MODEC, INC. and Subsidiaries

Consolidated Financial Statements

As of December 31, 2003 and 2002

MODEC, INC. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002

ASSETS

	Thousands of Japanese yen		Thousands of U.S. dollars
	2003	2002	2003
CURRENT ASSETS:			
Cash and time deposits	¥12,264,061	¥ 6,852,903	$114,468
Accounts receivable - trade	15,326,103	11,646,509	143,047
Inventories (Note 3)	1,924,492	91,199	17,962
Short-term loans receivable	8,945,744	291,019	83,496
Short-term lease receivables	1,542,278	1,493,870	14,395
Deferred tax assets (Note 12)	34,922	202,244	326
Other current assets	2,747,966	1,022,506	25,649
Less- Allowance for bad debts	(3,291)	(20)	(31)
Total current assets	42,782,275	21,600,230	399,312
PROPERTY AND EQUIPMENT:			
Buildings and equipment	702,672	80,614	6,559
Vessel (Notes 6 and 7)	18,160,121	20,590,068	169,499
Less- Accumulated depreciation	(14,185,220)	(13,927,100)	(132,399)
	4,677,573	6,743,582	43,659
INTANGIBLE ASSETS (Note 5)	994,620	9,777	9,283
OTHER ASSETS:			
Investments securities (Note 4)	2,492,457	581,326	23,264
Long-term loans receivable	–	656,804	–
Long-term lease receivables	8,256,419	11,082,422	77,062
Deferred tax assets (Note 12)	701,150	594,134	6,544
Other investments	363,267	328,745	3,390
Less- Allowance for bad debts	(5,300)	(1,300)	(49)
	11,807,993	13,242,131	110,211
Total assets	¥60,262,461	¥41,595,720	$562,465

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of Japanese yen		Thousands of U.S. dollars
	2003	2002	2003
CURRENT LIABILITIES:			
Accounts payable - trade	¥11,329,727	¥ 2,373,207	$105,747
Short-term loans payable (Note 8)	8,529,839	4,660,510	79,614
Current portion of long-term loans payable (Notes 6 and 8)	3,314,132	5,683,648	30,933
Accrued expenses	848,733	1,133,914	7,922
Income taxes payable (Note 12)	313,646	665,122	2,927
Accrued employees' bonuses	38,406	39,080	358
Provision for product warranty	24,314	47,576	227
Deferred tax liabilities (Note 12)	248,444	205,707	2,319
Other current liabilities	1,575,589	418,203	14,706
Total current liabilities	26,222,830	15,226,967	244,753
LONG-TERM LIABILITIES:			
Long-term loans payable (Note 8)	13,897,864	14,305,965	129,717
Severance and retirement benefits			
For employees (Note 10)	95,859	84,322	895
For directors and corporate auditors	50,424	22,443	471
Deferred tax liabilities (Note 12)	1,676,032	1,551,638	15,643
Other long-term liabilities	510,322	85,250	4,763
Total long-term liabilities	16,230,501	16,049,618	151,489
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	2,627,104	715,132	24,520
CONTINGENT LIABILITIES (Note 13)			
SHAREHOLDERS' EQUITY (Note 9):			
Common stock; Authorized – 102,868,000 shares Outstanding – 29,992,000 shares and 25,717,000 shares at December 31, 2003 and 2002, respectively	4,659,200	3,133,025	43,487
Capital surplus	5,175,350	2,683,025	48,305
Retained earnings	5,648,661	3,822,247	52,722
Net unrealized holding gains on securities	337,398	33,755	3,149
Foreign currency translation adjustments	(638,583)	(68,049)	(5,960)
	15,182,026	9,604,003	141,703
Total liabilities and shareholders' equity	¥60,262,461	¥41,595,720	$562,465

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2003 and 2002

	Thousands of Japanese yen		Thousands of U.S. dollars
	2003	2002	2003
SALES	¥66,751,630	¥31,436,191	$623,032
COST OF SALES (Notes 2 and 11)	59,062,170	25,051,641	551,262
Gross profit	7,689,460	6,384,550	71,770
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,541,508	1,329,527	33,055
Operating profit	4,147,952	5,055,023	38,715
OTHER INCOME (EXPENSES):			
Interest income and dividend income	192,944	122,613	1,801
Interest expense	(652,810)	(1,212,425)	(6,093)
Foreign exchange loss, net	(226,608)	(15,868)	(2,115)
Equity in earnings of affiliates (Note 2)	148,154	53,137	1,383
Depreciation of idle assets	(366,598)	(57,411)	(3,422)
Recovery of repair costs	369,379	320,986	3,448
Gain from forgiveness of debt	361,766	—	3,377
Other, net	(52,052)	(9,661)	(487)
Total other income	(225,825)	(798,629)	(2,108)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	3,922,127	4,256,394	36,607
INCOME TAXES (Note 12):			
Current	1,037,771	1,477,188	9,686
Adjustment to prior years	(191,976)	903,357	(1,792)
Deferred	197,769	(45,100)	1,846
INCOME BEFORE MINORITY INTERESTS	2,878,563	1,920,949	26,867
MINORITY INTERESTS	849,272	224,619	7,926
NET INCOME	¥ 2,029,291	¥ 1,696,330	$ 18,941

	Japanese yen		U.S. dollars
Net income per share (Note 9)	¥72.67	¥65.57	$0.68
Diluted net income per share (Note 9)	¥70.54	—	$0.66
Dividends per share	¥7.50	¥7.50	$0.07

The accompanying notes are an integral part of these statements.

