

IR Report & Message vol.10

Fiscal Year from January 1, 2012 to December 31, 2012



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 the 2012 fiscal year (from January 1, 2012 to December 31, 2012).

Overview of Operations

During the consolidated fiscal year under review, the Japanese economy continued to face challenges, from economic slowdowns in emerging countries overseas to weak personal spending during a difficult employment situation domestically. Nonetheless, the Japanese economy did show signs of recovery, led by higher demand associated with restoration from the Great East Japan Earthquake.

Uncertainty for the future increased overseas, with prolonged economic weakness attributed to the debt problem in Europe, slower growth in China and the fiscal cliff the United States kept facing.

Oil prices remained high given the volatile situation in the Middle East and the inflow of speculative funds, and WTI crude oil future prices generally remained around 90 USD per barrel. In Brazil, *Petróleo Brasileiro S.A.* ("*Petrobras*") planned to actively invest in the development of offshore oil fields, and many similar projects were also planned in West Africa. As such, the operating environment for floating production facilities in which the Group specializes was favorable, and stable growth is anticipated in the future as well.

In November 2012, *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 (Iracema North) in the giant "pre-salt" region of the Santos Basin. The *BM-S-11* block is under concession to a consortium formed by *Petrobras* (65%), *BG Group* (25%), *Petrogal Brasil S.A. – Galp Energia* (7%), and *China Petrochemical Corporation* (3%).

With the contribution of the above new projects, orders totaled 342,667 million yen (up 23.4% year on year) on a consolidated basis. Revenue was 186,891 million yen (up 43.8%), reflecting FPSO construction work and the provision of charter and operations services. Operating profit stood at 3,470 million yen (increase of 1,082.3% from the previous fiscal year), reflecting that the FPSO construction work progressed steadily.

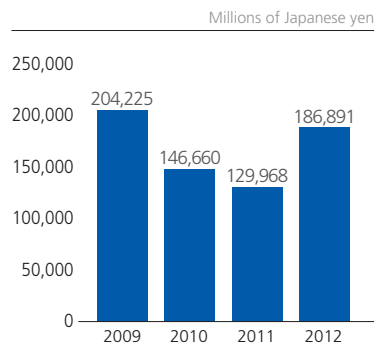
Ordinary profit amounted to 9,296 million yen (up 83.9% year on year) and net income came to 5,130 million yen (up 67.2%), mainly attributable to the posting of foreign exchange gains.

For the 2012 fiscal year, MODEC, Inc. paid an interim dividend of 13.75 yen per share and a year-end dividend of 13.75 yen per share, resulting in the total annual dividend of 27.50 yen.

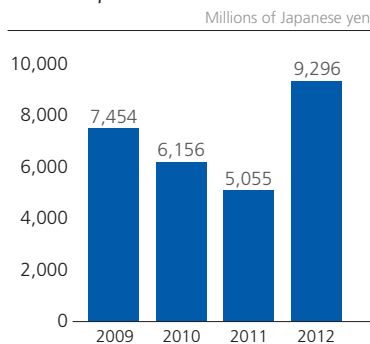
Outlook for 2013

The Company forecasts revenue of 200,000 million yen, ordinary profit of 8,000 million yen and net income of 5,000 million yen on a consolidated basis for 2013. For these financial forecasts, the Company assumes an exchange rate of 85 yen per US dollar at the time of book closing (86.56 yen per US dollar for actual results in fiscal 2012).

