

IR Report & Message vol.7

Fiscal Year from January 1, 2009 to December 31, 2009



To Our Shareholders



Kenji Yamada
Chairman & CEO
MODEC, Inc.

A handwritten signature in black ink that reads "K. Yamada". The signature is fluid and cursive.

We are pleased to report to our shareholders the financial results and business activities of MODEC, Inc. for fiscal year 2009 (from January 1, 2009 to December 31, 2009).

Overview of Operations

During the 2009 fiscal review, Japanese economic conditions remained severe. Although production recovered due to the strength of increased exports to Asia, corporate earnings continued to fall sharply, and unemployment climbed. In Europe and the United States, employment remained weak, while Asia showed signs of a recovery driven by domestic demand. Oil prices were generally in the \$70 per barrel range. The large-scale development of offshore oil and gas fields continued, especially off the coasts of Brazil and West Africa, and we expect stable growth in operations relating to offshore floating oil and gas production facilities, the areas of specialization for the Group, in the medium and long terms.

During 2009, progress was made on construction work in large-scale projects, orders for which were received in 2008.

Our major projects are as follows:

- Petrobras Opportunity Gas #2 FPSO
MODEC signed a contract with Petróleo Brasileiro S.A. (Petrobras) for the supply, charter and operation of an FPSO located in Brazil's Urugua / Tambau fields. 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 early 2010. The charter contract for the FPSO is 12 years with 3 additional one-year options.
- BP Angola PSVM FPSO
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
MODEC signed an agreement with Tullow Ghana Ltd. on behalf of Jubilee Field Partners for the supply and operation of an FPSO 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 operation contract of the FPSO is 7 years with 13 additional one-year options.
- Petrobras Tupi Pilot FPSO
MODEC signed a contract with Petrobras for the supply, charter and operation of an FPSO located in Brazil's giant Tupi area. The FPSO will be installed in 2,150 meters water depth approximately 300 kilometers offshore Rio de

Outlook for 2010

Janeiro. The FPSO is expected to begin production late 2010. The charter contract of the FPSO is 15 years with 5 additional one-year options.

As a result, orders received totaled 45,010 million yen (down 85.9% compared with 2008). However, sales were 204,225 million yen (up 42.2%) due to FPSO construction progress.

Profits were influenced by the progress of construction work and a reversal of unexpected income eliminated in the previous year. This reversal was associated with a change in the Tullow project from a charter agreement to a construction and sale agreement based on the financing situation.

Operating profit stood at 4,169 million yen (111.2% increase over 2008), while ordinary income was 7,454 million yen (up 194.7%).

An informal recharter agreement for the FPSO MODEC Venture 1 project, which was concluded in 2007, did not become a formal agreement due to a decision made by the oil company. With no replacement project, the Company decided to scrap the FPSO and posted an impairment loss of 2,701 million yen.

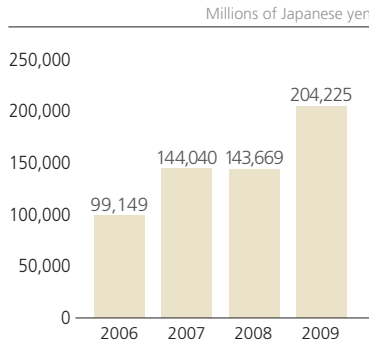
As a result, net income stood at 2,413 million yen (up 77.8%).

For the 2009 fiscal year, MODEC, Inc. paid an interim dividend of 10.00 yen per share and a year-end dividend of 10.00 yen per share, resulting in the total annual dividend of 20.00 yen.

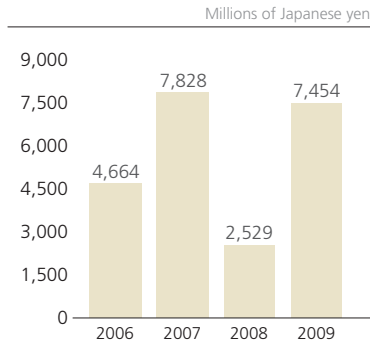
Although oil prices have been relatively stable at around \$70 per barrel, economic uncertainty persists in developed nations. Given the current environment, we expect it will take some time for oil exploration companies to rediscover their appetite for investment. However, to reliably supply primary energy to meet expected growth in demand in China and India, continuing exploration and development is needed over the medium and long terms. There are consequently great expectations for projects to develop large oil and gas fields discovered off the coasts of Brazil and West Africa.

