

IR Report & Message vol.5

Fiscal Year from January 1, 2007 to December 31, 2007



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 2007 (from January 1, 2007 to December 31, 2007).

Overview of Operations

Energy consumption in China and India shows no sign of slowing, and oil prices have risen consistently since the beginning of the year, to close to 100 dollars per barrel. 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.

MODEC received orders for the following two projects in 2007:

- TSJOC Song Doc FPSO Project

In May 2007 MODEC signed a contract with Truong Song Joint Operating Company (TSJOC) for the supply, charter and operation of an FPSO to be located in Vietnam's Song Doc field. The FPSO will be installed in 55 meters water depth approximately 170 kilometers offshore Vietnam. The FPSO is expected to begin production in the second half of 2008. The charter contract of the FPSO is five years with an additional five one-year options.

- BHP Pyrenees FPSO Project

In June 2007 MODEC signed a contract with BHP Billiton for the supply and operation of an FPSO to be located in Australia's Pyrenees field. The FPSO will be installed in 200 meters water depth approximately 45 kilometers northwest of Exmouth, Western Australia. The FPSO is expected to begin production in the first half of 2010. The operation contract of the FPSO is 15 years with possible extensions.

As a result, orders received totaled 126,792 million yen (down 29.3% year on year). Sales were 144,040 million yen (a rise of 45.3%), reflecting progress in FPSO construction and the provision of charter and operation services. Operating profit surged to 6,959 million yen (up 99.2%) while ordinary income climbed to 7,828 million yen (a 67.9% increase).

Outlook for 2008

In the Langsa oilfield, where the MODEC Group provides an FPSO charter service, MEDCO MOECO Langsa Ltd. took over the interests of Matrix Oil (Langsa) Ltd. after the latter entered bankruptcy. MODEC Production (Langsa) Pte Ltd., a subsidiary of MODEC, Inc. became an investment partner of MEDCO MOECO Langsa Ltd., owning a part interest, and continued its production activities. Meanwhile, MEDCO MOECO Langsa Ltd. drilled a new well to increase the production of crude oil in the Langsa field, but failed to raise output to the anticipated level. There is consequently some uncertainty about the potential for future production expansion. Given these circumstances, MODEC Production (Langsa) Pte Ltd. posted an asset impairment charge, and the Group recorded an extraordinary loss of 2,064 million yen in relation to that charge in the fiscal year under review.

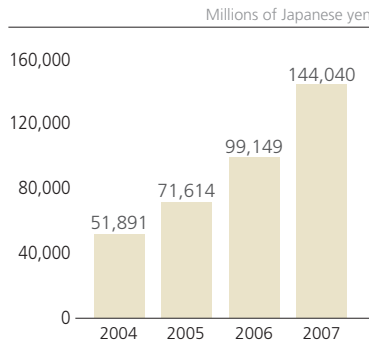
As a result, net income amounted to 4,499 million yen (a 36.1% year-on-year increase).

For fiscal 2007, MODEC, Inc. paid an interim dividend of 7.50 yen per share and a year-end dividend of 7.50 yen per share, resulting in the total annual dividend of 15.00 yen.

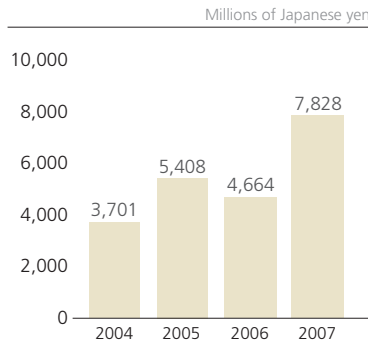
Demand for primary energy shows no sign of receding. As a consequence, oil prices look set to remain high. The business environment surrounding floating production systems will remain favorable, as oil companies have a large number of deepwater oil and gas fields under development and production facilities are growing in size.

The Company forecasts sales of 140,000 million yen, operating profit of 5,200 million yen, ordinary income of 6,500 million yen and net income of 4,600 million yen on a consolidated basis for 2008. For these financial forecasts, the Company assumes an exchange rate of 105 yen per US dollar at the time of book closing (114.16 yen per US dollar for actual results in fiscal 2007).

