

IR Report & Message vol.9

Fiscal Year from January 1, 2011 to December 31, 2011



To Our Shareholders



Toshiro Miyazaki
President & CEO
MODEC, Inc.

T. Miyazaki

We are pleased to report to our shareholders the financial results and business activities of MODEC, Inc. for fiscal year 2011 (from January 1, 2011 to December 31, 2011).

Overview of Operations

During the consolidated fiscal year, oil prices remained high at approximately US\$90, supported by the strong demand from China and India. Continued political uncertainty in the Middle East has prompted expectations for further development of the large offshore oil fields, especially in Brazil and Africa. In this environment, businesses related to floating production facilities are set to continue to experience steady growth.

We received the following two new orders in 2011.

- OSX-3 FPSO Project

In July 2011, OSX 3 Leasing B.V. signed an EPCI contract for the supply of the OSX-3 FPSO, a Floating, Production, Storage, and Offloading (FPSO) vessel to be utilized within block BM-C-39 of the Campos Basin, offshore Brazil, on the Waikiki Pero Inga fields. OSX 3 Leasing B.V. is a subsidiary of OSX Brasil S.A., an EBX Group Company. MODEC is responsible for the engineering, procurement, construction, mobilization, installation, and commissioning of the FPSO.

- Petrobras Cernambi Sul FPSO Project

In September 2011, Petróleo Brasileiro S.A. ("Petrobras"), through its subsidiary Tupi B.V., on behalf of Consortium BM-S-11, signed a Letter of Intent (LOI) for the supply, charter, and operations of a Floating, Production, Storage, and Offloading (FPSO) vessel for the BM-S-11 block (Cernambi South) in the giant "pre-salt" region of the Santos Basin with its water depth of 2,300m. The BM-S-11 block is under concession to a consortium formed by Petrobras (65%), BG Group (25%), and Petrogal Brasil S.A. – Galp Energia (10%).

With the contribution of the above new projects, orders totaled 277,710 million yen (up 59.8% year on year) on a consolidated basis. Revenue was 129,968 million yen (down 11.4%), reflecting FPSO construction work and the provision of charter and operations services. Operating profit stood at 293 million yen (a decline of 91.8% from the previous fiscal year), principally reflecting the fact that the delivery of existing large-scale projects progressed in the previous fiscal year and income based on the percentage of completion method was not fully recorded because orders for large new projects were received in the second half of the fiscal year.

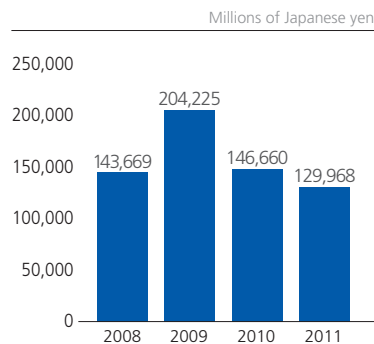
Ordinary profit amounted to 5,055 million yen (down 17.9% year on year) and net income came to 3,067 million yen (up 12.1%), chiefly reflecting an increase in equity in earnings of affiliates and unconsolidated subsidiaries as a result of FPSO sales.

For the 2011 fiscal year, MODEC, Inc. paid an interim dividend of 12.50 yen per share and a year-end dividend of 12.50 yen per share, resulting in the total annual dividend of 25.00 yen.

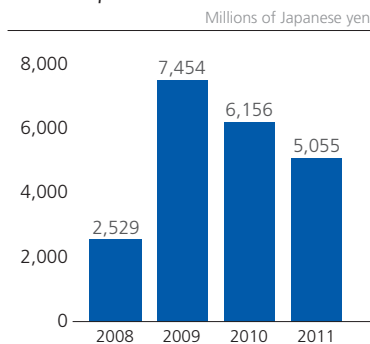
Outlook for 2012

The Company forecasts revenue of 150,000 million yen, ordinary profit of 5,000 million yen and net income of 3,500 million yen on a consolidated basis for 2012. For these financial forecasts, the Company assumes an exchange rate of 80 yen per US dollar at the time of book closing (77.74 yen per US dollar for actual results in fiscal 2011).