The Company forecasts sales of 120,000 million yen, ordinary income of 3,200 million yen and net income of 2,600 million yen on a consolidated basis for 2010. For these financial forecasts, the Company assumes an exchange rate of 90 yen per US dollar at the time of book closing (92.10 yen per US dollar for actual results in fiscal 2009).

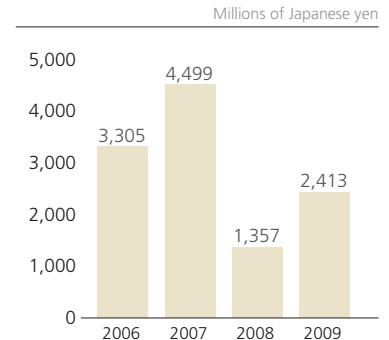
Sales



Ordinary Income



Net Income



Review of Operations

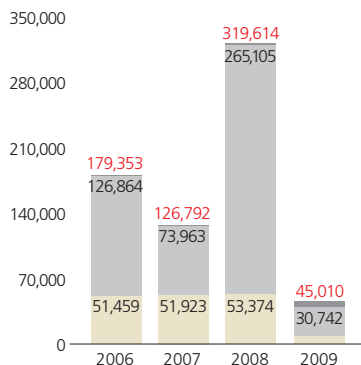
Highlights in Consolidated Results for Fiscal Year 2009

Millions of Japanese yen

	2006	2007	2008	2009
Orders	179,353	126,792	319,614	45,010
Sales	99,149	144,040	143,669	204,225
Ordinary Income	4,664	7,828	2,529	7,454
Net Income	3,305	4,499	1,357	2,413
Net Income per Share (Japanese yen)	88.37	120.28	36.30	64.52
Net Assets	42,222	48,031	40,678	40,073
Total Assets	123,350	133,734	142,115	168,365

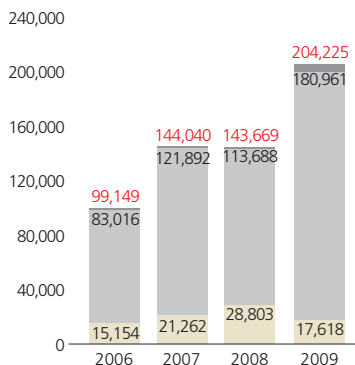
Orders by service types

Millions of Japanese yen



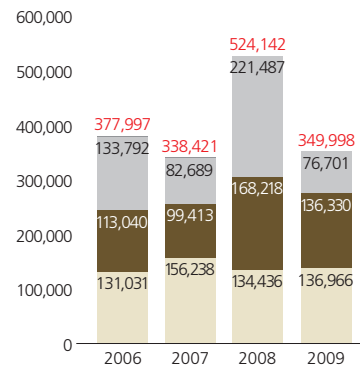
Sales by service types

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

Work on FPSO Pyrenees Venture, Petrobras Opportunity Gas #2 FPSO, Petrobras Tupi Pilot FPSO, BP Angola PSVM FPSO and Tullow Jubilee FPSO progressed steadily. As a result, sales from EPCI services were 180,961 million yen, up by 59.2% compared with 2008.



FPSO Pyrenees Venture

Lease, Charter and O&M Services

Sales from Lease, Charter and Operations & Maintenance services reached 17,618 million yen, down 38.8% compared with 2008. The MODEC group provided Charter services on the following FPSO/FSOs:

- *FPSO Ta'Kuntah* (Mexico)
- *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)
- *FPSO Cidade de Niteroi MV18* (Brazil)

Operation services of an FPSO that the oil company owns:

- *FPSO Fluminense* (Brazil)

Other Services

For 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 5,646 million yen.

Financial Statements

Consolidated balance sheet

December 31, 2009

Assets

	Millions of Japanese yen
CURRENT ASSETS:	
Cash and time deposits	¥31,505
Accounts receivable - trade	86,704
Inventories	833
Short-term loans receivable	2,046
Other current assets	6,747
Less-Allowance for bad debts	(104)
Total current assets	<u>127,732</u>
PROPERTY AND EQUIPMENT:	
Vessels and equipment	872
Other	644
	<u>1,516</u>
INTANGIBLE ASSETS	7,272
OTHER ASSETS:	
Investment securities	14,693
Long-term loans receivable	14,292
Other investments	2,860
Less-Allowance for bad debts	(3)
	<u>31,843</u>
Total assets	<u>¥168,365</u>

* The figures are rounded down to the nearest million yen.

