

IR Report & Message vol.12

Fiscal Year from January 1, 2014 to December 31, 2014



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 2014 fiscal year (from January 1, 2014 to December 31, 2014).

Overview of Operations

During the consolidated fiscal year under review, the global economy continued to expand at a modest pace, underpinned by robust US growth driven by consumer spending, which offset slower growth in emerging markets and the eurozone.

Looking at crude oil prices, WTI oil prices gained on geopolitical risks through the first half of the year, before plunging to the level of 50 dollars per barrel at the end of the year amid worries about global oversupply. While the current weakness in the oil market will affect the field development plans in the short term, oil companies are nonetheless likely to continue the deepwater exploration and production activities, with a view to ensuring the sustainable supply of energy resources. Business related to floating production systems, the MODEC Group's mainstay business, is also expected to experience stable growth in the medium and long term.

In December 2014, the Company and its Brazilian partner Schahin Group received an order from Petróleo Brasileiro S.A. ("Petrobras"), the Brazilian state oil company, for the supply and charter services of an FPSO that would be deployed at Tartaruga Verde and Tartaruga Mestiça fields in the C-M-401 block in the Campos Basin.

With the contribution of this new project as well as change orders in existing projects and orders for operation services, orders totaled 395,762 million yen (down 23.7% year on year) on a consolidated basis. Revenue was

378,523 million yen (up 48.8%), reflecting progress in FPSO construction work.

Operating profit stood at 8,566 million yen (up 131.3%), reflecting progress in the FPSO construction work. Ordinary profit amounted to 18,337 million yen (up 15.9%) due to the posting of stable equity in earnings of the affiliates accounted for by the equity method engaged in the lease business. Net income came to 5,422 million yen (up 10.2%), mainly due to an increase in corporate income taxes paid.

For the 2014 fiscal year, the Company paid an interim dividend of 16.25 yen per share and a year-end dividend

of 16.25 yen per share, resulting in the total annual dividend of 32.50 yen.

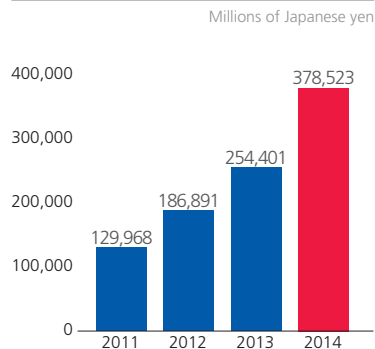
Outlook for 2015

The Company forecasts revenue of 300,000 million yen, operating profit of 3,000 million yen, ordinary profit of 9,000 million yen and net income of 3,000 million yen on a consolidated basis for 2015. For these financial forecasts, the Company assumes an exchange rate of 110 yen per US dollar at the time of book closing (120.56 yen per US dollar for actual results in fiscal 2014).

