary income	41	—
Income before income taxes and minority interests	4,705	5,408
Income taxes:		
Current	2,636	1,010
Deferred	△1,511	841
Minority interests	274	342
<b>Net income</b>	<b>3,305</b>	<b>3,213</b>

## Consolidated statement of cash flows

Millions of Japanese yen

	Fiscal year 2006 From January 1, 2006 to December 31, 2006	Fiscal year 2005 From January 1, 2005 to December 31, 2005
Cash flows from operating activities	11,716	11,878
Cash flows from investing activities	△20,043	△21,549
Cash flows from financing activities	11,867	19,003
Effect of exchange rate changes on cash and cash equivalents	223	1,668
<b>Net increase in cash and cash equivalents</b>	<b>3,764</b>	<b>11,000</b>
Cash and cash equivalents at beginning of year	25,061	14,061
Increase in cash and cash equivalents due to additional of consolidated subsidiaries	1	—
<b>Cash and cash equivalents at ending of year</b>	<b>28,827</b>	<b>25,061</b>

## Consolidated statement of changes in shareholders' equity From January 1, 2006 to December 31, 2006

Millions of Japanese yen

	Shareholders' equity				Discrepancies in appraisals and conversions			Minority interests	Total net assets	
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Foreign currency translation adjustments			Total discrepancies in appraisals and conversions
Balance at December 31, 2005	12,391	13,121	10,434	△0	35,946	865	1,031	1,896	1,807	39,650
<b>Change of items</b>										
Cash dividends paid			△420		△420					△420
Bonuses paid to directors			△18		△18					△18
Net income			3,305		3,305					3,305
Other			18		18					18
Purchases of treasury stock				△0	△0					△0
Change in items other than Shareholders' Equity						△84	205	120	△434	△313
<b>Total change of items</b>	<b>—</b>	<b>—</b>	<b>2,885</b>	<b>△0</b>	<b>2,885</b>	<b>△84</b>	<b>205</b>	<b>120</b>	<b>△434</b>	<b>2,571</b>
Balance at December 31, 2006	12,391	13,121	13,319	△0	38,832	780	1,237	2,017	1,373	42,222

# Non-Consolidated Financial Statements

## Non-Consolidated balance sheet

Millions of Japanese yen

	Fiscal year 2006 December 31, 2006	Fiscal year 2005 December 31, 2005
<b>Assets</b>		
Current assets	47,347	22,928
Non-current assets	36,416	48,291
Property and equipment	138	101
Intangible assets	14	7
Other assets	36,263	48,182
<b>Total assets</b>	<b>83,763</b>	<b>71,220</b>
<b>Liabilities</b>		
Current liabilities	40,338	38,919
Long-term liabilities	10,736	1,344
<b>Total liabilities</b>	<b>51,074</b>	<b>40,263</b>
<b>Shareholders' equity</b>		
Common stock	—	12,391
Capital surplus	—	13,121
Retained earnings	—	4,579
Net unrealized holding gains on securities	—	865
Less-treasury stock at cost	—	△0
<b>Total shareholders' equity</b>	<b>—</b>	<b>30,956</b>
<b>Total liabilities and shareholders' equity</b>	<b>—</b>	<b>71,220</b>
<b>Net assets</b>		
Shareholders' equity	31,908	—
Common stock	12,391	—
Capital surplus	13,121	—
Retained earnings	6,396	—
Less-treasury stock at cost	△0	—
Discrepancies in appraisals and conversions	780	—
<b>Total net assets</b>	<b>32,689</b>	<b>—</b>
<b>Total liabilities, net assets</b>	<b>83,763</b>	<b>—</b>

## Non-Consolidated statement of income

Millions of Japanese yen

	Fiscal year 2006 From January 1, 2006 to December 31, 2006	Fiscal year 2005 From January 1, 2005 to December 31, 2005
Sales	28,924	23,864
Cost of sales	24,580	22,250
<b>Gross profit</b>	<b>4,343</b>	<b>1,614</b>
Selling, general and administrative expenses	1,585	1,263
<b>Operating profit</b>	<b>2,758</b>	<b>351</b>
Other income	3,901	2,705
Other expenses	3,286	1,138
<b>Ordinary income</b>	<b>3,373</b>	<b>1,917</b>
<b>Income before income taxes</b>	<b>3,373</b>	<b>1,917</b>
Income taxes:		
Current	1,622	9
Refund	—	△158
Deferred	△505	822
<b>Net income</b>	<b>2,255</b>	<b>1,244</b>
Retained earnings at beginning of year	—	3,434
Interim dividends	—	170
<b>Inappropriate retained earnings at end of year</b>	<b>—</b>	<b>4,509</b>

