

IR Report & Message vol.6

Fiscal Year from January 1, 2008 to December 31, 2008



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 2008 (from January 1, 2008 to December 31, 2008).

Overview of Operations

The fiscal year under review saw a weakening of corporate earnings in Japan, reflecting a downturn in overseas economies triggered by the subprime mortgage crisis and a surge in oil prices beyond 100 dollars per barrel. Starting in the fall, when a U.S. investment bank failed, overall exports registered the sharpest declines ever seen, leading to sluggish corporate activity and a rapidly worsening employment situation.

With the global economic downturn, the crude oil price, which had risen on the strength of speculative transactions, plunged to about 40 dollars per barrel. However, oil exploration companies continued to aggressively develop offshore oilfields and gas fields, especially in deep waters, to secure energy resources. We consequently expect stable growth in operations relating to floating oil and gas production facilities, the areas of specialization for the Group.

MODEC received orders for the following projects in 2008:

- Petrobras Opportunity Gas #2 FPSO
In February 2008, MODEC signed a contract with Petróleo Brasileiro S.A. (Petrobras) for the supply, charter and operation of an FPSO to be located in Brazil's Urugua field. The FPSO will be installed in 1,300 meters water depth approximately 160 kilometers offshore Rio de Janeiro. The FPSO is expected to begin production in 2010. The charter contract of the FPSO is 12 years with an additional 3 one-year options.
- BP Angola PSVM FPSO
In July 2008, MODEC signed a contract with BP Exploration (Angola) Limited (BP) for the supply of an FPSO under an EPCI contract for the PSVM (Plutão, Saturno, Vênus and Marte) Development in Block 31 offshore Angola. The FPSO will be installed in 1,800 – 2,000 meters water depth. The FPSO is expected to begin production in 2011.
- Tullow Jubilee FPSO
In August 2008, MODEC signed an agreement with Tullow Ghana Ltd. on behalf of Jubilee Field Partners for the supply, charter and operation of an FPSO to be located in Ghana's Jubilee field. The FPSO will be installed in 1,100 meters water depth. The FPSO is expected to begin

production in 2010. The charter contract of the FPSO is 7 years with an additional 13 one-year options.

- Petrobras Tupi Pilot FPSO

In August 2008, MODEC signed a contract with Petrobras for the supply, charter and operation of an FPSO to be located in Brazil's giant Tupi area. The FPSO will be installed in 2,150 meters water depth approximately 300 kilometers offshore Rio de Janeiro. The FPSO is expected to begin production late 2010 / early 2011. The charter contract of the FPSO is 15 years with an additional 5 one-year options.

As a result of new awards of 4 large FPSO projects, orders received totaled 319,614 million yen (152.1% increase over 2007). However, sales were 143,669 million yen (down 0.3%).

Profits fell markedly, reflecting additional costs for construction and installation work in the JVPC Rang Dong FSO and TSJOC Song Doc FPSO projects. Operating profit stood at 1,973 million yen (down 71.6% compared with 2007), while ordinary income was 2,529 million yen (declining 67.7%). Net income stood at 1,357 million yen (down 69.8%).

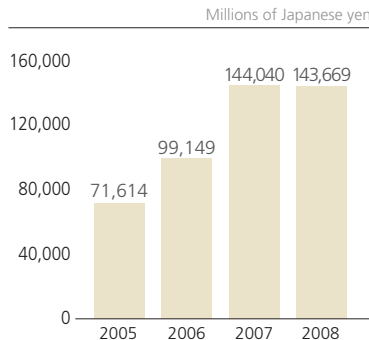
For fiscal 2008, MODEC, Inc. paid an interim dividend of 8.75 yen per share and a year-end dividend of 8.75 yen per share, resulting in the total annual dividend of 17.50 yen.

Outlook for 2009

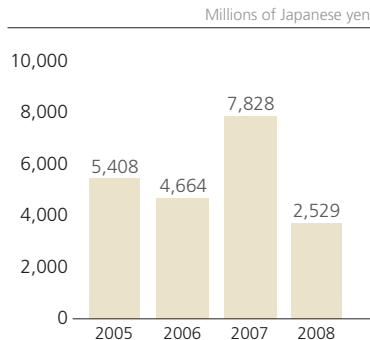
After its previous surge, the crude oil price fell. With uncertainty over the sourcing of oil given the global financial crisis, some oil exploration companies are apparently reviewing investment plans. Nonetheless, ongoing exploration and development to secure recoverable reserves is necessary over the long term, to ensure a stable supply of primary energy. Projects for the development of oil and gas fields after exploration, with facilities slowly but steadily expanding, are therefore likely to be somewhat less susceptible to the changing market environment.