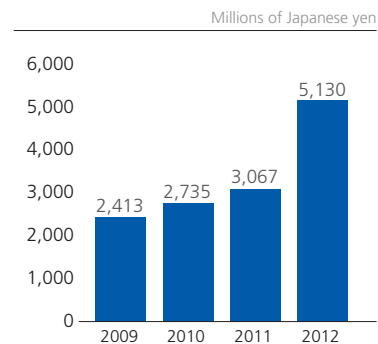
Revenue



Ordinary Profit



Net Income



Review of Operations

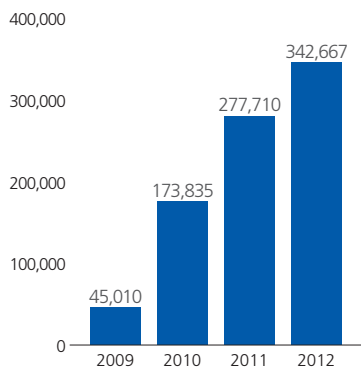
Highlights in Consolidated Results for Fiscal Year 2012

Millions of Japanese yen

	2009	2010	2011	2012
Orders	45,010	173,835	277,710	342,667
Revenue	204,225	146,660	129,968	186,891
Ordinary Profit	7,454	6,156	5,055	9,296
Net Income	2,413	2,735	3,067	5,130
Net Income per Share (Japanese yen)	64.52	62.09	66.11	110.56
Net Assets	40,073	58,323	52,230	60,389
Total Assets	168,365	146,627	124,130	154,104

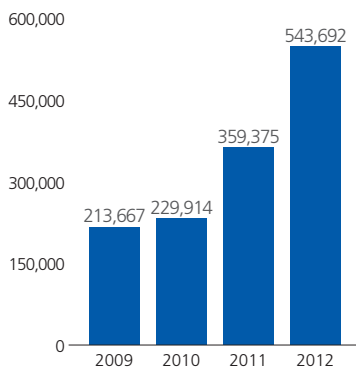
Orders

Millions of Japanese yen



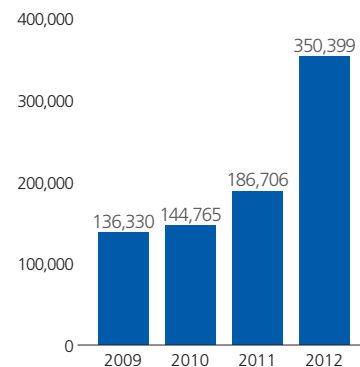
Order backlogs

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 2012:

- *FPSO PSVM* (Angola)
- *FPSO Cidade de Sao Paulo MV23* (Brazil)
- *FPSO OSX-3* (Brazil)
- *FPSO Cidade de Mangaratiba MV24* (Brazil)
- *FPSO Cidade de Itaguaí MV26* (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)
- *FSO Cidade de Macae MV15* (Brazil)
- *FPSO Stybarrow Venture MV16* (Australia)
- *FSO 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, 2012

Assets

	Millions of Japanese yen
CURRENT ASSETS:	
Cash and time deposits	¥33,360
Accounts receivable - trade	50,105
Inventories	6,601
Short-term loans receivable	3,739
Other current assets	8,604
Less-Allowance for bad debts	(414)
Total current assets	<u>102,003</u>
PROPERTY AND EQUIPMENT:	
Vessels and equipment	10,748
Other	1,675
Total property and equipment	<u>12,423</u>
INTANGIBLE ASSETS:	6,759
INVESTMENTS AND OTHER ASSETS:	
Investment securities	13,685
Long-term loans receivable	14,050
Other investments	5,181
Total investments and other assets	<u>32,917</u>
Total assets	<u>¥154,104</u>

Liabilities and Net Assets

	Millions of Japanese yen
CURRENT LIABILITIES:	
Accounts payable - trade	¥56,917
Short-term loans payable	1,125
Current portion of long-term loans payable	2,276
Accrued expenses	5,965
Income taxes payable	4,296
Advances Received	8,584
Provision for product warranties	2,284
Other current liabilities	1,789
Total current liabilities	<u>83,239</u>
LONG-TERM LIABILITIES:	
Long-term loans payable	3,592
Severance and retirement benefits for employees	166
Other long-time liabilities	6,715
Total long-term liabilities	<u>10,475</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	26,940
Less-Treasury stock at cost	(1)
Total shareholders' equity	<u>68,039</u>
ACCUMULATED GAINS (LOSSES) FROM VALUATION AND TRANSLATION ADJUSTMENTS:	
Unrealized losses on available-for-sales securities, net of taxes	(14)
Unrealized losses on hedging derivative, net of tax	(8,102)
Foreign currency translation adjustments	(5,679)
Retirement liability adjustments for foreign consolidated subsidiaries	(137)
Total accumulated gains (losses) from valuation and translation adjustments	<u>(13,933)</u>
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES:	6,283
Total net assets	<u>60,389</u>
Total liabilities and net assets	<u>¥154,104</u>