## Non-Consolidated statement of changes in shareholders' equity

From January 1, 2006 to December 31, 2006

Millions of Japanese yen

	Shareholders' equity							Discrepancies in appraisals and conversions		Total net assets		
	Common stock	Capital surplus		Retained earnings			Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities		Total discrepancies in appraisals and conversions	
		Capital reserve	Total capital surplus	Earned reserve	Special reserve for depreciation	Retained earnings at beginning of year						Total retained earnings
Balance at December 31, 2005	12,391	13,121	13,121	68	1	4,509	4,579	△0	30,091	865	865	30,956
<b>Change of items</b>												
Cash dividends paid						△420	△420		△420			△420
Bonuses paid to directors						△18	△18		△18			△18
Net income						2,255	2,255		2,255			2,255
Purchases of treasury stock								△0	△0			△0
Transfer from special reserve for depreciation					△0	0	—					—
Change in items other than Shareholders' Equity										△84	△84	△84
<b>Total change of items</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>△0</b>	<b>1,817</b>	<b>1,817</b>	<b>△0</b>	<b>1,816</b>	<b>△84</b>	<b>△84</b>	<b>1,732</b>
Balance at December 31, 2006	12,391	13,121	13,121	68	0	6,326	6,396	△0	31,908	780	780	32,689

## General Information

<b>Company name</b>	MODEC, INC.
<b>Founded</b>	June 1, 1987
<b>Head office</b>	2-8, Kohinata 4-chome, Bunkyo-ku Tokyo 112-0006, Japan TEL: +81-3-5800-6081 FAX: +81-3-5800-6060/6070
<b>Paid-in capital</b>	12,391,600,000 Japanese yen
<b>Number of employees</b>	123 [ non-consolidated, including temporary employees ] 1,294 [ consolidated, including temporary employees ]

## Management As of March 29, 2007

<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 General Manager – Singapore Branch
<b>Shashank Karve</b>	Director MODEC International LLC – President & CEO
<b>Takao Sunami</b>	Director
<b>Saburo Sakamaki</b>	Director
<b>Tamiyoshi Iwasaki</b>	Director
<b>Yasuo Asama</b>	Director
<b>Yasuhiro Iwanami</b>	Corporate Auditor
<b>Toshiro Miyazaki</b>	Corporate Auditor
<b>Yoshihiro Takizawa</b>	Corporate Auditor
<b>Makoto Yamazaki</b>	Corporate Auditor

## Main Group Companies

<b>MODEC International L.L.C.</b>	Turn-key EPCI contractor of FPSO, FSO, TLP and CP-Semi
<b>SOPEC, INC.</b>	Supplier of SOPEC® turrets and mooring systems
<b>NATCO Japan Co., Ltd.</b>	Supplier of machinery and equipment for separation and production of oil and gas

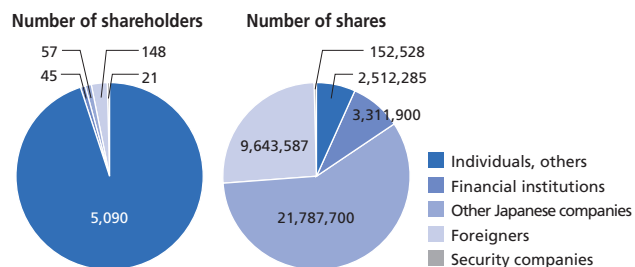
## Stock Information

Number of Authorized shares	102,868,000
Number of Issued Shares	37,408,000
Number of Shareholders	5,361

## Major Shareholders

Name	Number of Shares Held	Ratio of Shareholding (%)
Mitsui Engineering & Shipbuilding Co., Ltd.	18,742,000	50.10
Mitsui & Co., Ltd.	2,466,500	6.59
Goldman Sachs International	2,452,916	6.55
The Master Trust Bank of Japan, Ltd. (Trust Account)	919,800	2.45
Japan Trustee Services Bank, Ltd. (Trust Account)	672,800	1.79
The Bank of New York Europe Ltd. 131705	545,400	1.45
Sojitz Corporation	400,000	1.06
Morgan Stanley & Company International Ltd.	388,800	1.03
Citibank London Global Wind Scottish Equitable	378,200	1.01
Evergreen Nominees Limited Trusty Account	347,900	0.93

## Shareholders Breakdown



## Stock Information

<b>Fiscal year end</b>	December 31 of each year
<b>General meeting of shareholders</b>	March of each year
<b>Shareholder registration date for year-end dividend</b>	December 31 of each year
<b>Shareholder registration date for interim dividend</b>	June 30 of each year
<b>Shareholding unit</b>	100 shares
<b>Transfer agent</b>	Chuo Mitsui Trust and Banking Co., Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan
<b>Transfer agent office</b>	Chuo Mitsui Trust and Banking Co., Ltd. Transfer Agent Dept. (Transfer Agent Administration Center) 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan Tel: +81-3-3323-7111
<b>Agents</b>	Chuo Mitsui Trust and Banking Co., Ltd. Branch offices in Japan Japan Securities Agents, Ltd. Head office and branch offices

## MODEC, INC.

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