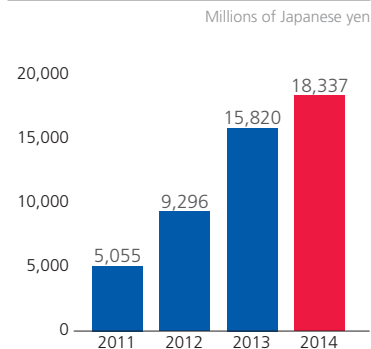


Review of Operations

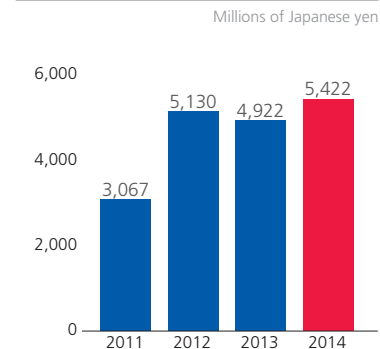
Revenue



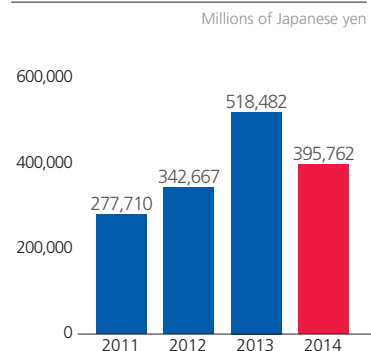
Ordinary Profit



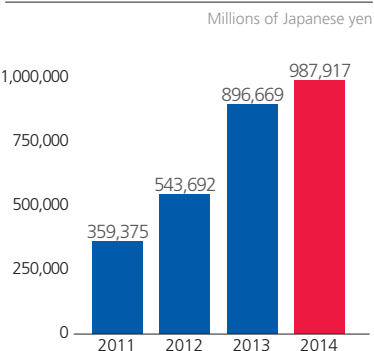
Net Income



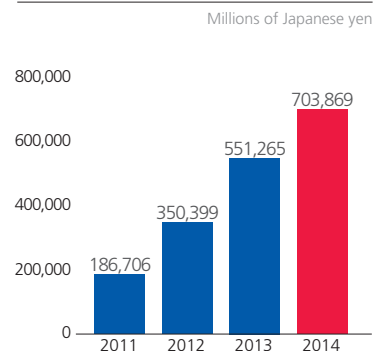
Orders



Order backlogs



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



Consolidated Financial Highlights

Millions of Japanese yen

| | 2011 | 2012 | 2013 | 2014 |
|-------------------------------------|---------|---------|---------|---------|
| Orders | 277,710 | 342,667 | 518,482 | 395,762 |
| Revenue | 129,968 | 186,891 | 254,401 | 378,523 |
| Ordinary Profit | 5,055 | 9,296 | 15,820 | 18,337 |
| Net Income | 3,067 | 5,130 | 4,922 | 5,422 |
| Net Income per Share (Japanese yen) | 66.11 | 110.56 | 106.07 | 101.67 |
| Net Assets | 52,230 | 60,389 | 80,444 | 109,631 |
| Total Assets | 124,130 | 154,104 | 215,674 | 348,477 |

EPCI Services

Following projects were under construction in 2014:

- *FPSO Cidade de Mangaratiba MV24* (Brazil)
*Delivered in 2014
- *FPSO Cidade de Itaguai MV26* (Brazil)
- *FPSO Prof. John Evans Atta Mills* (Ghana)
- *FPSO Cidade de Caraguatatuba MV27* (Brazil)
- *FPSO Cidade de Campos dos Goytacazes MV29* (Brazil)
*New order in 2014



Lease, Charter and O&M Services

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

- *FPSO Baobab Ivoirien MV10* (Cote 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 Cidade de Angra dos Reis MV22* (Brazil)
- *FPSO Cidade de Sao Paulo MV23* (Brazil)
- *FPSO Cidade de Mangaratiba MV24* (Brazil)
*Charter started in October 2014

The MODEC Group also provided operation & maintenance services on the following FPSOs that are owned by the oil companies:

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

Financial Statements

Consolidated Balance Sheet

December 31, 2014

Assets

| | Millions of Japanese yen |
|--|-----------------------------|
| CURRENT ASSETS: | |
| Cash and time deposits | 30,632 |
| Accounts receivable - trade | 168,012 |
| Inventories | 5,929 |
| Deferred tax assets | 4,815 |
| Short-term loans receivable | 41,008 |
| Other current assets | 10,075 |
| Less-Allowance for bad debts | (481) |
| Total current assets | <u>259,992</u> |
| PROPERTY AND EQUIPMENT: | |
| Vessels and equipment | 14,142 |
| Buildings and structures | 139 |
| Other | 2,616 |
| Construction in progress | 26 |
| Total property and equipment | <u>16,924</u> |
| INTANGIBLE ASSETS: | 7,795 |
| INVESTMENTS AND OTHER ASSETS: | |
| Investment securities | 37,388 |
| Long-term loans receivable | 20,153 |
| Deferred tax assets | 5,053 |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 1,824 |
| Other investments | 1,168 |
| Less - allowance for bad debts | (1,824) |
| Total investments and other assets | <u>63,763</u> |
| Total assets | <u><u>348,477</u></u> |

Liabilities and Net Assets

| | Millions of Japanese yen |
|--|-----------------------------|
| CURRENT LIABILITIES: | |
| Accounts payable - trade | 160,077 |
| Short-term loans payable | 5,967 |
| Current portion of long-term loans payable | 2,198 |
| Accrued expenses | 8,677 |
| Income taxes payable | 8,521 |
| Advances received | 4,657 |
| Provision for product warranties | 5,692 |
| Other current liabilities | 7,359 |
| Total current liabilities | <u>203,152</u> |
| LONG-TERM LIABILITIES: | |
| Long-term loans payable | 15,205 |
| Deferred tax liabilities | 615 |
| Other long-time liabilities | 19,872 |
| Total long-term liabilities | <u>35,693</u> |
| Total liabilities | <u>238,845</u> |
| NET ASSETS | |
| SHAREHOLDERS' EQUITY: | |
| Common stock; | |
| authorized - 102,868,000 shares | |
| outstanding - 56,408,000 shares | 30,122 |
| Capital surplus | 30,852 |
| Retained earnings | 34,338 |
| Less-treasury stock at cost | (1) |
| Total shareholders' equity | <u>95,311</u> |
| ACCUMULATED GAINS (LOSSES) FROM VALUATION: | |
| Unrealized gains/(losses) on available-for-sale securities, net of tax | 1 |
| Unrealized gains/(losses) on hedging derivative, net of tax | (13,741) |
| Foreign currency translation adjustments | 15,402 |
| Retirement liability adjustments for foreign consolidated subsidiaries, net of tax | (197) |
| Total accumulated gains (losses) from valuation | <u>1,464</u> |
| MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES: | 12,855 |
| Total net assets | <u>109,631</u> |
| Total liabilities and net assets | <u><u>348,477</u></u> |

