

# IR Report & Message vol.8

Fiscal Year from January 1, 2010 to December 31, 2010



# To Our Shareholders

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Kenji Yamada  
Chairman & 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 2010 (from January 1, 2010 to December 31, 2010).

## Overview of Operations

During 2010, large-scale development of offshore oil and gas fields continued, especially offshore Brazil and West Africa. Although the influence of the oil spill in the Gulf of Mexico is anticipated to remain for several years, we expect stable growth in the floating production facilities market in both the medium and long terms.

In 2010, Petrobras, through its wholly owned subsidiary PNBV, signed a letter of intent for the supply, charter, and operation of an FPSO for the BM-S-9 (Guara) Block in the giant "pre-salt" region of the Santos Basin. The Letter of Intent was issued to the Schahin Group and MODEC, Inc., who have partnered for the latest leased FPSO. The BM-S-9 block is under concession to a consortium formed by Petrobras, BG, and Repsol. MODEC will convert the VLCC *Radiant Jewel* into the FPSO *Cidade de Sao Paulo MV23*. Scheduled for delivery during the 4th quarter of 2012; the FPSO will be installed in the Guara field.

Orders totaled 173,835 million yen (up 286.2% compared with 2009), including orders for changes of specifications associated with ongoing projects and for operations services. Although steady progress was made in FPSO construction work, revenue, which was posted by the percentage of completion method, passed its peak with the delivery of large-scale projects. As a result, revenue was 146,660 million yen (down 28.2%), including revenue of charter and operations services.

In the previous fiscal year, a temporary gain was posted in association with a review of the agreement for the Tullow project. In contrast, in the fiscal year under review, deferred profit increased in association with construction work. As a result, operating profit stood at 3,563 million yen (down 14.5% from 2009), and ordinary profit was 6,156 million yen (down 17.4%). Net income was 2,735 million yen, up 13.4% from the previous fiscal year, when an extraordinary loss associated with the scrapping of an FPSO was posted.

For the 2010 fiscal year, MODEC, Inc. paid an interim dividend of 11.25 yen per share and a year-end dividend of 11.25 yen per share, resulting in the total annual dividend of 22.50 yen.

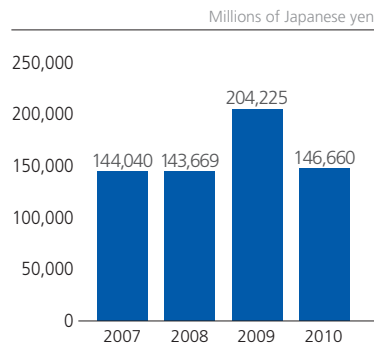
## Outlook for 2011

With political uncertainty in North Africa and the Middle East, oil prices exceeded US\$90 per barrel. Nonetheless, oil developers have held down investment in recent years because of uncertainties over advanced economies and the effect of the Gulf of Mexico oil spill.

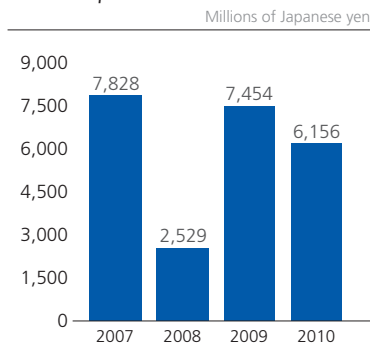
However, to ensure a stable supply of the primary energy, continuing exploration and development is needed over the medium and long terms. There are consequently great expectations for projects to develop large oil and gas fields discovered offshore Brazil and West Africa.

The Company forecasts revenue of 120,000 million yen, ordinary profit of 4,000 million yen, and net income of 2,900 million yen on a consolidated basis for 2011. For these financial forecasts, the Company assumes an exchange rate of 85 yen per US dollar at the time of book closing (81.52 yen per US dollar for actual results in fiscal 2010).

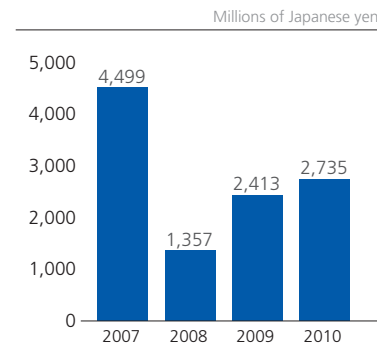
### Revenue



### Ordinary Profit



### Net Income



# Review of Operations

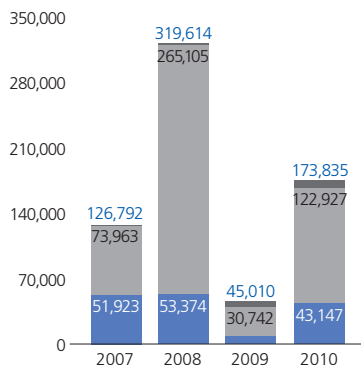
## Highlights in Consolidated Results for Fiscal Year 2010