The Company forecasts sales of 150,000 million yen, operating profit of 500 million yen, ordinary income of 2,400 million yen and net income of 2,100 million yen on a consolidated basis for 2009. For these financial forecasts, the Company assumes an exchange rate of 90 yen per US dollar at the time of book closing (91.04 yen per US dollar for actual results in fiscal 2008).

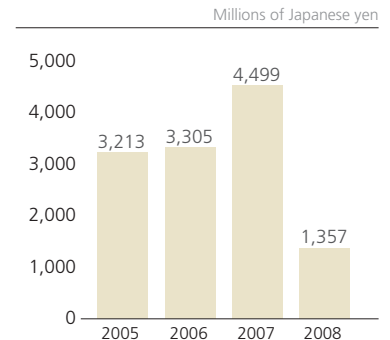
Sales



Ordinary Income



Net Income



Review of Operations

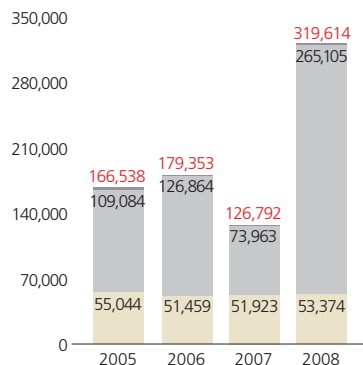
Highlights in Consolidated Results for Fiscal Year 2008

Millions of Japanese yen

	2005	2006	2007	2008
Orders	166,538	179,353	126,792	319,614
Sales	71,614	99,149	144,040	143,669
Ordinary Income	5,408	4,664	7,828	2,529
Net Income	3,213	3,305	4,499	1,357
Net Income per Share (Japanese yen)	93.46	88.37	120.28	36.30
Net Assets	37,843	42,222	48,031	40,678
Total Assets	104,698	123,350	133,734	142,115

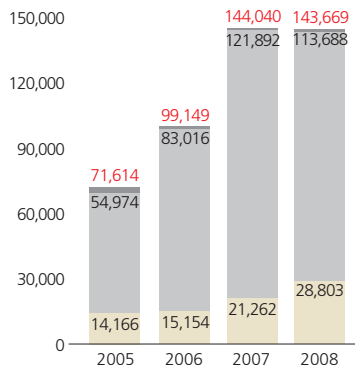
Orders by service types

Millions of Japanese yen



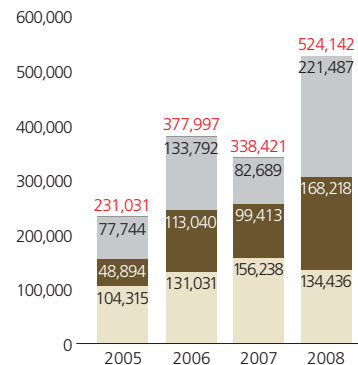
Sales by service types

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 4 new project orders in 2008, work on *FPSO Cidade de Niteroi MV18*, BHPB Pyrenees FPSO progressed steadily. Meanwhile, work on *FPSO Rang Dong MV17*, *FPSO Song Doc Pride MV19* and *Shenzi TLP* was completed.

As a result, sales from EPCI services were 113,688 million yen, down 6.7% compared with 2007.



FPSO Cidade de Niteroi MV18

Lease, Charter and O&M Services

Sales from Lease, Charter and Operations & Maintenance services reached 28,803million yen, up by 35.5% compared with 2007. The MODEC group provided O&M services on the following FPSO/FSOs:

- *FPSO Ta'Kuntah* (Mexico)
- *FPSO Cuulong MV9* (Vietnam)
The time charter contract terminated in October 2008.
- *FPSO MV8 Langsa Venture* (Indonesia)
- *FPSO MODEC Venture 11* (Australia)
- *FPSO Baobab Ivoirien MV10* (Cote d'Ivoire)
- *FPSO Jasmine MV7* (Thailand)
- *FPSO Rong Doi MV12* (Vietnam)
- *FPSO Cidade do Rio de Janeiro MV14* (Brazil)
- *FPSO Cidade de Macae MV15* (Brazil)
- *FPSO Stybarrow Venture MV16* (Australia)
- *FPSO Rang Dong MV17* (Vietnam)
- *FPSO Song Doc Pride MV19* (Vietnam)

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. Sales from other services totaled 1,177 million yen.