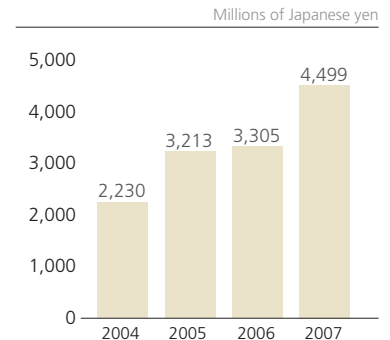
Sales



Ordinary Income



Net Income



Review of Operations

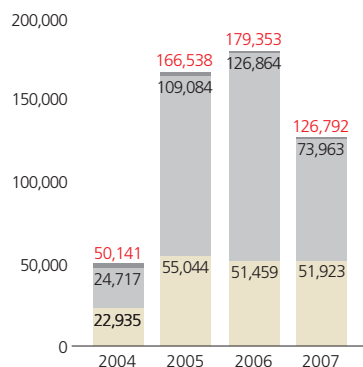
Highlights in Consolidated Results for Fiscal Year 2007

Millions of Japanese yen

	2004	2005	2006	2007
Orders	50,141	166,538	179,353	126,792
Sales	51,891	71,614	99,149	144,040
Ordinary Income	3,701	5,408	4,664	7,828
Net Income	2,230	3,213	3,305	4,499
Net Income per Share (Japanese yen)	72.77	93.46	88.37	120.28
Net Assets	22,285	37,843	42,222	48,031
Total Assets	66,521	104,698	123,350	133,734

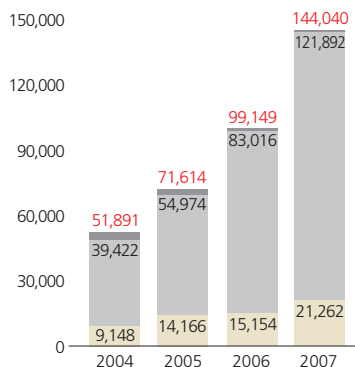
Orders by service types

Millions of Japanese yen



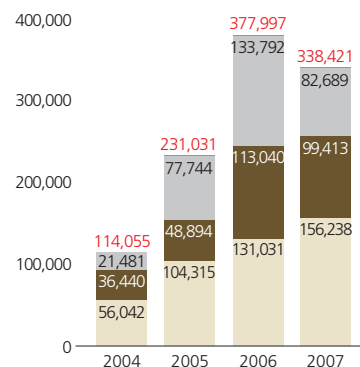
Sales by service types

Millions of Japanese yen



Order backlogs by service types

Millions of Japanese yen



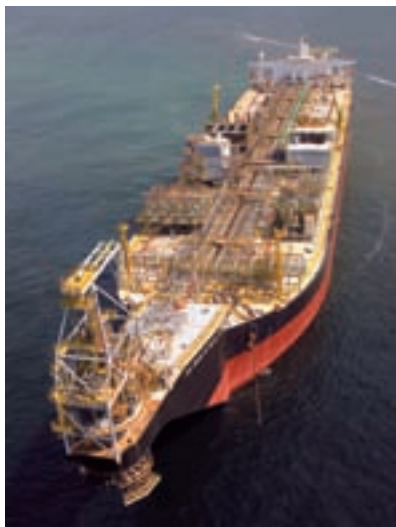
- Other
- EPCI services
- Lease, Charter and O&M services
- MODEC Group's share in the "Lease, Charter and O&M services" of the affiliates accounted for by the equity method

Review by Service

EPCI Services

As well as the two new project orders in 2007, work on *FPSO Cidade de Niteroi MV18*, JVPC Rang Dong FSO and Shenzi TLP progressed steadily. Meanwhile, work on *FSO Rong Doi MV12*, *FPSO Cidade do Rio de Janeiro MV14*, *FSO Cidade de Macae MV15* and *FPSO Stybarrow Venture MV16* was completed.