Liabilities and Shareholders' equity

	Millions of Japanese yen
CURRENT LIABILITIES:	
Accounts payable - trade	¥56,144
Short-term loans payable	27,180
Current portion of long-term loans payable	16,147
Accrued expenses	3,294
Income taxes payable	764
Advances Received	2,014
Other current liabilities	4,990
Total current liabilities	<u>110,535</u>
LONG-TERM LIABILITIES:	
Long-term loans payable	13,472
Severance and retirement benefits	
For employees	146
Long-term accounts payable	412
Deferred tax liabilities	758
Other long-term liabilities	2,965
Total long-term liabilities	<u>17,755</u>
NET ASSETS	
SHAREHOLDERS' EQUITY:	
Common stock;	
authorized - 102,868,000 shares	
outstanding - 37,408,000 shares	12,391
Capital surplus	13,121
Retained earnings	19,249
Less-Treasury stock at cost	(1)
Total shareholders' equity	<u>44,761</u>
ACCUMULATED GAINS (LOSSES) FROM VALUATION AND TRANSLATION ADJUSTMENTS:	
Net unrealized holding gains (losses) on securities	(6)
Unrealized losses on hedging derivative, net of tax	(1,327)
Foreign currency translation adjustments	(5,191)
Total accumulated gains (losses) from valuation and translation adjustments	<u>(6,525)</u>
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES:	
Total net assets	40,073
Total liabilities, net assets	<u>¥168,365</u>

* The figures are rounded down to the nearest million yen.

Consolidated statement of income

For year ended December 31, 2009

	Millions of Japanese yen
SALES	¥204,225
COST OF SALES	192,676
Gross profit	11,549
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,380
Operating profit (loss)	4,169
OTHER INCOME (EXPENSES):	
Interest income and dividend income	1,406
Interest expense	(774)
Equity in earnings of affiliates	2,362
Gain on valuation of derivatives	448
Foreign exchange gain (loss), net	(67)
Maintenance cost for idle asset	(437)
Gain on sale of fixed asset	139
Impairment loss	(2,701)
Loss on abandonment of noncurrent assets	(450)
Other, net	216
Total other income (expenses)	142
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	4,311
INCOME TAXES:	
Current	2,235
Deferred	(173)
INCOME BEFORE MINORITY INTERESTS	2,249
MINORITY INTERESTS	(164)
NET INCOME	¥2,413

* The figures are rounded down to the nearest million yen.

Financial Statements

Consolidated statement of cash flow

For year ended December 31, 2009

	Millions of Japanese yen		Millions of Japanese yen
CASH FLOW FROM OPERATING ACTIVITIES:		CASH FLOW FROM INVESTING ACTIVITIES:	
Income before income taxes and minority interests	¥4,311	Purchases of property and equipment and intangible assets	¥(991)
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:		Purchases of investments in affiliates	(2,010)
Depreciation and amortization	1,380	Purchases of investments in subsidiary	(2)
Amortization of goodwill	264	Decrease in short-term loans receivable	21,820
Provision for (reversal of) allowance for bad debts	102	Disbursement of long-term loans receivable	(5,175)
Provision for severance and retirement benefits for employees	(3)	Collection of long-term loans receivable	7,970
Provision for directors' bonuses	13	Other, net	<u>364</u>
Provision for product warranty	1,392	Net cash used in investing activities	21,974
Interest income and dividend income	(1,406)	CASH FLOW FROM FINANCING ACTIVITIES:	
Interest expense	774	Decrease in short-term loans payable	(6,013)
Foreign exchange (gain) loss	(40)	Proceeds from long-term loans payable	15,554
Gain on valuation of derivatives	(448)	Repayment of long-term loans payable	(8,535)
Equity in earnings of affiliates and unconsolidated subsidiaries	(2,362)	Purchase of treasury stock	0
Loss on dissolution of affiliates	64	Cash dividends paid	(700)
Loss on valuation of investment securities	66	Cash dividends paid to minority interests	<u>(582)</u>
Impairment loss from fixed asset	2,701	Net cash used in financing activities	(277)
Gain on sales of property, plant and equipment	(139)	EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,182
Changes in assets and liabilities:		NET INCREASE IN CASH AND CASH EQUIVALENTS	(13,218)
Decrease (Increase) in		CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	44,718
– Accounts receivable - trade	(66,123)	INCREASE IN CASH AND CASH EQUIVALENTS DUE TO NEW INCLUSION OF CONSOLIDATED SUBSIDIARIES	5
– Inventories	(267)	CASH AND CASH EQUIVALENTS AT ENDING OF YEAR	<u>¥31,505</u>
Increase (Decrease) in			
– Accounts payable - trade	23,521		
– Accrued consumption taxes	(1)		
Other, net	<u>720</u>		
	(35,480)		
Interest and dividend received	1,444		
Interest paid	(1,288)		
Income taxes paid	<u>(1,775)</u>		
Net cash provided by operating activities	<u>(37,098)</u>		

* The figures are rounded down to the nearest million yen.

