

MODEC, INC. and Its Consolidated Subsidiaries

Consolidated Financial Statements
As of December 31, 2002 and 2001

MODEC, INC. and Its Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

ASSETS

	<u>Thousands of Japanese yen</u>		<u>U.S. dollars</u>
	<u>2002</u>	<u>2001</u>	<u>(Note 1(a))</u>
			<u>2002</u>
CURRENT ASSETS:			
Cash and bank deposits	¥ 6,852,903	¥10,163,899	\$ 57,131,330
Accounts receivable – trade	11,646,509	2,225,993	97,094,701
Costs of uncompleted contracts (Note 1(c))	91,199	186,330	760,304
Income tax refund receivable	-	250,841	-
Short-term loans receivable	291,019	337,311	2,426,171
Short-term lease receivable	1,493,870	1,417,865	12,454,109
Deferred tax assets (Note 1(l))	202,244	106,351	1,686,069
Other current assets	1,022,506	278,487	8,524,432
Less- Allowance for bad debts (Note 1(g))	(20)	(88)	(167)
Total current assets	21,600,230	14,966,989	180,076,949
PROPERTY AND EQUIPMENT:			
Buildings and equipment	80,614	70,403	172,327,488
Vessel	20,590,068	22,866,366	-
Less- Accumulated depreciation (Note 1(d))	(13,927,100)	(11,527,754)	(116,107,547)
	6,743,582	11,409,015	56,219,941
INTANGIBLE ASSETS	9,777	7,683	81,506
OTHER ASSETS:			
Investments securities (Notes 1(e) and 2)	581,326	284,194	4,846,406
Long-term loans receivable	656,804	947,823	5,475,650
Long-term lease receivable	11,082,422	13,945,464	92,392,012
Deferred tax assets (Note 1(l))	594,134	678,768	4,953,180
Other investments	327,445	234,009	2,729,847
	13,242,131	16,090,258	110,397,095
Total assets	¥41,595,720	¥42,473,946	\$346,775,491

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of Japanese yen		U.S. dollars (Note 1(a))
	2002	2001	2002
CURRENT LIABILITIES:			
Accounts payable	¥ 2,373,207	¥ 946,514	\$ 19,784,970
Short-term loans payable	10,344,158	6,690,867	86,237,253
Income taxes payable (Note 1(l))	665,122	1,234,002	5,544,993
Accrued expenses	1,133,914	835,013	9,453,223
Provision for product warranty (Note 1(h))	47,576	56,324	396,629
Deferred tax liabilities (Note 1(l))	205,707	156,590	1,714,943
Other current liabilities	457,283	424,302	3,812,279
Total current liabilities	<u>15,226,967</u>	<u>10,343,612</u>	<u>126,944,290</u>
LONG-TERM LIABILITIES:			
Severance and retirement benefits			
For employees (Note 1(i))	84,322	82,065	702,976
For directors (Note 1(j))	22,443	30,340	187,103
Long-term loans payable	14,305,965	21,467,998	119,266,071
Deferred tax liabilities (Note 1(l))	1,551,638	1,729,135	12,935,707
Other long-term liabilities	85,250	-	710,710
Total long-term liabilities	<u>16,049,618</u>	<u>23,309,538</u>	<u>133,802,567</u>
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	715,132	555,466	5,961,915
SHAREHOLDERS' EQUITY (Note 3):			
Common stock;			
authorized – 36,000,000 shares			
outstanding – 25,717,000 shares	3,133,025	3,133,025	26,119,425
Capital surplus	2,683,025	2,683,025	22,367,861
Retained earnings	3,822,247	2,305,680	31,865,340
Net unrealized holding gains on securities (Note 1(e))	33,755	2,681	281,405
Foreign currency translation adjustments	(68,049)	140,919	(567,312)
Total liabilities and shareholders' equity	<u>¥41,595,720</u>	<u>¥42,473,946</u>	<u>\$346,775,491</u>

