MODEC, INC. and Its Consolidated Subsidiaries

Half-Year Consolidated Financial Statements
As of June 30, 2003

MODEC, INC. and Its Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEET

June 30, 2003

A S S E T S

	Thousand of Japanese yen	U.S. dollars (Note 1(a))
CURRENT ASSETS:		
Cash and bank deposits	¥ 7,987,385	$ 66,672,667
Accounts receivable – trade	7,385,021	61,644,582
Costs of uncompleted contracts (Note 1(c))	4,042,414	33,743,022
Short-term loans receivable	9,599,413	80,128,653
Other current assets	3,103,735	25,907,641
Less- Allowance for bad debts (Note 1(h))	(186)	(1,553)
Total current assets	32,117,782	268,095,012
PROPERTY AND EQUIPMENT (Note 1(d)):		
Machinery and equipment	6,021,480	50,262,775
Other property and equipment	137,612	1,148,673
	6,159,092	51,411,448
INTANGIBLE ASSETS (Note 1(e))	929,588	7,759,499
OTHER ASSETS:		
Long-term lease receivable	10,234,344	85,428,581
Other investments (Note 1 (f))	2,624,624	21,908,383
Less- Allowance for bad debts (Note 1(h))	(3,400)	(28,381)
	12,855,568	107,308,583
Total assets	¥52,062,030	$434,574,542

The accompanying notes are an integral part of this statement.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousand of Japanese yen	U.S. dollars (Note 1(a))
CURRENT LIABILITIES:		
Accounts payable – trade	¥ 9,069,471	$ 75,705,104
Short-term loans payable	13,963,453	116,556,369
Accrued expenses	1,205,481	10,062,448
Income taxes payable (Note 1(m))	698,223	5,828,235
Other current liabilities (Note 1(i))	612,975	5,116,649
Total current liabilities	25,549,603	213,268,805
LONG-TERM LIABILITIES:		
Long-term loans payable	11,721,478	97,842,057
Severance and retirement benefits		
For employees (Note 1(j))	86,915	725,501
For directors and statutory corporate auditors (Note 1(k))	34,016	283,940
Deferred tax liabilities (Note 1(m) and 3)	1,581,181	13,198,504
Total long-term liabilities	13,423,590	112,050,002
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	2,618,796	21,859,735
SHAREHOLDERS' EQUITY (Note 2):		
Common stock;		
authorized – 102,868,000 shares		
outstanding – 25,717,000 shares	3,133,025	26,152,128
Capital surplus	2,683,025	22,395,868
Retained earnings	4,624,951	38,605,597
Net unrealized holding gains on securities (Note 1(f))	105,396	879,766
Foreign currency translation adjustments	(76,356)	(637,359)
	10,470,041	87,396,000
Total liabilities, minority interests and shareholders' equity	¥52,062,030	$434,574,542

MODEC, INC. and Its Consolidated Subsidiaries

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For 6 months ended June 30, 2003

	Thousand of Japanese yen	U.S. dollars (Note 1(a))
SALES (Note 1(l))	¥33,057,395	$275,938,187
COST OF SALES	28,833,048	240,676,523
Gross profit	4,224,347	35,261,664
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,075,865	17,327,754
Operating profit	2,148,482	17,933,910
OTHER INCOME (EXPENSES):		
Interest income and dividend income	51,854	432,842
Interest expenses	(419,015)	(3,497,622)
Foreign exchange loss, net (Note 1(g))	(160,966)	(1,343,624)
Equity in earnings of affiliates	80,636	673,086
Depreciation of unused property and equipment	(201,659)	(1,683,301)
Insurance received for prior year repair costs	381,818	3,187,129
Other, net	(3,622)	(30,231)
Total other expenses	(270,954)	(2,261,721)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,877,528	15,672,189
INCOME TAXES (Note 1(m) and 3):		
Current	1,017,810	8,495,910
Deferred	(393,796)	(3,287,111)
INCOME BEFORE MINORITY INTERESTS	1,253,514	10,463,390
MINORITY INTERESTS	247,933	2,069,563
NET INCOME	1,005,581	8,393,827
RETAINED EARNINGS, beginning of year	3,822,247	31,905,238
CASH DIVIDENDS PAID	(192,877)	(1,609,996)
PAYMENT OF DIRECTORS’ BONUSES	(10,000)	(83,472)
RETAINED EARNINGS, end of year	¥ 4,624,951	$38,605,597

