

IR Report & Message vol.11

Fiscal Year from January 1, 2013 to December 31, 2013



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 2013 fiscal year (from January 1, 2013 to December 31, 2013).

Overview of Operations

During the consolidated fiscal year under review, the Japanese economy staged a gradual recovery, mainly reflecting an improvement in corporate earnings on the strength of the impact of the economic and monetary measures introduced by the government and the correction to the strong yen, as well as a rise in consumer spending due to last-minute demand before the consumption tax hike.

Overseas, the U.S. economy showed signs of a gradual recovery, including an improvement in the employment situation, and even the persistently weak European economy began to show signs of an upturn.

Looking at crude oil prices, trading in WTI crude oil futures remained mainly in the USD90 level per barrel range, reflecting an uncertain situation in the Middle East and North Africa and a recovery in the global economy. In this environment, *Petróleo Brasileiro S.A. ("Petrobras")*, the Brazilian state owned company, announced plans for aggressive investment in the development of offshore oil fields, while there are also a number of plans for offshore oil development projects in West Africa. Consequently, the business environment surrounding floating oil and gas production facilities, the MODEC Group's mainstay business, remained sound, and this business is expected to experience further growth in the future.

In August 2013, the Company received orders from Tullow Ghana Limited for the construction and charter services of a Floating Production, Storage and Offloading (FPSO) vessel for the Tweneboa, Enyenra, and Ntomme (TEN) fields in the Deepwater Tano contract area, offshore Ghana, which is owned by a consortium of Tullow Ghana Limited and other companies.

In December 2013, the Company also received orders through Guara B.V., a subsidiary of Petrobras, for the construction and charter services of a FPSO vessel that would be used for the development of the Carioca field located approximately 300 km offshore from Rio de Janeiro.

With the contribution of the above new projects, orders totaled 518,482 million yen (up 51.3% year on year) on a consolidated basis. Revenue was 254,401 million yen (up 36.1%), reflecting FPSO construction work and the provision of charter and operations services.

Operating profit stood at 3,704 million yen (up 6.7%), reflecting the fact that the FPSO construction work progressed steadily. Ordinary profit amounted to 15,820 million yen (up 70.2%) and net income came to 4,922

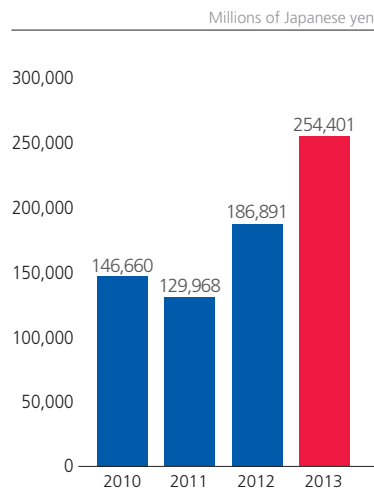
million yen (down 4.1%), mainly attributable to the posting of foreign exchange gains.

For the 2013 fiscal year, MODEC, Inc. paid an interim dividend of 15.00 yen per share and a year-end dividend of 15.00 yen per share, resulting in the total annual dividend of 30.00 yen.

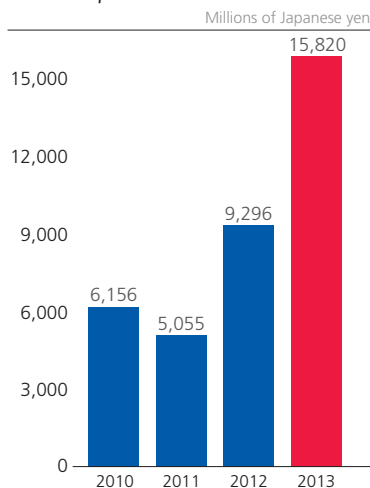
Outlook for 2014

The Company forecasts revenue of 300,000 million yen, operating profit of 8,000 million yen, ordinary profit of 13,000 million yen and net income of 8,500 million yen on a consolidated basis for 2014. For these financial forecasts, the company assumes an exchange rate of 100 yen per US dollar at the time of book closing (105.37 yen per US dollar for actual results in fiscal 2013).