Consolidated statement of changes in shareholders' equity

For year ended December 31, 2009

Millions of Japanese yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2008	12,391	13,121	17,876	(1)	43,387
Change in items					
Cash dividends paid					—
Increase (Decrease) due to changes in accounting principles adopted for overseas subsidiaries			(659)		(659)
Cash dividends paid			(701)		(701)
Net Income			2,413		2,413
Other			320		320
Purchases of treasury stock				0	—
Change in items other than Shareholders' Equity					—
Total change in items	—	—	1,373	—	1,373
Balance at December 31, 2009	12,391	13,121	19,249	(1)	44,761

	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, 2008	(27)	(212)	(5,976)	(6,216)	3,506	40,678
Change in items						
Cash dividends paid				—		—
Increase (Decrease) due to changes in accounting principles adopted for overseas subsidiaries				—		(659)
Cash dividends paid				—		(701)
Net Income				—		2,413
Other				—		320
Purchases of treasury stock				—		—
Change in items other than Shareholders' Equity	21	(1,115)	784	(309)	(1,668)	(1,977)
Total change in items	21	(1,115)	784	(309)	(1,668)	(602)
Balance at December 31, 2009	(6)	(1,327)	(5,191)	(6,525)	1,838	40,073

Information

General Information

As of December 31, 2009

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	152 [non-consolidated, including temporary employees] 2,152 [consolidated, including temporary employees]

Management

As of April 1, 2010

Directors

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

Corporate Auditors

Yasuhiro Iwanami	Corporate Auditor
Yoshihiro Takizawa	Auditor
Kiyoshi Nakamura	Auditor
Akira Nishihata	Auditor

Main Group Companies

As of December 31, 2009

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

Executive Officers

Kenji Yamada*	Chairman & Chief Executive Officer
Nobuhiro Yaji*	President & Co-Chief Executive Officer
Shashank Karve*	Managing Director & Chief Operating Officer
Masayoshi Otori	Executive Officer
Manabu Kawai	Executive Officer
Takeshi Setozaki	Executive Officer

*Executive officer also serving as a director.

Stock Information

As of December 31, 2009

Number of Authorized Shares	102,868,000
Number of Issued Shares	37,408,000
Number of Shareholders	7,922

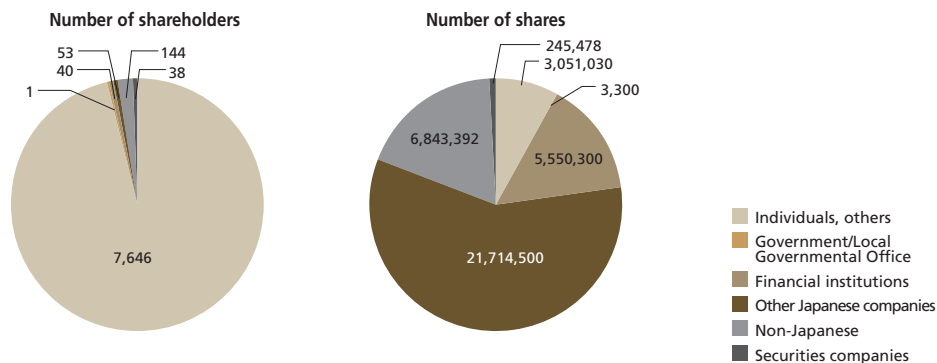
Major Shareholders

As of December 31, 2009

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)	1,099,000	2.93
Japan Trustee Services Bank, Ltd. (Trust Account 9)	837,100	2.23
Skandinaviska Enskilda Banken Norwegian Residents	773,450	2.06
The Chase Manhattan Bank, NA London SL Omnibus Account	757,500	2.02
The Master Trust Bank of Japan, Ltd. (Trust Account)	714,400	1.90
Trust & Custody Services Bank, Ltd. (Pension Trust Account)	706,500	1.88
Sojitz Corporation	431,000	1.15
Euroclear Bank S.A. /N.V.	426,800	1.14

Shareholders Breakdown

As of December 31, 2009



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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