Millions of Japanese yen

	2007	2008	2009	2010
Orders	126,792	319,614	45,010	173,835
Revenue	144,040	143,669	204,225	146,660
Ordinary Profit	7,828	2,529	7,454	6,156
Net Income	4,499	1,357	2,413	2,735
Net Income per Share (Japanese yen)	120.28	36.30	64.52	62.09
Net Assets	48,031	40,678	40,073	58,323
Total Assets	133,734	142,115	168,365	146,627

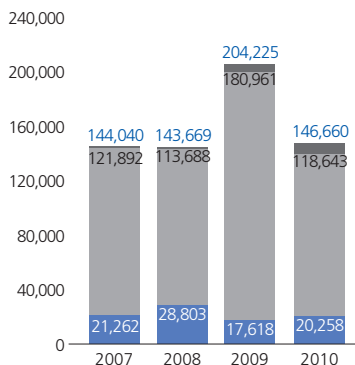
### Orders by service types

Millions of Japanese yen



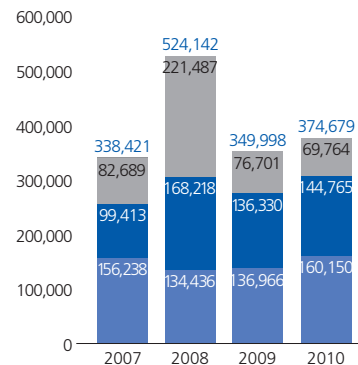
### Revenue by service types

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

Construction work for the *FPSO Cidade de Santos MV20*, the *FPSO Cidade de Angra dos Reis MV22*, the *FPSO PSVM*, and the *FPSO Kwame Nkrumah MV21* progressed steadily. As a result, revenue from EPCI services was 118,643 million yen, down 34.4% compared with 2009.



*FPSO Kwame Nkrumah MV21*



*FPSO Cidade de Angra dos Reis MV22*

### Lease, Charter, and O&M Services

Revenue from Lease, Charter, and Operations & Maintenance services reached 20,258 million yen, up by 15.0% compared with 2009.

The MODEC Group provided charter services on the following FPSO/FSOs:

- *FPSO Ta'Kuntah* (Mexico)
- *FPSO Jasmine Venture MV7* (Thailand)
- *FPSO MV8 Langsa Venture* (Indonesia)
- *FPSO Baobab Ivoirien MV10* (Core d'Ivoire)
- *FPSO MODEC Venture 11* (Australia)
- *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 Cidade de Niteroi MV18* (Brazil)
- *FPSO Song Doc Pride MV19* (Vietnam)
- *FPSO Cidade de Santos MV20* (Brazil)
- *FPSO Kwame Nkrumah MV21* (Ghana)
- *FPSO Cidade de Angra dos Reis MV22* (Brazil)

Operation services of FPSOs that the oil companies own:

- *FPSO Fluminense* (Brazil)
- *FPSO Pyrenees Venture* (Australia)

### 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. Revenue from other services totaled 7,759 million yen.

# Financial Statements

## Consolidated Balance Sheet

December 31, 2010

### Assets

	Millions of Japanese yen
CURRENT ASSETS:	
Cash and time deposits	¥12,122
Accounts receivable - trade	43,082
Inventories	875
Short-term loans receivable	31,291
Other current assets	10,767
Less-Allowance for bad debts	(3)
Total current assets	<u>98,135</u>
PROPERTY AND EQUIPMENT:	
Vessels and equipment	14,574
Other	458
	<u>15,033</u>
INTANGIBLE ASSETS	6,820
OTHER ASSETS:	
Investment securities	12,356
Long-term loans receivable	11,563
Other investments	2,722
Less-Allowance for bad debts	(4)
	<u>26,638</u>
Total assets	<u>¥146,627</u>

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

### Liabilities and Net Assets

	Millions of Japanese yen
CURRENT LIABILITIES:	
Accounts payable - trade	¥41,562
Short-term loans payable	17,193
Current portion of long-term loans payable	6,043
Accrued expenses	2,842
Income taxes payable	2,143
Advances received	766
Provision for product warranties	2,564
Other current liabilities	4,700
Total current liabilities	<u>77,816</u>
LONG-TERM LIABILITIES:	
Long-term loans payable	8,140
Severance and retirement benefits for employees	158
Long-term accounts payable	301
Deferred tax liabilities	709
Other long-term liabilities	1,176
Total long-term liabilities	<u>10,486</u>
NET ASSETS	
SHAREHOLDERS' EQUITY:	
Common stock;	
authorized - 102,868,000 shares	
outstanding - 46,408,000 shares	20,185
Capital surplus	20,915
Retained earnings	21,066
Less-Treasury stock at cost	(1)
Total shareholders' equity	<u>62,166</u>
ACCUMULATED GAINS (LOSSES) FROM VALUATION AND TRANSLATION ADJUSTMENTS	
Net unrealized holding gains (losses) on securities	(9)
Unrealized losses on hedging derivative, net of tax	(123)
Foreign currency translation adjustments	(8,403)
Total accumulated gains (losses) from valuation and translation adjustments	<u>(8,535)</u>
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES:	
Total net assets	4,693
Total liabilities, net assets	<u>58,323</u>
	<u>¥146,627</u>