MODEC, INC. and Its Consolidated Subsidiaries

**CONSOLIDATED STATEMENTS OF INCOME AND
RETAINED EARNINGS**

For the years ended December 31, 2002 and 2001

	Thousands of Japanese yen		U.S. dollars (Note 1(a))
	2002	2001	2002
SALES (Note 1(k))	¥31,436,191	¥34,480,804	\$262,077,460
COST OF SALES (Note 1(c))	25,051,641	26,123,932	208,850,697
Gross profit	6,384,550	8,356,872	53,226,763
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,329,527	1,230,786	11,084,012
Operating profit	5,055,023	7,126,086	42,142,751
OTHER INCOME (EXPENSES):			
Interest income and dividend income	122,613	211,964	1,022,201
Interest expenses	(1,212,425)	(1,916,769)	(10,107,752)
Foreign exchange gain/(loss), net (Note 1(f))	(15,868)	86,250	(132,291)
Equity in earnings of affiliates	53,137	276,800	442,992
Prior year repair costs	-	(996,017)	-
Insurance received for prior year repair costs	320,986	-	2,676,000
Other, net	(67,072)	(8,356)	(559,168)
Total other income	(798,629)	(2,346,128)	(6,658,018)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	4,256,394	4,779,958	35,484,733
INCOME TAXES (Note 1(l)):			
Current	2,380,545	1,702,999	19,846,146
Deferred	(45,100)	1,127,661	(375,990)
INCOME BEFORE MINORITY INTERESTS	1,920,949	1,949,298	16,014,577
MINORITY INTERESTS	224,619	208,467	1,872,603
NET INCOME	1,696,330	1,740,831	14,141,974
RETAINED EARNINGS, beginning of year	2,305,680	1,028,349	19,222,009
CASH DIVIDENDS PAID	(179,763)	(463,500)	(1,498,643)
RETAINED EARNINGS, end of year	¥ 3,822,247	¥ 2,305,680	\$31,865,340
	Yen		U.S. dollars (Note 1(a))
Net income per share (Note 3)	¥65.24	¥121.05	\$543.89

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

(a) Basis of Presenting Consolidated Financial Statements

MODEC, INC. (the “Company”) maintains its accounts and records in accordance with accounting principles and practices generally accepted in Japan and the Japanese Commercial Code, which are different from the accounting and disclosure requirements of International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translation of the Japanese yen amounts into U.S. dollars included solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2002, which was ¥119.95 to U.S. \$1.00. These translations should not be construed as representations that the Japanese yen amounts have been or could have been, or could in future be converted into U.S. dollars at this or any other rate of exchange.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all material subsidiaries. Material intercompany balances, transactions and unrealized profits and losses have been eliminated in consolidation.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, were evaluated using the fair value at the time the Company acquired the control of the respective subsidiaries.

Investments in all significant unconsolidated subsidiaries and affiliates are accounted for by using the equity method of accounting.

(c) Inventories

Costs of uncompleted contracts are stated at cost, determined on an individual project basis.

(d) Property and Equipment

Depreciation of property and equipment of the Company is calculated by using the declining-balance method based on their useful lives and residual value prescribed by the Japanese corporation tax laws and regulations. Depreciation of Floating Production Storage & Offloading (“FPSO”) and Floating Storage & Offloading (“FSO”), owned by the overseas subsidiaries are calculated by using the straight-line method based on their lease term or their economic useful lives.

(e) Securities

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains or losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders’ equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

(f) Translation of Foreign Currency Accounts

Foreign currency transactions are translated into Japanese yen by using the exchange rate in effect at the time of each transaction.

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the year-end exchange rate, and the resulting gains or losses are included in other income (expenses) in the statement of income.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen using the exchange rates prevailing at the end of each fiscal year, except the exchange rates in effect at the date of transactions are used for shareholders’ equity. The Company records foreign currency translation adjustments in the shareholders’ equity.

(g) Allowance for Bad Debts

Allowance for bad debts is provided in an amount sufficient to cover probable losses on collection by estimating uncollectable amounts individually as to specific doubtful accounts and on the basis of a percentage based on the actual collection ratio in the past to the remaining accounts.

(h) Provision for Product Warranty

Provision for product warranty is provided based on the estimated amounts to cover the probable product warranty.

(i) Severance and Retirement Benefits for Employees

The Company provides allowance for employees’ severance and retirement benefits based on the estimated amounts of projected benefit obligation at the balance sheet date.

(j) Severance and Retirement Benefits for Directors

The Company records severance and retirement benefits for directors at the amount payable if all directors voluntarily terminated their employment as of balance sheet date.

(k) Recognition of Revenues

The Company recognizes sales revenue by the completed contract method, except for those items whose contract amount is over 1 billion yen and whose term of construction is over one year, which are recorded by the percentage of completion method.

(l) Income Taxes

The Company provided income taxes at the amounts currently payable based on taxable income for tax purposes that may be different from income for financial reporting purposes. The Company recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

2. INVESTMENTS IN AFFILIATES

Investments in affiliates as of December 31, 2002 and 2001 are summarized below:

	Thousands of Japanese yen		U.S. dollars
	2002	2001	2002
Investments securities	¥262,536	¥148,594	\$2,188,716

3. SHAREHOLDER'S EQUITY AND PER SHARE DATA

The Japanese Commercial Code provides that an amount equivalent to at least 10 percent of cash dividends paid and other appropriations requiring actual cash outlay, such as directors' bonuses, be appropriated as a legal reserve until the total amount of additional paid-in capital and legal reserve equals to 25 percent of the stated capital.

The Company issued additional shares in connection with 1,000-for-1 stock splits on November 27, 2002. Consequently, outstanding shares of common stock increased from 25,717 shares to 25,717,000 shares. Prior net income per share in consolidated statement of income and retained earnings has been restated to reflect these stock splits.

Net income per share is calculated based on the weighted average number of shares of common stock outstanding during the fiscal year.