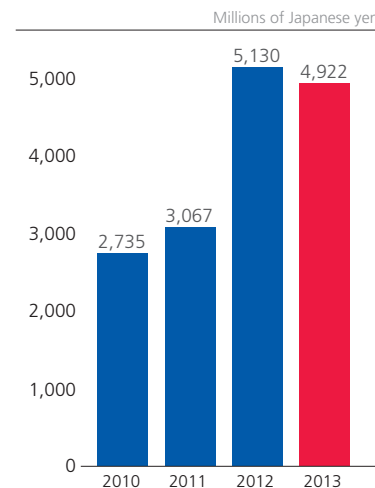
Revenue



Ordinary Profit



Net Income



Review of Operations

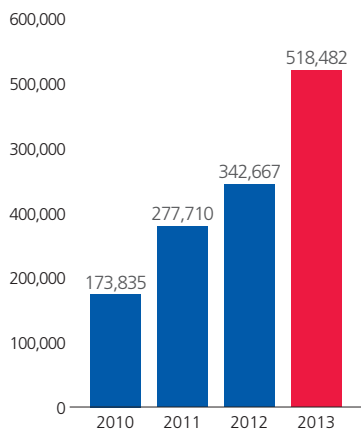
Highlights in Consolidated Results for Fiscal Year 2013

Millions of Japanese yen

	2010	2011	2012	2013
Orders	173,835	277,710	342,667	518,482
Revenue	146,660	129,968	186,891	254,401
Ordinary Profit	6,156	5,055	9,296	15,820
Net Income	2,735	3,067	5,130	4,922
Net Income per Share (Japanese yen)	62.09	66.11	110.56	106.07
Net Assets	58,323	52,230	60,389	80,444
Total Assets	146,627	124,130	154,104	215,674

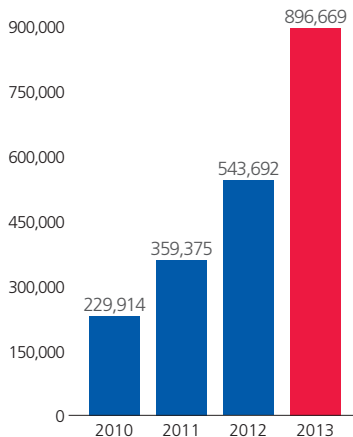
Orders

Millions of Japanese yen



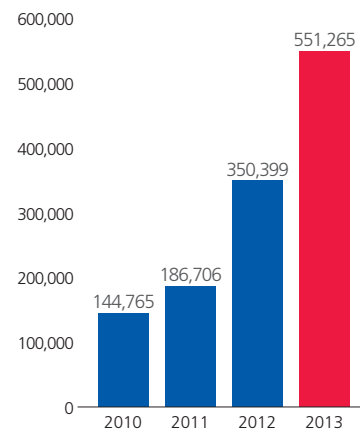
Order backlogs

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 2013:

- *FPSO OSX-3* (Brazil)
- *FPSO Cidade de Mangaratiba MV24* (Brazil)
- *FPSO Cidade de Itaguaí MV26* (Brazil)
- *Tullow T.E.N. MV25 FPSO* (Ghana)
- *FPSO Cidade de Caraguatatuba MV27* (Brazil)



FPSO OSX-3

Lease, Charter and O&M Services

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

- *FSO Ta'Kuntah* (Mexico)
*Charter terminated in September 2013
- *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 Macaé MV15* (Brazil)
- *FPSO Stybarrow Venture MV16* (Australia)
- *FSO Rang Dong MV17* (Vietnam)
- *FPSO Cidade de Niterói MV18* (Brazil)
- *FPSO Song Doc Pride MV19* (Vietnam)
- *FPSO Cidade de Santos MV20* (Brazil)
- *FPSO Cidade de Angra dos Reis MV22* (Brazil)
- *FPSO Cidade de São Paulo MV23* (Brazil)

Operation services of FPSOs that the oil companies own:

- *FPSO Fluminense* (Brazil)
- *FPSO Pyrenees Venture* (Australia)
- *FPSO Kwame Nkrumah MV21* (Ghana)
- *FPSO Raroa* (New Zealand)