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

Consolidated Statement of Income

For year ended December 31, 2012

	Millions of Japanese yen
REVENUE	¥186,891
COST OF SALES	173,265
Gross profit	13,626
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	10,155
Operating profit	3,470
OTHER INCOME (EXPENSES):	
Interest income and dividend income	1,450
Interest expense	(496)
Equity in earnings of affiliates and unconsolidated subsidiaries	2,382
Loss on valuation of derivatives	(452)
Foreign exchange gain (loss), net	2,655
Other, net	285
Total other income (expenses)	5,826
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS:	9,296
INCOME TAXES:	
Current	4,666
Prior	58
Deferred	(1,286)
INCOME BEFORE MINORITY INTERESTS	5,858
MINORITY INTERESTS	727
NET INCOME	¥5,130

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

Financial Statements

Consolidated Statement of Cash Flow

For year ended December 31, 2012

	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	¥9,296	Decrease (Increase) in short-term loans receivable	¥3,616
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:		Disbursement of long-term loans receivable	(4,495)
Depreciation and amortization	2,980	Collection of long-term loans receivable	673
Amortization of goodwill	286	Purchases of property and equipment and intangible assets	(2,067)
Provision for (reversal of) allowance for bad debts	64	Proceeds from sales of property and equipment and intangible assets	3
Provision for (reversal of) severance and retirement benefits for employees	(1)	Purchases of investments in affiliates	(933)
Provision for (reversal of) directors' bonuses	(8)	Net cash provided by investing activities	(3,202)
Provision for (reversal of) product warranty	368	CASH FLOW FROM FINANCING ACTIVITIES:	
Provision for (reversal of) loss on construction contracts	191	Increase (Decrease) in short-term loans payable	(1,153)
Interest income and dividend income	(1,451)	Repayment of long-term loans payable	(3,512)
Interest expense	496	Cash dividends paid	(1,221)
Foreign exchange (gains) losses	(1,813)	Repayments of finance lease obligations	(10)
Loss (Gain) on valuation of derivatives	452	Net cash used in financing activities	(5,897)
Equity in earnings of affiliates and unconsolidated subsidiaries	(2,382)	EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	
Decrease (Increase) in			2,250
– Accounts receivable - trade	6,626	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,046
– Inventories	(4,079)	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,320
Increase (Decrease) in		CASH AND CASH EQUIVALENTS AT ENDING OF YEAR	¥33,366
– Accounts payable - trade	9,391		
– Consumption tax payable	87		
Other, net	2,277		
	22,782		
Interest and dividend received	3,905		
Interest paid	(502)		
Income taxes paid	(3,290)		
Net cash provided by operating activities	¥22,896		

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

Consolidated Statement of Changes in Net Assets

For year ended December 31, 2012

Millions of Japanese yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
Balance at January 1, 2012	20,185	20,915	23,027	(1)	64,127
Change in items					
Cash dividends paid			(1,218)		(1,218)
Net Income			5,130		5,130
Change in items other than Shareholders' Equity					
Total Change in items	—	—	3,912		3,912
Balance at December 31, 2012	20,185	20,915	26,940	(1)	68,039