As a result, sales from EPCI services were 121,892 million yen, up by 46.8% compared with 2006.



FPSO Cidade de Macae MV15

Lease, Charter and O&M Services

Sales from Lease, Charter and O&M services reached 21,262 million yen, up by 40.3% compared with 2006, as the following projects offered operation services.

FPSO/FSOs operation services owned by the MODEC Group:

- *FPSO MODEC Venture 1* (East Timor/Australia)
The time charter contract terminated in July 2007.
- *FSO Ta'Kuntah* (Mexico)
- *FPSO Cuulong MV9* (Vietnam)
- *FPSO MV8 Langsa Venture* (Indonesia)
- *FPSO MODEC Venture 11* (Australia)
- *FPSO Baobab Ivoirien MV10* (Cote d'Ivoire)
- *FPSO Jasmine MV7* (Thailand)
- *FSO Rong Doi MV12* (Vietnam)
- *FPSO Cidade do Rio de Janeiro MV14* (Brazil)
- *FSO Cidade de Macae MV15* (Brazil)
- *FPSO Stybarrow Venture MV16* (Australia)

Operation services of an FPSO that the oil company owns:

- *FPSO Fluminense* (Brazil)

Other Services

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 companies. Consequently, sales from other services totaled 886 million yen.

Financial Statements

Consolidated balance sheet

December 31, 2007

Assets

	Thousands of Japanese yen
CURRENT ASSETS:	
Cash and time deposits	¥21,499,163
Accounts receivable - trade	23,226,559
Inventories	2,809,596
Short-term loans receivable	31,234,140
Other current assets	6,066,203
Less-Allowance for bad debts	(9,726)
Total current assets	<u>84,825,936</u>
PROPERTY AND EQUIPMENT:	
Buildings and equipment	3,085,531
Other	1,652,117
	<u>4,737,648</u>
INTANGIBLE ASSETS	13,134,794
OTHER ASSETS:	
Investment securities	15,517,685
Long-term loans receivable	12,242,617
Other investments	3,277,867
Less-Allowance for bad debts	(2,400)
	<u>31,035,771</u>
Total assets	<u>¥133,734,152</u>

Liabilities and Shareholders' equity

	Thousands of Japanese yen
CURRENT LIABILITIES:	
Accounts payable - trade	¥25,899,016
Short-term loans payable	19,152,987
Current portion of long-term loans payable	13,565,629
Accrued expenses	3,653,131
Income taxes payable	2,342,699
Other current liabilities	3,875,545
Total current liabilities	<u>68,489,008</u>
LONG-TERM LIABILITIES:	
Long-term loans payable	14,092,281
Severance and retirement benefits	
For employees	310,224
For directors and corporate auditors	265,684
Deferred tax liabilities	1,903,333
Other long-term liabilities	641,784
Total long-term liabilities	<u>17,213,307</u>
NET ASSETS	
SHAREHOLDERS' EQUITY:	
Common stock;	
authorized - 102,868,000 shares	
outstanding - 37,408,000 shares	12,391,600
Capital surplus	13,121,672
Retained earnings	17,421,014
Less-Treasury stock at cost	(922)
Total shareholders' equity	<u>42,933,364</u>
DISCREPANCIES IN APPRAISALS and CONVERSION:	
Net unrealized holding gains on securities	12,519
Deferred Hedge Reserves	(114,483)
Foreign currency translation adjustments	314,348
Total discrepancies in appraisals and Conversions	<u>212,384</u>
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES:	
Total net assets	48,031,835
Total liabilities, net assets	<u>¥133,734,152</u>