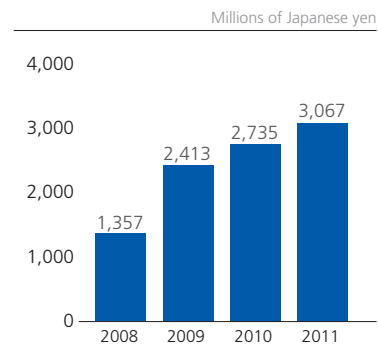
Revenue



Ordinary Profit



Net Income



Review of Operations

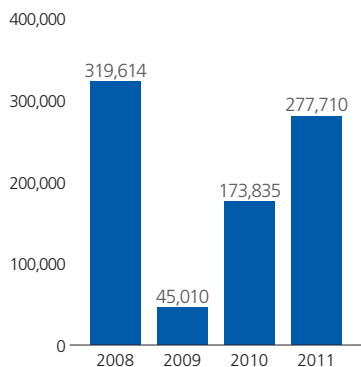
Highlights in Consolidated Results for Fiscal Year 2011

Millions of Japanese yen

	2008	2009	2010	2011
Orders	319,614	45,010	173,835	277,710
Revenue	143,669	204,225	146,660	129,968
Ordinary Profit	2,529	7,454	6,156	5,055
Net Income	1,357	2,413	2,735	3,067
Net Income per Share (Japanese yen)	36.30	64.52	62.09	66.11
Net Assets	40,678	40,073	58,323	52,230
Total Assets	142,115	168,365	146,627	124,130

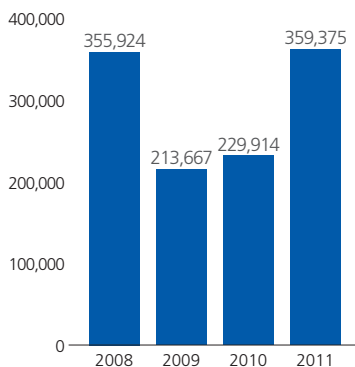
Orders

Millions of Japanese yen



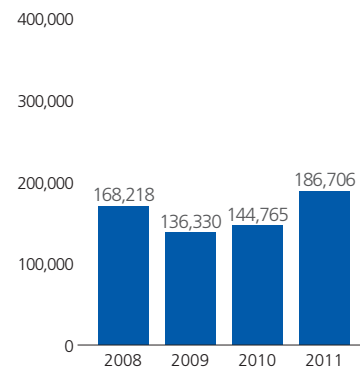
Order backlogs

Millions of Japanese yen



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

Millions of Japanese yen



EPCI Services

Following projects were under construction in 2011:

- *FPSO PSVM* (Angola)
- *FPSO Cidade de Sao Paulo MV23* (Brazil)
- *FPSO OSX-3* (Brazil)
- *FPSO Cidade de Mangaratiba MV24* (Brazil)



FPSO PSVM

Lease, Charter and O&M Services

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

- *FSO Ta'Kuntah* (Mexico)
- *FPSO Jasmine Venture MV7* (Thailand)
*Charter terminated in June 2011
- *FPSO MV8 Langsa Venture* (Indonesia)
*Charter terminated in January 2011
- *FPSO Baobab Ivoirien MV10* (Cote d'Ivoire)
- *FPSO MODEC Venture 11* (Australia)
- *FSO 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)
*Client purchased the FPSO in December 2011
(MODEC continues to provide O&M services)
- *FPSO Cidade de Angra dos Reis MV22* (Brazil)

Operation services of FPSOs that the oil companies own:

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

Financial Statements

Consolidated Balance Sheet

December 31, 2011

Assets

	Millions of Japanese yen
CURRENT ASSETS:	
Cash and time deposits	¥17,320
Accounts receivable - trade	48,486
Inventories	2,315
Short-term loans receivable	6,244
Other current assets	7,696
Less-Allowance for bad debts	(345)
Total current assets	<u>81,717</u>
PROPERTY AND EQUIPMENT:	
Vessels and equipment	11,462
Other	500
Total property and equipment	<u>11,963</u>
INTANGIBLE ASSETS:	6,429
INVESTMENTS AND OTHER ASSETS:	
Investment securities	10,901
Long-term loans receivable	8,754
Other investments	4,364
Total investments and other assets	<u>24,020</u>
Total assets	<u>¥124,130</u>