Financial Statements

Consolidated balance sheet

December 31, 2008

Assets

	Thousands of Japanese yen
CURRENT ASSETS:	
Cash and time deposits	¥45,082,379
Accounts receivable - trade	21,079,790
Inventories	577,074
Short-term loans receivable	28,718,592
Other current assets	5,683,689
Less-Allowance for bad debts	(2,738)
Total current assets	<u>101,138,789</u>
PROPERTY AND EQUIPMENT:	
Buildings and equipment	2,744,683
Other	1,688,802
	<u>4,433,485</u>
INTANGIBLE ASSETS	10,242,245
OTHER ASSETS:	
Investment securities	11,692,456
Long-term loans receivable	10,984,286
Other investments	3,626,692
Less-Allowance for bad debts	(2,400)
	<u>26,301,035</u>
Total assets	<u>¥142,115,556</u>

Liabilities and Shareholders' equity

	Thousands of Japanese yen
CURRENT LIABILITIES:	
Accounts payable - trade	¥33,903,480
Short-term loans payable	27,601,631
Current portion of long-term loans payable	8,457,590
Accrued expenses	2,387,180
Income taxes payable	476,064
Advances Received	15,599,504
Other current liabilities	2,778,577
Total current liabilities	<u>91,204,029</u>
LONG-TERM LIABILITIES:	
Long-term loans payable	6,962,150
Severance and retirement benefits	
For employees	150,418
Long-term accrued liability	412,150
Deferred tax liabilities	883,753
Other long-term liabilities	1,824,846
Total long-term liabilities	<u>10,233,318</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	17,876,221
Less-Treasury stock at cost	(1,640)
Total shareholders' equity	<u>43,387,852</u>
DISCREPANCIES IN APPRAISALS and CONVERSION:	
Net unrealized holding gains on securities	(27,676)
Deferred Hedge Reserves	(212,474)
Foreign currency translation adjustments	(5,976,039)
Total discrepancies in appraisals and Conversions	<u>(6,216,190)</u>
MINORITY INTERESTS IN CONSOLIDATED	3,506,546
SUBSIDIARIES:	
Total net assets	40,678,209
Total liabilities, net assets	<u>¥142,115,556</u>

Consolidated statement of income

For year ended December 31, 2008

	Thousands of Japanese yen
SALES	<u>¥143,669,121</u>
COST OF SALES	<u>130,931,898</u>
Gross profit	12,737,222
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>10,763,395</u>
Operating profit	1,973,827
OTHER INCOME (EXPENSES):	
Interest income and dividend income	2,646,484
Interest expense	(1,557,272)
Foreign exchange gain (loss), net	(1,997,700)
Equity in earnings of affiliates	1,581,641
Other, net	<u>(119,507)</u>
Total other income (expenses)	553,646
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	2,527,473
INCOME TAXES:	
Current	2,648,778
Deferred	<u>(1,712,620)</u>
INCOME BEFORE MINORITY INTERESTS	1,591,316
MINORITY INTERESTS	233,534
NET INCOME	<u><u>¥1,357,782</u></u>

Financial Statements

Consolidated statement of cash flow

For year ended December 31, 2008

	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	¥2,527,473	Purchases of property and equipment and intangible assets	¥(2,817,744)
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:		Purchases of investments in affiliates	(9,596)
Depreciation and amortization	1,619,060	Increase in short-term loans receivable	(17,847,688)
Amortization of consolidated differences	26,485	Disbursement of long-term loans receivable	(2,927,509)
Provision for (reversal of) allowance for bad debts	(6,988)	Collection of long-term loans receivable	15,326,306
Provision for severance and retirement benefits for employees	8,939	Proceeds from capital reduction in affiliate	1,677,648
Provision for product warranty	(88,694)	Other, net	<u>(361,506)</u>
Interest income and dividend income	(2,646,484)	Net cash used in investing activities	(6,960,091)
Interest expense	1,557,272		
Foreign exchange (gain) loss	1,250,113	CASH FLOW FROM FINANCING ACTIVITIES:	
Equity in earnings of affiliates	(1,581,641)	Decrease in short-term loans payable	13,827,838
Loss on retirement of tangible assets	1,941	Proceeds from long-term loans payable	8,869,278
Changes in assets and liabilities:		Repayment of long-term loans payable	(16,610,818)
Decrease (Increase) in		Proceeds from cash payment from minority interests	12,572
– Accounts receivable - trade	13,730,162	Cash dividends paid	(607,427)
– Inventories	1,985,826	Other, net	<u>(718)</u>
– Consumption taxes refund receivable	(24,988)	Net cash used in financing activities	5,490,724
Increase (Decrease) in			
– Long term accrued expense	146,466	EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(4,050,647)
– Accounts payable - trade	12,840,328	NET INCREASE IN CASH AND CASH EQUIVALENTS	23,274,662
Other, net	<u>1,960,320</u>	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21,443,557
	33,305,593	CASH AND CASH EQUIVALENTS AT ENDING OF YEAR	<u>¥44,718,219</u>
Interest and dividend received	2,222,315		
Interest paid	(1,905,656)		
Income taxes paid	<u>(4,827,576)</u>		
Net cash provided by operating activities	<u>28,794,677</u>		