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

## Consolidated Statement of Income

For year ended December 31, 2010

	Millions of Japanese yen
REVENUE	¥146,660
COST OF SALES	134,595
Gross profit	12,065
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	8,501
Operating profit	3,563
OTHER INCOME (EXPENSES):	
Interest income and dividend income	1,351
Interest expense	(521)
Equity in earnings of affiliates and unconsolidated subsidiaries	2,568
Foreign exchange gain (loss), net	(1,467)
Gain on disposal of fixed asset	209
Gain on revaluation of derivatives	391
Loss on liquidation of subsidiaries and affiliates, net	(568)
Other, net	304
Total other income (expenses)	2,267
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	5,831
INCOME TAXES:	
Current	2,303
Prior	161
Deferred	(129)
INCOME BEFORE MINORITY INTERESTS	3,495
MINORITY INTERESTS	759
NET INCOME	¥2,735

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

# Financial Statements

## Consolidated Statement of Cash Flow

For year ended December 31, 2010

	Millions of Japanese yen		Millions of Japanese yen
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>	
Income before income taxes and minority interests	¥5,831	Purchases of property and equipment and intangible assets	¥(623)
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:		Proceeds from sales of property and equipment and intangible assets	778
Depreciation and amortization	958	Purchases of investments in affiliates	(2,167)
Amortization of goodwill	211	Purchases of investments in subsidiary	(15)
Provision for (reversal of) allowance for bad debts	(88)	Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	1,684
Provision for severance and retirement benefits for employees	12	Decrease (Increase) in short-term loans receivable	(20,785)
Provision for product warranty	524	Disbursement of long-term loans receivable	(2,162)
Interest income and dividend income	(1,351)	Collection of long-term loans receivable	246
Interest expense	521	Proceeds from capital reduction in affiliate	1,411
Foreign exchange (gains) losses	939	Net cash used in investing activities	(21,635)
Gain on valuation of derivatives	(391)		
Equity in earnings of affiliates and unconsolidated subsidiaries	(2,568)	<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>	
Gain on disposal of fixed asset	(209)	Increase (Decrease) in short-term loans payable	2,594
Loss on liquidation of subsidiaries and affiliates	568	Repayment of long-term loans payable	(9,617)
Decrease (Increase) in		Purchase of treasury stock	0
– Accounts receivable - trade	8,269	Cash dividends paid	(896)
– Inventories	(133)	Proceeds from stock issue	15,588
Increase (Decrease) in		Net cash provided by financing activities	7,668
– Accounts payable - trade	(8,461)		
– Consumption tax payable	(53)	EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,970)
– Long term accounts payable	(110)	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,435)
Other, net	3,853	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	31,505
	<u>8,322</u>	DECREASE IN CASH AND CASH EQUIVALENTS DUE TO THE CHANGE OF CONSOLIDATION SCOPE	(9,948)
Interest and dividend received	1,957	CASH AND CASH EQUIVALENTS AT ENDING OF YEAR	<u>¥12,122</u>
Interest paid	(486)		
Income taxes paid	(2,291)		
Net cash provided by operating activities	<u>¥7,502</u>		

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



## Consolidated Statement of Changes in Net Assets

For year ended December 31, 2010

Millions of Japanese yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2009	12,391	13,121	19,249	(1)	44,761
Change in items					
Issuance of new shares	7,794	7,794			15,588
Cash dividends paid			(896)		(896)
Net Income			2,735		2,735
Others			(22)		(22)
Purchases of treasury stock				0	0
Change in items other than Shareholders' Equity					—
Total change in items	7,794	7,794	1,817	0	1,817
Balance at December 31, 2010	20,185	20,915	21,066	(1)	62,166

	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, 2009	(6)	(1,327)	(5,191)	(6,525)	1,838	40,073
Change in items						
Issuance of new shares						15,588
Cash dividends paid				—		(896)
Net Income				—		2,735
Others				—		(22)
Purchases of treasury stock				—		0
Change in items other than Shareholders' Equity	(2)	1,204	(3,211)	(2,010)	2,855	844
Total change in items	(2)	1,204	(3,211)	(2,010)	2,855	18,250
Balance at December 31, 2010	(9)	(123)	(8,403)	(8,535)	4,693	58,323