Financial Statements

Consolidated Balance Sheet

December 31, 2013

Assets

	Millions of Japanese yen
CURRENT ASSETS:	
Cash and time deposits	¥21,786
Accounts receivable - trade	84,695
Inventories	3,666
Deferred tax assets	3,564
Other current assets	7,648
Less-Allowance for bad debts	(472)
Total current assets	<u>120,889</u>
PROPERTY AND EQUIPMENT:	
Vessels and equipment	16,105
Buildings and structures	109
Other	862
Construction in progress	524
Total property and equipment	<u>17,602</u>
INTANGIBLE ASSETS:	7,394
INVESTMENTS AND OTHER ASSETS:	
Investment securities	26,543
Long-term loans receivable	38,771
Claims provable in bankruptcy, claims provable in rehabilitation and other	1,594
Deferred tax assets	3,521
Other investments	952
Less - allowance for bad debts	(1,594)
Total investments and other assets	<u>69,788</u>
 Total assets	 <u>¥215,674</u>

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

Liabilities and Net Assets

	Millions of Japanese yen
CURRENT LIABILITIES:	
Accounts payable - trade	¥87,782
Short-term loans payable	9,483
Current portion of long-term loans payable	1,405
Accrued expenses	6,596
Income taxes payable	3,626
Advances received	1,537
Provision for product warranties	3,195
Other current liabilities	1,424
Total current liabilities	<u>115,050</u>
LONG-TERM LIABILITIES:	
Long-term loans payable	15,615
Severance and retirement benefits for employees	176
Deferred tax liabilities	482
Other long-time liabilities	3,904
Total long-term liabilities	<u>20,179</u>
Total liabilities	<u>135,230</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	30,528
Less-treasury stock at cost	(1)
Total shareholders' equity	<u>71,628</u>
ACCUMULATED GAINS (LOSSES) FROM VALUATION:	
Unrealized gains/(losses) on hedging derivative, net of tax	(4,977)
Foreign currency translation adjustments	4,306
Retirement liability adjustments for foreign consolidated subsidiaries, net of tax	(145)
Total accumulated gains (losses) from valuation	<u>(817)</u>
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES:	9,633
Total net assets	<u>80,444</u>
Total liabilities and net assets	<u>¥215,674</u>

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

Consolidated Statement of Income

For year ended December 31, 2013

	Millions of Japanese yen
Revenue	¥254,401
COST OF SALES	237,688
Gross profit (loss)	16,713
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	13,009
Operating profit (loss)	3,704
OTHER INCOME (EXPENSES):	
Interest income and dividend income	2,415
Interest expense	(696)
Commission fee	(120)
Equity in earnings of affiliates and unconsolidated subsidiaries	5,622
Foreign exchange gain (loss), net	3,849
Gain on liquidation of subsidiaries and affiliates	101
Loss on sales of property and equipment	(39)
Loss on disposal of property and equipment	(156)
Impairment loss	(2,311)
Provision of allowance for doubtful accounts	(1,594)
Other, net	885
Total other income (expenses)	7,955
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	11,659
INCOME TAXES:	
Current	5,019
Prior	(666)
Deferred	577
INCOME BEFORE MINORITY INTERESTS	6,728
MINORITY INTERESTS	1,805
NET INCOME	¥4,922

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

Financial Statements

Consolidated Statement of Cash Flow

For year ended December 31, 2013

	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	¥11,659	Decrease (Increase) in short-term loans receivable	¥5,206
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:		Disbursement of long-term loans receivable	(50,798)
Depreciation and amortization	4,223	Collection of long-term loans receivable	40,233
Amortization of goodwill	349	Purchases of property and equipment and intangible assets	(8,833)
Increase (Decrease) of allowance for bad debts	1,634	Proceeds from sales of property and equipment and intangible assets	28
Increase (Decrease) of severance and retirement benefits for employees	9	Purchases of investments in subsidiaries and affiliates	(5,387)
Increase (Decrease) of directors' bonuses	0	Net cash used in investing activities	<u>(19,551)</u>
Increase (Decrease) of product warranty	437		
Increase (Decrease) of loss on construction contracts	(191)	CASH FLOW FROM FINANCING ACTIVITIES:	
Interest income and dividend income	(2,415)	Increase (Decrease) in short-term loans payable	4,149
Interest expense	696	Proceeds from long-term loans payable	10,330
Foreign exchange (gains) losses	(4,689)	Repayment of long-term loans payable	(1,718)
Equity in earnings of affiliates and unconsolidated subsidiaries	(5,622)	Cash dividends paid	(1,333)
Loss on sales of property and equipment	39	Cash dividends paid to minority shareholders	(28)
Loss on disposal of property and equipment	156	Repayments of finance lease obligations	(24)
Impairment loss	2,311	Net cash provided by financing activities	<u>11,374</u>
Gain on liquidation of subsidiaries and affiliates	(101)		
Decrease (Increase) in		EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	9,596
– Accounts receivable - trade	(38,897)	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,482)
– Inventories	363	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	33,366
– Claims provable in bankruptcy, claims provable in rehabilitation and other	(1,594)	DECREASE IN CASH AND CASH EQUIVALENTS DUE TO THE CHANGE OF CONSOLIDATION SCOPE	(98)
Increase (Decrease) in		CASH AND CASH EQUIVALENTS AT ENDING OF YEAR	<u>¥21,786</u>
– Accounts payable - trade	21,356		
– Consumption tax payable	(89)		
Other, net	(1,300)		
	<u>(11,663)</u>		
Interest and dividend received	4,632		
Interest paid	(683)		
Income taxes paid	(5,187)		
Net cash used in operating activities	<u>¥(12,901)</u>		