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

Consolidated Statement of Income

For year ended December 31, 2014

| | Millions of Japanese yen |
|--|-----------------------------|
| Revenue | 378,523 |
| COST OF SALES | 356,565 |
| Gross profit | <u>21,958</u> |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 13,391 |
| Operating profit | <u>8,566</u> |
| OTHER INCOME (EXPENSES): | |
| Interest income and dividend income | 2,826 |
| Interest expense | (740) |
| Commission fee | (153) |
| Equity in earnings of affiliates and unconsolidated subsidiaries | 6,694 |
| Foreign exchange gain (loss), net | 236 |
| Loss on disposal of property and equipment | (1,207) |
| Impairment loss | (604) |
| Loss on liquidation of subsidiaries and affiliates | (214) |
| Provision of allowance for doubtful accounts | (229) |
| Other, net | 1,137 |
| Total other income (expenses) | <u>7,743</u> |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | 16,309 |
| INCOME TAXES: | |
| Current | 10,916 |
| Prior | 131 |
| Deferred | (1,935) |
| INCOME BEFORE MINORITY INTERESTS | 7,197 |
| MINORITY INTERESTS | 1,775 |
| NET INCOME | <u><u>5,422</u></u> |

Financial Statements

Consolidated Statement of Cash Flow

For year ended December 31, 2014

| | 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 | 16,309 | Decrease (Increase) in short-term loans receivable | (4,826) |
| 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 | (12,349) |
| Depreciation and amortization | 5,257 | Collection of long-term loans receivable | 2,876 |
| Impairment loss | 604 | Purchases of property and equipment and intangible assets | (3,755) |
| Amortization of goodwill | 399 | Proceeds from sales of property and equipment and intangible assets | 3 |
| Increase (Decrease) of allowance for bad debts | 226 | Purchases of investments in subsidiaries and affiliates | (3) |
| Increase (Decrease) of severance and retirement benefits for employees | 16 | Proceeds from liquidation of subsidiaries and affiliates | 20 |
| Increase (Decrease) of directors' bonuses | 4 | Net cash used in investing activities | <u>(18,033)</u> |
| Increase (Decrease) of product warranty | 2,040 | CASH FLOW FROM FINANCING ACTIVITIES: | |
| Increase (Decrease) of repairs | 1,137 | Increase (Decrease) in short-term loans payable | (4,584) |
| Interest income and dividend income | (2,826) | Repayment of long-term loans payable | (1,935) |
| Interest expense | 740 | Proceeds from issuance of stocks | 19,873 |
| Foreign exchange (gains) losses | 884 | Cash dividends paid | (1,611) |
| Equity in earnings of affiliates and unconsolidated subsidiaries | (6,694) | Repayments of finance lease obligations | (29) |
| Loss on disposal of property and equipment | 1,207 | Net cash provided by financing activities | <u>11,713</u> |
| Gain on liquidation of subsidiaries and affiliates | 214 | EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 2,833 |
| Decrease (Increase) in | | NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 8,846 |
| – Accounts receivable - trade | (74,482) | CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 21,786 |
| – Inventories | (1,916) | CASH AND CASH EQUIVALENTS AT ENDING OF YEAR | <u><u>30,632</u></u> |
| – Claims provable in bankruptcy, claims provable in rehabilitation and other | (229) | | |
| Increase (Decrease) in | | | |
| – Accounts payable - trade | 63,499 | | |
| – Consumption tax payable | (1,179) | | |
| Other, net | 9,419 | | |
| | <u>14,633</u> | | |
| Interest and dividend received | 3,693 | | |
| Interest paid | (860) | | |
| Income taxes paid | (5,133) | | |
| Net cash provided by operating activities | <u><u>12,333</u></u> | | |

Consolidated Statement of Changes in Net Assets

For year ended December 31, 2014

Millions of Japanese yen

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total Shareholders' equity |
| Balance at January 1, 2014 | 20,185 | 20,915 | 30,528 | (1) | 71,628 |
| Change in items | | | | | |
| Issuance of stocks | 9,936 | 9,936 | | | 19,873 |
| Cash dividends paid | | | (1,612) | | (1,612) |
| Net Income | | | 5,422 | | 5,422 |
| Change in items other than Shareholders' Equity | | | | | |
| Total Change in items | 9,936 | 9,936 | 3,809 | — | 23,683 |
| Balance at December 31, 2014 | 30,122 | 30,852 | 34,338 | (1) | 95,311 |