Liabilities and Net Assets

	Millions of Japanese yen
CURRENT LIABILITIES:	
Accounts payable - trade	¥46,232
Short-term loans payable	1,999
Current portion of long-term loans payable	3,459
Accrued expenses	3,878
Income taxes payable	2,746
Advances Received	1,525
Provision for product warranties	1,889
Other current liabilities	1,056
Total current liabilities	<u>62,788</u>
LONG-TERM LIABILITIES:	
Long-term loans payable	5,255
Severance and retirement benefits for employees	168
Other long-term liabilities	3,687
Total long-term liabilities	<u>9,111</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	23,027
Less-Treasury stock at cost	(1)
Total shareholders' equity	<u>64,127</u>
ACCUMULATED GAINS (LOSSES) FROM VALUATION AND TRANSLATION ADJUSTMENTS:	
Unrealized losses on available-for-sales securities, net of taxes	(11)
Unrealized losses on hedging derivative, net of tax	(6,579)
Foreign currency translation adjustments	(10,182)
Total accumulated gains (losses) from valuation and translation adjustments	<u>(16,772)</u>
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES:	4,876
Total net assets	52,230
Total liabilities and net assets	<u>¥124,130</u>

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

Consolidated Statement of Income

For year ended December 31, 2011

	Millions of Japanese yen
REVENUE	¥129,968
COST OF SALES	122,352
Gross profit	7,615
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,322
Operating profit	293
OTHER INCOME (EXPENSES):	
Interest income and dividend income	1,402
Interest expense	(613)
Equity in earnings of affiliates and unconsolidated subsidiaries	5,197
Loss on valuation of derivatives	(387)
Foreign exchange gain (loss), net	(1,000)
Gain on sales of subsidiaries and affiliates' stock	65
Impairment loss	(278)
Provision of allowance for doubtful accounts	(305)
Other, net	162
Total other income (expenses)	4,243
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS:	4,536
INCOME TAXES:	
Current	1,950
Prior	1,015
Deferred	(1,715)
INCOME BEFORE MINORITY INTERESTS	3,287
MINORITY INTERESTS	219
NET INCOME	¥3,067

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

Financial Statements

Consolidated Statement of Cash Flow

For year ended December 31, 2011

	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	¥4,536	Decrease (Increase) in short-term loans receivable	¥30,793
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:		Disbursement of long-term loans receivable	(3,343)
Depreciation and amortization	2,773	Purchases of property and equipment and intangible assets	(1,364)
Amortization of goodwill	257	Purchases of investments in affiliates	(3,347)
Provision for (reversal of) allowance for bad debts	32	Purchases of investments in subsidiaries	(1,222)
Provision for (reversal of) severance and retirement benefits for employees	9	Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(63)
Provision for (reversal of) directors' bonuses	6	Net cash provided by investing activities	21,453
Provision for (reversal of) product warranty	(596)	CASH FLOW FROM FINANCING ACTIVITIES:	
Provision of (reversal of) allowance for doubtful accounts	305	Increase (Decrease) in short-term loans payable	(14,411)
Interest income and dividend income	(1,402)	Repayment of long-term loans payable	(5,149)
Interest expense	613	Cash dividends paid	(1,101)
Foreign exchange (gains) losses	717	Net cash used in financing activities	(20,662)
Loss (Gain) on valuation of derivatives	387	EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(384)
Equity in earnings of affiliates and unconsolidated subsidiaries	(5,197)	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,197
Gain on sales of subsidiaries' stocks	(65)	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,122
Impairment loss	278	CASH AND CASH EQUIVALENTS AT ENDING OF YEAR	¥17,320
Decrease (Increase) in		<i>* The figures are rounded down to the nearest million yen.</i>	
– Accounts receivable - trade	(4,806)		
– Inventories	(1,482)		
Increase (Decrease) in			
– Accounts payable - trade	9,016		
– Consumption tax payable	(39)		
– Long term accounts payable	(301)		
Other, net	(526)		
	4,514		
Interest and dividend received	3,761		
Interest paid	(648)		
Income taxes paid	(2,835)		
Net cash provided by operating activities	¥4,792		

Consolidated Statement of Changes in Net Assets

For year ended December 31, 2011

Millions of Japanese yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2010	20,185	20,915	21,066	(1)	62,166
Change in items					
Cash dividends paid			(1,102)		(1,102)
Net Income			3,067		3,067
Others			(4)		(4)
Change in items other than Shareholders' Equity					—
Total change in items	—	—	1,960	—	1,960
Balance at December 31, 2011	20,185	20,915	23,027	(1)	64,127