Consolidated statement of changes in shareholders' equity

For year ended December 31, 2008

Thousands of Japanese yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2007	12,391,600	13,121,672	17,421,014	(922)	42,933,364
Change in items					
Cash dividends paid			(607,873)		(607,873)
Bonuses paid to directors			1,357,782		1,357,782
Net income			(294,701)	0	(294,701)
Purchases of treasury stock				(718)	(718)
Change in items other than Shareholders' Equity					—
Total change in items	—	—	455,206	(718)	454,488
Balance at December 31, 2008	12,391,600	13,121,672	17,876,221	(1,640)	43,387,852

	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, 2007	12,519	(114,483)	314,348	212,384	4,886,087	48,031,835
Change in items						
Cash dividends paid				—		(607,873)
Bonuses paid to directors				—		1,357,782
Net income				—		(294,701)
Purchases of treasury stock				—		(718)
Change in items other than Shareholders' Equity	(40,195)	(97,991)	(6,290,387)	(6,428,574)	(1,379,540)	(7,808,114)
Total change in items	(40,195)	(97,991)	(6,290,387)	(6,428,574)	(1,379,540)	(7,353,626)
Balance at December 31, 2008	(27,676)	(212,474)	(5,976,039)	(6,216,190)	3,506,546	40,678,209

Information

General Information

As of December 31, 2008

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	159 [non-consolidated, including temporary employees] 2,092 [consolidated, including temporary employees]

Main Group Companies

As of December 31, 2008

MODEC International, Inc.	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, 2009

Directors

Kenji Yamada	Chairman & Chief Executive Officer
Nobuhiro Yaji	President & Co-Chief Executive Officer
Shashank Karve	Managing Director & Chief Operating Officer
Tamiyoshi Iwasaki	Director
Toshiro Miyazaki	Director
Masayoshi Komai	Director

Corporate Auditors

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

Executive Officers

Kenji Yamada*	Chairman & Chief Executive Officer
Nobuhiro Yaji*	President & Co-Chief Executive Officer
Shashank Karve*	Managing Director & Chief Operating Officer
Mitsuhiro Mokumoto	Chief Financial Officer
Masayoshi Otori	Deputy Chief Financial Officer
Naomasa Kosaka	Executive Officer
Yoshihide Shimamura	Executive Officer
Masaki Habu	Executive Officer

*Executive officer also serving as a director.

Stock Information

As of December 31, 2008

Number of Authorized Shares	102,868,000
Number of Issued Shares	37,408,000
Number of Shareholders	7,603

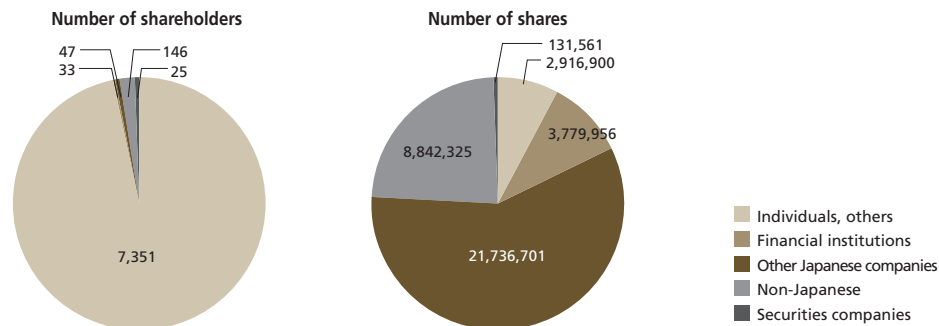
Major Shareholders

As of December 31, 2008

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
Japan Trustee Services Bank, Ltd. (Trust Account)	1,286,100	3.43
DNB NOR BANK ASA	1,131,400	3.02
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	791,900	2.11
Masa-Japanese Equity	734,500	1.96
Nomura Asset Management U.K.Limited Sub A/C Evergreen Nominees Ltd.	660,300	1.76
Morgan Stanley & Co. International PLC	621,800	1.66
JP Morgan Chase Bank 385058	522,600	1.39
Ridge Clearing & Outsourcing Inc. 100647	500,683	1.33

Shareholders Breakdown

As of December 31, 2008



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



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