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

Consolidated Statement of Changes in Net Assets

For year ended December 31, 2013

Millions of Japanese yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
Balance at January 1, 2013	20,185	20,915	26,940	(1)	68,039
Change in items					
Cash dividends paid			(1,334)		(1,334)
Net Income			4,922		4,922
Change in items other than Shareholders' Equity					
Total Change in items	—	—	3,588	—	3,588
Balance at December 31, 2013	20,185	20,915	30,528	(1)	71,628

	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, 2013	(14)	(8,102)	(5,679)	(137)	(13,933)	6,283	60,389
Change in items							
Cash dividends paid							(1,334)
Net Income							4,922
Change in items other than Shareholders' Equity	14	3,124	9,986	(8)	13,116	3,349	16,466
Total Change in items	14	3,124	9,986	(8)	13,116	3,349	20,055
Balance at December 31, 2013	(0)	(4,977)	4,306	(145)	(817)	9,633	80,444

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

Information

General Information

As of December 31, 2013

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	44 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 18001:2007
Paid-in capital	20,185,600,000 Japanese yen		
Number of employees	164 [non-consolidated, including contract employees] 3,128 [consolidated, including contract employees]		

Management

As of April 1, 2014

Directors

Toshiro Miyazaki	President & Chief Executive Officer
Shigeru Usami	Managing Director & Executive Managing Officer
Kensuke Taniguchi	Managing Director & Executive Managing Officer
Osamu Niho	Managing Director & Executive Managing Officer
Ricky Alan Hall	Director & Executive Officer
Akira Nishihata	External Director
Shinsuke Nippo	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, 2013

Number of Authorized Shares	102,868,000
Number of Issued Shares	46,408,000
Number of Shareholders	15,156

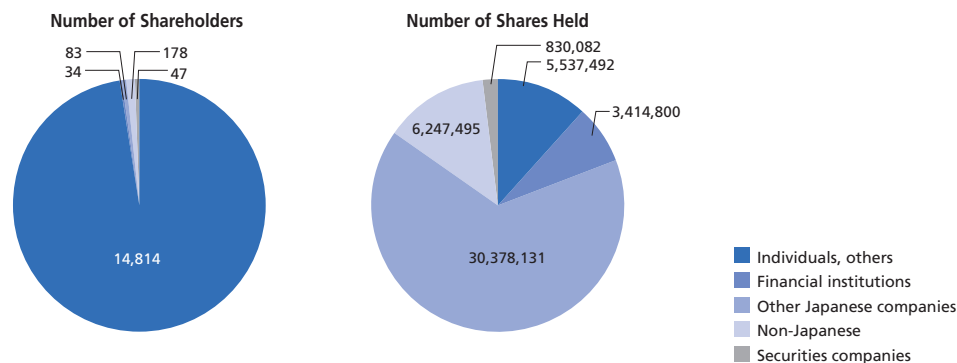
Major Shareholders

As of December 31, 2013

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)	756,400	1.62
Japan Trustee Services Bank, Ltd. (Trust Account)	581,800	1.25
Pictet and Cie (Europe) S.A.	579,600	1.24
State Street Bank and Trust Company 505103	546,431	1.17
Evergreen	540,300	1.16
JP Morgan Chase Bank 385166	285,000	0.61
SBI SECURITIES Co.,Ltd.	253,500	0.54
The Nomura Trust and Banking Co., Ltd.	251,100	0.54

Shareholders Breakdown

As of December 31, 2013



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



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