	Yen	U.S. dollars (Note 1(a))
Net income per share (Note 2)	¥39.10	$0.33

The accompanying notes are an integral part of this statement.

MODEC, INC. and Its Consolidated Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

(a) Basis of Presenting Consolidated Financial Statements

MODEC, INC. (the "Company") maintains its official accounting records in accordance with the provisions set forth in the Japanese Commercial Code in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of its consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in respect as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate as of June 30, 2003, which was ¥119.80 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the 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, except that buildings, acquired after March 31, 1998, are depreciated using the straight-line method. 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 the their lease term or their economic useful lives. Depreciation of property and equipment except FPSO and FSO of the overseas subsidiaries is calculated by using the straight-line method based on their useful lives.

(e) Intangible Assets

Amortization of intangible assets of the Company is calculated by using the straight-line method based on their useful lives and residual value prescribed by the Japanese corporation tax laws and regulation. Software costs are amortized using the straight-line method over the estimated useful life (5years). Goodwill of the overseas subsidiary is amortized using the straight-line method based on the term of an agreement.

(f) 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.

(g) 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.

(h) 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.

(i) Provision for Product Warranty

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

(j) 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.

(k) Severance and Retirement Benefits for Directors and Statutory Corporate Auditors

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

(l) 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. The subsidiary at U.S.A. recognizes all sales revenue by the percentage of completion method.

(m) 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.

(n) Unrealized Profits or Losses

In fiscal 2003, the Company changed the accounting policy for unrealized profits or losses, which arose when the Company sold inventories or property and equipment to affiliated companies. Prior to fiscal 2003, such unrealized profits or losses were presented in equity in earnings of affiliates. In fiscal 2003, such unrealized profits or losses are presented in cost of sales. This change is made due to the increase of the amount of such unrealized profits or losses.

As a result of this change, gross profit and operating profit increased by ¥492,436 thousand ($4,110,484), respectively.

2. 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.

Net income per share is calculated based on the weighted average number of shares of common stock outstanding during for 6 months.

3. DEFERRED TAXES

Due to a change in local tax law, effective January 1, 2005, the normal statutory tax rate will be reduced from approximately 42% to approximately 41% and revised rate has been used in calculating the expected tax effect in fiscal 2005 and after. As a result of this change, deferred tax liabilities (long-term) decreased by ¥404 thousand ($3,375) and provision for deferred income taxes and net unrealized holding gains on securities increased by ¥1,382 thousand ($11,536) and ¥1,786 thousand ($14,911), respectively.

4. SUBSEQUENT EVENT

On July 2, 2003, the Company was listed on Tokyo Stock Exchange following the approval of Tokyo Stock Exchange on May 28, 2003. On May 28 and June 11, 2003, resolutions were made at a Board of Directors' meeting that the Company issued and offered 3,300,000 new shares of common stock. Payment to the Company following the public offering finished on July 1, 2003.

Apart from the above, the Company issued 975,000 additional shares to the third party through the overallotment by an underwriter following a resolution made by a Board of Directors' meeting on June 11, 2003. Payment to the Company following the stock issuing finished on July 29, 2003.

As a result, on July 2, 2003, the number of stock issued by the Company and the amount of common stock increased to 29,017,000 and ¥4,311,125 thousand ($35,986,018), respectively and also on July 30, 2003, the number of stock issued by the Company and the amount of common stock increased to 29,992,000 and ¥4,659,200 thousand ($38,891,486), respectively.