| | Discrepancies in appraisals and conversions | | | | | Minority interests in consolidated subsidiaries | Total net assets |
|---|--|--|--|--|---|---|------------------|
| | Unrealized losses on available-for-sale 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, 2014 | (0) | (4,977) | 4,306 | (145) | (817) | 9,633 | 80,444 |
| Change in items | | | | | | | |
| Issuance of stocks | | | | | | | 19,873 |
| Cash dividends paid | | | | | | | (1,612) |
| Net Income | | | | | | | 5,422 |
| Change in items other than Shareholders' Equity | 1 | (8,763) | 11,095 | (52) | 2,281 | 3,222 | 5,503 |
| Total Change in items | 1 | (8,763) | 11,095 | (52) | 2,281 | 3,222 | 29,187 |
| Balance at December 31, 2014 | 1 | (13,741) | 15,402 | (197) | 1,464 | 12,855 | 109,631 |

Information

General Information

As of December 31, 2014

| | |
|----------------------------|--|
| Company name | MODEC, Inc. |
| Ticker symbol | TSE 6269 |
| Date Founded | June 1, 1987 |
| 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: +81.3.5290.1505 |
| Paid-in capital | 30,122 million Japanese yen |
| Number of employees | 175 [non-consolidated] <small>*including contract employees</small> 3,469 [consolidated] |
| HSEQ Certificate | <ul style="list-style-type: none">• ISM Code• ISO 9001:2008• ISO 14001:2004• OHSAS 18001:2007• ISO/TS 29001:2010 |

MODEC is a general contractor specializing in engineering, procurement, construction and installation of floating production systems including Floating Production, Storage and Offloading (FPSO) vessels, Floating Storage and Offloading (FSO) vessels, Tension Leg Platforms (TLPs), Production Semi-Submersibles, Mobile Offshore Production Units (MOPUs) and other new technologies which will meet the challenges of various types of gas production floaters.

MODEC provides Floating Production System operation and maintenance services around the world.

Management

As of March 27, 2015

Directors

| | |
|-------------------------|--|
| Toshiro Miyazaki | President & Chief Executive Officer |
| Shigeru Usami | Managing Director & Executive Managing Officer |
| Teruhisa Konishi | Director & Executive Officer |
| Akira Nishihata | External Director |
| Shinsuke Nippo | External Director |
| Takeshi Kanamori | External Director |
| Katsuya Natori | 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, 2014

| | |
|-----------------------------|-------------|
| Number of Authorized Shares | 102,868,000 |
| Number of Issued Shares | 56,408,000 |
| Number of Shareholders | 21,705 |

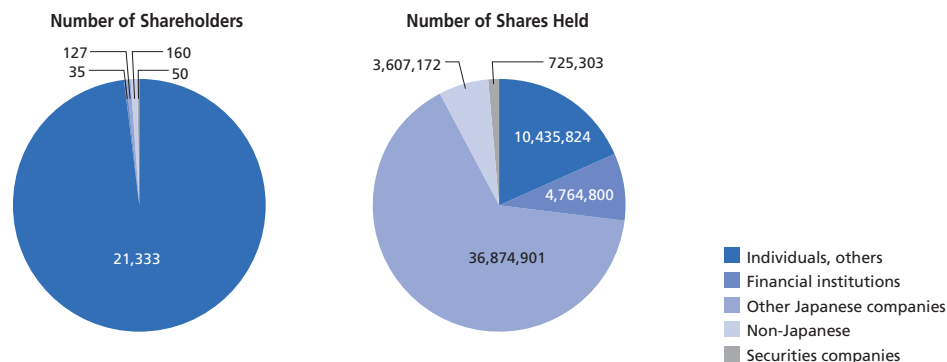
Major Shareholders

As of December 31, 2014

| Name | Number of Shares Held | Ratio of Shareholding (%) |
|---|-----------------------|---------------------------|
| Mitsui Engineering & Shipbuilding Co., Ltd. | 28,261,000 | 50.10 |
| Mitsui & Co., Ltd. | 8,387,300 | 14.86 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 1,284,400 | 2.27 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 645,500 | 1.14 |
| Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account) | 474,500 | 0.84 |
| CMBL S.A. RE MUTUAL FUNDS | 450,200 | 0.79 |
| The Nomura Trust and Banking Co., Ltd. (Investment Trust Account) | 338,400 | 0.59 |
| THE BANK OF NEW YORK 133612 | 298,900 | 0.52 |
| Japan Trustee Services Bank, Ltd. (Trust Account 6) | 221,100 | 0.39 |
| Mitsui Sumitomo Insurance Co., Ltd. | 220,000 | 0.39 |

Shareholders Breakdown

As of December 31, 2014



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. Stock Transfer Agency Business Planning Dept. 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063 Japan Tel: +81.3.3323.7111 |



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