	Discrepancies in appraisals and conversions				Minority Interests	Total net assets
	Unrealized losses on available-for-sales securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Total discrepancies in appraisals and conversions		
Balance at December 31, 2010	(9)	(123)	(8,403)	(8,535)	4,693	58,323
Change in items						
Cash dividends paid				—		(1,102)
Net Income				—		3,067
Others				—		(4)
Change in items other than Shareholders' Equity	(2)	(6,455)	(1,778)	(8,237)	183	(8,053)
Total change in items	(2)	(6,455)	(1,778)	(8,237)	183	(6,093)
Balance at December 31, 2011	(11)	(6,579)	(10,182)	(16,772)	4,876	52,230

Information

General Information

As of December 31, 2011

Company name	MODEC, Inc.	Business	<ul style="list-style-type: none">• Turn-key EPCI contractor of FPSO, FSO, TLP and CP Semi• Lease, Operation & Maintenance services of FPSO and FSO
Founded	June 1, 1987	Subsidiaries and Affiliated Companies	39 Companies
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	HSEQ Certificate	<ul style="list-style-type: none">• ISM Code• ISO 9001:2008• ISO 14001:2004• OHSAS 18001:2004
Paid-in capital	20,185,600,000 Japanese yen		
Number of employees	123 [non-consolidated, including contract employees] 2,548 [consolidated, including contract employees]		

Management

As of April 1, 2012

Directors

Toshiro Miyazaki	President & Chief Executive Officer
Yasuo Asama	Managing Director & Chief Operating Officer
Shunichi Yamashita	External Director
Masafumi Okada	External Director
Ichizo Kobayashi	External Director

Corporate Auditors

Shuji Nakura	Corporate Auditor
Yoshihiro Takizawa	External Corporate Auditor
Takehiko Tsubokawa	External Corporate Auditor
Hiroki Higuchi	External Corporate Auditor

Stock Information

As of December 31, 2011

Number of Authorized Shares	102,868,000
Number of Issued Shares	46,408,000
Number of Shareholders	8,258

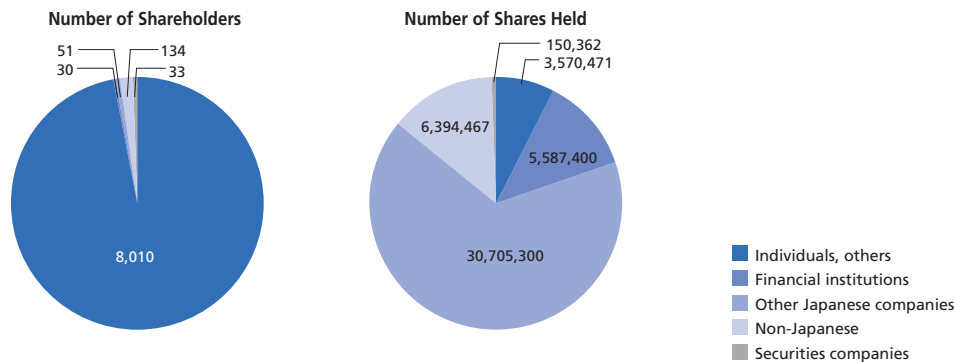
Major Shareholders

As of December 31, 2011

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)	1,163,900	2.50
JP Morgan Chase Bank 385166	1,024,800	2.20
The Master Trust Bank of Japan, Ltd. (Trust Account)	947,300	2.04
Japan Trustee Services Bank, Ltd. (Trust Account 9)	877,700	1.89
Japan Trustee Services Bank, Ltd. (Trust Account)	701,600	1.51
CBLDN DNB S/A FEARNLEY FONDS ASA	512,900	1.10
Sojitz Corporation	431,000	0.92
Nomura Asset Management U.K. Limited Sub A/C Evergreen Nominees Ltd	382,600	0.82

Shareholders Breakdown

As of December 31, 2011



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

* The Chuo Mitsui Trust and Banking Co., Ltd., Chuo Mitsui Asset Trust and Banking Co., Ltd. and the Sumitomo Trust and Banking Co., Ltd. will merge to form Sumitomo Mitsui Trust Bank, Ltd. effective on April 1, 2012. The merger is subject to the approval of the relevant authorities. Since April 1, 2012 is a banking holiday, the custody service will start from April 2, 2012.

Transfer agent

4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Sumitomo Mitsui Trust Bank, Ltd.

Transfer agent office

Sumitomo Mitsui Trust Bank, Ltd.
Transfer Agent Dept.

(Address and phone number will be the same.)



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