Consolidated statement of income

For year ended December 31, 2007

	Thousands of Japanese yen
SALES	<u>¥144,040,900</u>
COST OF SALES	<u>127,132,992</u>
Gross profit	16,907,907
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>9,947,983</u>
Operating profit	6,959,924
OTHER INCOME (EXPENSES):	
Interest income and dividend income	3,579,807
Interest expense	(3,679,818)
Foreign exchange gain (loss), net	(652,060)
Equity in earnings of affiliates	1,877,634
Other, net	<u>(1,692,637)</u>
Total other income (expenses)	(567,074)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	6,392,851
INCOME TAXES:	
Current	3,814,186
Deferred	<u>(1,964,093)</u>
INCOME BEFORE MINORITY INTERESTS	4,542,758
MINORITY INTERESTS	43,429
NET INCOME	<u><u>¥4,499,328</u></u>

Financial Statements

Consolidated statement of cash flow

For year ended December 31, 2007

	Thousands of Japanese yen		Thousands of Japanese yen
CASH FLOW FROM OPERATING ACTIVITIES:		CASH FLOW FROM INVESTING ACTIVITIES:	
Income before income taxes and minority interests	¥6,392,851	Purchases of property and equipment and intangible assets	¥(3,091,452)
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:		Purchases of investments in affiliates	(4,739,027)
Depreciation and amortization	1,656,995	Increase in short-term loans receivable	(2,165,521)
Amortization of consolidated differences	26,485	Disbursement of long-term loans receivable	(27,914,524)
Provision for (reversal of) allowance for bad debts	6,318	Collection of long-term loans receivable	24,553,356
Provision for severance and retirement benefits for employees	184,630	Purchases of investments in subsidiaries	(942,733)
Provision for severance and retirement benefits for directors and corporate auditors	76,013	Proceeds from disposal of stock in subsidiaries	3,538,960
Provision for bonus to directors	6,000	Proceeds from sale of available for sale securities	909,490
Provision for product warranty	661,398	Other, net	(35,929)
Interest income and dividend income	(3,579,807)	Net cash used in investing activities	(9,887,380)
Interest expense	3,679,818		
Foreign exchange (gain) loss	20,129	CASH FLOW FROM FINANCING ACTIVITIES:	
Equity in earnings of affiliates	(1,877,634)	Decrease in short-term loans payable	(12,325,661)
Impairment loss from intangible asset	2,064,544	Proceeds from long-term loans payable	18,135,929
Gain from sale of available for sale securities	(781,002)	Repayment of long-term loans payable	(5,663,979)
Changes in assets and liabilities:		Cash dividends paid to minority interests	(130,142)
Decrease (Increase) in		Cash dividends paid	(514,844)
– Accounts receivable - trade	(9,312,149)	Other, net	(209)
– Inventories	(692,137)	Net cash used in financing activities	(498,908)
Increase (Decrease) in			
– Accounts payable - trade	8,215,368	EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(809,511)
Other, net	279,238	NET INCREASE IN CASH AND CASH EQUIVALENTS	(7,383,804)
	<u>7,027,059</u>	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	28,827,361
		CASH AND CASH EQUIVALENTS AT ENDING OF YEAR	<u>¥21,443,557</u>
Interest and dividend received	3,756,457		
Interest paid	(3,720,049)		
Income taxes paid	(3,251,471)		
Other, net	0		
Net cash provided by operating activities	<u>3,811,995</u>		

Consolidated statement of changes in shareholders' equity

For year ended December 31, 2007

Thousands of Japanese yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2006	12,391,600	13,121,672	13,319,510	(712)	38,832,070
Change of items					
Cash dividends paid			(514,356)		(514,356)
Bonuses paid to directors					—
Net income			4,499,328		4,499,328
Increase due to changes in accounting principles adopted for overseas subsidiaries			116,532		116,532
Other					—
Purchases of treasury stock				(209)	(209)
Change in items other than Shareholders' Equity					—
Total change of items	—	—	4,101,504	—	4,101,294
Balance at December 31, 2007	12,391,600	13,121,672	17,421,014	(922)	42,933,364