	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	Retirement liability adjustments for foreign consolidated subsidiaries	Total discrepancies in appraisals and conversions		
Balance at January 1, 2012	(11)	(6,579)	(10,182)	—	(16,772)	4,876	52,230
Change in items							
Cash dividends paid							(1,218)
Net Income							5,130
Change in items other than Shareholders' Equity	(3)	(1,522)	4,502	(137)	2,839	1,406	4,245
Total Change in items	(3)	(1,522)	4,502	(137)	2,839	1,406	8,158
Balance at December 31, 2012	(14)	(8,102)	(5,679)	(137)	(13,933)	6,283	60,389

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

Information

General Information

As of December 31, 2012

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	42 Companies
Head office	Nihonbashi Maruzen Tokyu Building 3-10, Nihonbashi 2-chome Chuo-ku Tokyo 103-0027 Japan TEL: +81.3.5290.1200 (Main Line) FAX: +81.3.5290.1501 and 1505	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	132 [non-consolidated, including contract employees] 2,564 [consolidated, including contract employees]		

Management

As of April 1, 2013

Directors

Toshiro Miyazaki	President & Chief Executive Officer
Shigeru Usami	Managing Director & Executive Officer
Kensuke Taniguchi	Managing Director & Executive Officer
Ricky Alan Hall	Director & Executive Officer
Norihisa Fukuda	External Director
Akira Nishihata	External Director
Takeshi Kanamori	External Director

Corporate Auditors

Shuji Nakura	Corporate Auditor
Takehiko Tsubokawa	External Corporate Auditor
Hiroki Higuchi	External Corporate Auditor
Taku Yamamoto	External Corporate Auditor

Stock Information

As of December 31, 2012

Number of Authorized Shares	102,868,000
Number of Issued Shares	46,408,000
Number of Shareholders	7,960

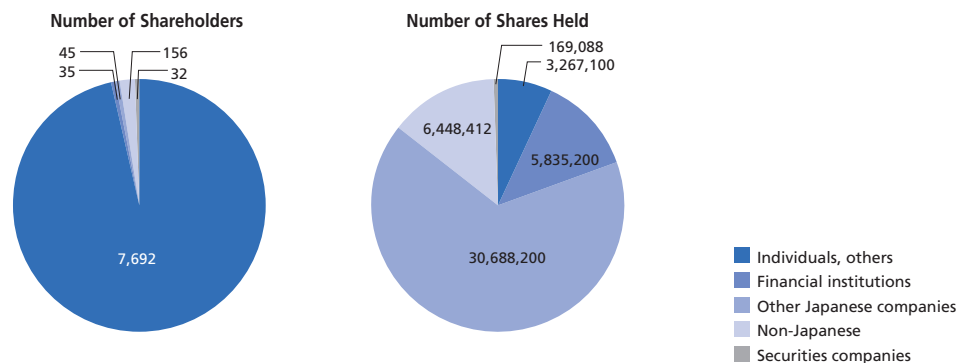
Major Shareholders

As of December 31, 2012

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
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,097,000	2.36
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,016,600	2.19
Trust & Custody Services Bank, Ltd. (Pension Trust Account)	921,500	1.98
Japan Trustee Services Bank, Ltd. (Trust Account)	799,100	1.72
Nomura Asset Management U.K. Limited Sub A/C Evergreen Nominees Ltd	494,300	1.06
The Chase Manhattan Bank, NA London SL Omnibus Account	468,700	1.00
JP Morgan Chase Bank 385166	450,300	0.97
Sojitz Corporation	431,000	0.92

Shareholders Breakdown

As of December 31, 2012



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	Sumitomo Mitsui Trust Bank, Ltd. 4-1, Marunouchi 1-Chome, Chiyoda-Ku, Tokyo 100-8233 Japan
Transfer agent office	Sumitomo Mitsui Trust Bank, Ltd. Transfer Agent Dept. 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063 Japan Tel: +81.3.3323.7111



MODEC, Inc.
Nihonbashi Maruzen Tokyu Building
3-10, Nihonbashi 2-chome Chuo-ku
Tokyo 103-0027 Japan
TEL: +81.3.5290.1200 (Main Line)
FAX: +81.3.5290.1501 and 1505
<http://www.modec.com>