# Information

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## General Information

As of December 31, 2010

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<b>Company name</b>	MODEC, Inc.	<b>Business</b>	<ul style="list-style-type: none"><li>• Turn-key EPCI contractor of FPSO, FSO, TLP and CP Semi</li><li>• Lease, Operation &amp; Maintenance services of FPSO and FSO</li></ul>
<b>Founded</b>	June 1, 1987	<b>Subsidiaries and Affiliated Companies</b>	40 Companies
<b>Head office</b>	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	<b>HSEQ Certificate</b>	<ul style="list-style-type: none"><li>• ISM Code</li><li>• ISO 9001:2008</li><li>• ISO 14001:2004</li><li>• OHSAS 18001:2004</li></ul>
<b>Paid-in capital</b>	20,185,600,000 Japanese yen		
<b>Number of employees</b>	101 [non-consolidated, including temporary employees] 2,410 [consolidated, including temporary employees]		

## Management

As of April 1, 2011

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### Directors

<b>Toshiro Miyazaki</b>	President & Chief Executive Officer
<b>Yasuo Asama</b>	Managing Director & Executive Managing Officer
<b>Shashank Karve</b>	Director & Executive Officer
<b>Norio Nagata</b>	External Director
<b>Shunichi Yamashita</b>	External Director
<b>Toshiaki Urashima</b>	External Director

### Corporate Auditors

<b>Shuji Nakura</b>	Corporate Auditor
<b>Yoshihiro Takizawa</b>	External Corporate Auditor
<b>Akira Nishihata</b>	External Corporate Auditor
<b>Masaru Soda</b>	External Corporate Auditor

### Executive Officers

\*Executive officer also serving as a director.

<b>Toshiro Miyazaki*</b>	President & Chief Executive Officer
<b>Yasuo Asama*</b>	Managing Director & Executive Managing Officer
<b>Yoshihide Shimamura</b>	Executive Managing Officer
<b>Takashi Nishino</b>	Executive Managing Officer
<b>Shashank Karve*</b>	Director & Executive Officer
<b>Masayoshi Otori</b>	Executive Officer
<b>Takeshi Setozaki</b>	Executive Officer
<b>Kiyoshi Nakamura</b>	Executive Officer

## Stock Information

As of December 31, 2010

Number of Authorized Shares	102,868,000
Number of Issued Shares	46,408,000
Number of Shareholders	8,471

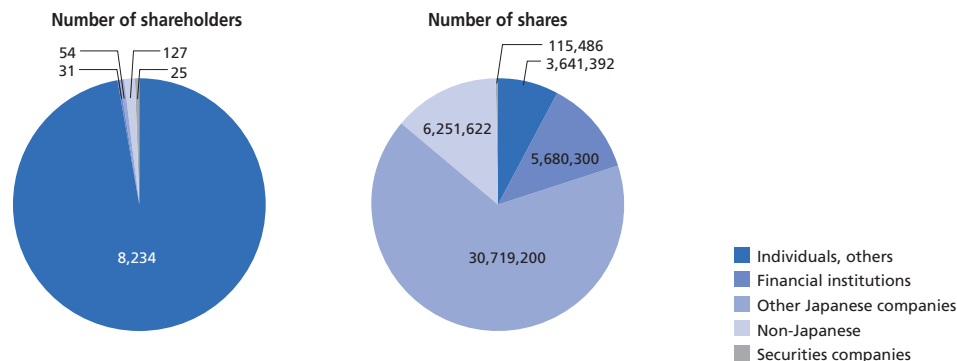
## Major Shareholders

As of December 31, 2010

Name	Number of Shares Held	Ratio of Shareholding (%)
Mitsui Engineering & Shipbuilding Co., Ltd.	23,251,000	50.10
Mitsui & Co., Ltd.	6,957,500	14.99
Trust & Custody Services Bank, Ltd. (Pension Trust Account)	1,337,700	2.88
The Chase Manhattan Bank, NA London SL Omnibus Account	1,132,016	2.43
The Master Trust Bank of Japan, Ltd. (Trust Account)	957,700	2.06
Japan Trustee Services Bank, Ltd. (Trust Account 9)	883,800	1.90
Morgan Stanley & Co. International Plc	758,598	1.63
Japan Trustee Services Bank, Ltd. (Trust Account)	686,500	1.47
Sojitz Corporation	431,000	0.92
Northern Trust Global Services Ltd Re Norwegian Clients Account	430,200	0.92

## Shareholders Breakdown

As of December 31, 2010



## 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



MODEC, Inc.  
Kasumigaseki Common Gate West Tower  
2-1, Kasumigaseki 3-chome  
Chiyoda-ku, Tokyo 100-0013  
Japan  
TEL: +81.3.6203.0200  
<http://www.modec.com>