	Discrepancies in appraisals and conversions				Minority Interests	Total net assets
	Net unrealized holding gains on securities	Deferred Hedge Reserve	Foreign currency translation adjustments	Total discrepancies in appraisals and conversions		
Balance at December 31, 2006	780,351		1,237,041	2,017,392	1,373,012	42,222,475
Change of items						
Cash dividends paid				—		(514,356)
Bonuses paid to directors				—		—
Net income				—		4,499,328
Increase due to changes in accounting principles adopted for overseas subsidiaries				—		116,532
Other				—		—
Purchases of treasury stock				—		(209)
Change in items other than Shareholders' Equity	(767,832)	(114,483)	(922,693)	(1,805,008)	3,513,074	1,708,065
Total change of items	(767,832)	(114,483)	(922,693)	(1,805,008)	3,513,074	5,809,360
Balance at December 31, 2007	12,518	(114,483)	314,348	212,384	4,886,086	48,031,835

Information

As of December 31, 2007

General Information

Company name	MODEC, Inc.
Founded	June 1, 1987
Head office	Kasumigaseki Common Gate West Tower 2-1, Kasumigaseki 3-chome Chiyoda-ku, Tokyo 100-0013 Japan TEL: +81.3.6203.0200 FAX: +81.3.5512.1600
Paid-in capital	12,391,600,000 Japanese yen
Number of employees	138 [non-consolidated, including temporary employees] 1,645 [consolidated, including temporary employees]

Main Group Companies

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

Management

As of April 1, 2008

Directors

Kenji Yamada	President & Chief Executive Officer
Nobuhiro Yaji	Managing Director & Chief Operating Officer
Shashank Karve	Director
Toshihiro Soejima	External Director
Tamiyoshi Iwasaki	External Director
Toshiro Miyazaki	External Director

Corporate Auditors

Yasuhiro Iwanami	Corporate Auditor
Yoshihiro Takizawa	External Corporate Auditor
Makoto Yamazaki	External Corporate Auditor
Manabu Kawai	External Corporate Auditor

Executive Officers

Kenji Yamada*	President & Chief Executive Officer
Nobuhiro Yaji*	Managing Director & Chief Operating Officer
Mitsuhiro Mokumoto	Chief Financial Officer
Masaki Kawase	Executive Officer
Naomasa Kosaka	Executive Officer
Yoshihide Shimamura	Executive Officer
Masaki Habu	Executive Officer

*Corporate officer also serving as a director.

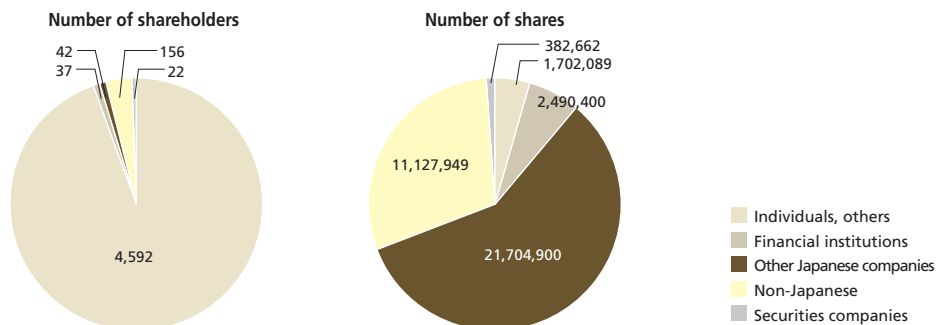
Stock Information

Number of Authorized Shares	102,868,000
Number of Issued Shares	37,408,000
Number of Shareholders	4,849

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
Lehman Brothers Inc., for the Exclusive Benefit of Customers	2,056,799	5.49
DNB NOR BANK ASA	1,623,633	4.34
JPM Chase Oppenheimer Funds Inc. Jasdec A/C	750,000	2.00
Goldman Sachs International	679,183	1.81
Japan Trustee Services Bank, Ltd. (Trust Account)	591,800	1.58
The Master Trust Bank of Japan, Ltd. (Trust Account)	453,600	1.21
Bear Stearns Securities Corp.	441,300	1.17
Sojitz Corporation	400,000	1.06

Shareholders Breakdown



Stock Information

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, Suginami-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



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