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2003 and 2002

	Shares	
	2003	2002
SHARES OF COMMON STOCK		
Beginning balance	25,717,000	25,717
Issuance of new shares	4,275,000	–
1,000-for-1 share splits	–	25,691,283
Ending balance	29,992,000	25,717,000

	Thousands of Japanese yen		Thousands of U.S. dollars
	2003	2002	2003
COMMON STOCK			
Beginning balance	¥3,133,025	¥3,133,025	$29,242
Issuance of new shares	1,526,175	–	14,245
Ending balance	¥4,659,200	¥3,133,025	$43,487
CAPITAL SURPLUS			
Beginning balance	¥2,683,025	¥2,683,025	$25,042
Issuance of new shares	2,492,325	–	23,263
Ending balance	¥5,175,350	¥2,683,025	$48,305
RETAINED EARNINGS			
Beginning balance	¥3,822,247	¥2,305,680	$35,675
Net income	2,029,291	1,696,330	18,941
Cash dividends paid	(192,877)	(179,763)	(1,800)
Bonuses paid to directors	(10,000)	–	(94)
Ending balance	¥5,648,661	¥3,822,247	$52,722
NET UNREALIZED HOLDING GAINS ON SECURITIES			
Beginning balance	¥ 33,755	¥ 2,681	$ 315
Change for the year	303,643	31,074	2,834
Ending balance	¥337,398	¥33,755	$3,149
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS			
Beginning balance	¥(68,049)	¥140,919	$ (635)
Change for the year	(570,534)	(208,968)	(5,325)
Ending balance	¥(638,583)	¥(68,049)	$(5,960)

The accompanying notes are an integral part of these statements.

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003 and 2002

	Thousands of Japanese yen		Thousands of U.S. dollars
	2003	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 3,922,127	¥ 4,256,394	$ 36,607
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,834,224	3,531,147	17,120
Amortization of consolidated difference	13,243	–	124
Provision for (reversal of) allowance for bad debts	7,271	(67)	68
Provision for severance and retirement benefits for employees	11,537	2,257	108
Provision for (reversal of) severance and retirement benefits for directors and corporate auditors	27,981	(7,897)	261
Provision for (reversal of) product warranty	(23,262)	(8,748)	(217)
Interest income and dividend income	(192,944)	(122,613)	(1,801)
Interest expense	652,810	1,212,425	6,093
Foreign exchange loss (gain)	(678,529)	78,646	(6,333)
Equity in earnings of affiliates	(148,154)	(53,137)	(1,383)
Prior year refund repair costs	(369,379)	(320,986)	(3,448)
Gain from forgiveness of debt	(361,766)	–	(3,377)
Changes in assets and liabilities:			
Decrease (Increase) in			
Accounts receivable - trade	(1,255,353)	(8,118,457)	(11,717)
Inventories	9,786,718	95,131	91,345
Consumption taxes refund receivable	(32,206)	116,122	(301)
Increase (Decrease) in			
Accounts payable - trade	(6,345,820)	1,836,902	(59,229)
Bonuses paid to directors	(10,000)	–	(94)
Other, net	369,617	(114,081)	3,452
	7,208,115	2,383,038	67,278
Interest and dividend received	152,223	145,259	1,421
Interest paid	(681,724)	(1,288,698)	(6,363)
Prior year refund repair costs received	286,707	–	2,676
Income taxes paid	(1,513,215)	(3,032,670)	(14,124)
Net cash provided by (used in) operating activities	5,452,106	(1,793,071)	50,888

	Thousands of Japanese yen		Thousands of U.S. dollars
	2003	2002	2003
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment and intangible assets	¥ (301,569)	¥ (19,536)	$ (2,815)
Purchases of investment securities	(149,995)	(129,615)	(1,400)
Purchases of investments in affiliates	(1,290,929)	(2,419)	(12,049)
Disbursement of long-term loans receivable	(8,356,919)	–	(78,001)
Collection of long-term loans receivable	1,890,655	370,582	17,647
Purchases of investments in subsidiaries	(420,550)	–	(3,925)
Net cash provided by (used in) investing activities	(8,629,307)	219,012	(80,543)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term loans payable	40,545,136	4,660,510	378,431
Repayment of short-term loans payable	(36,386,302)	–	(339,615)
Proceeds from long-term loans payable	6,902,207	543,216	64,422
Repayment of long-term loans payable	(7,545,044)	(6,298,024)	(70,422)
Issuance of shares	4,018,500	–	37,507
Cash dividends paid to minority interests	(192,877)	(179,763)	(1,800)
Cash dividends paid	(51,427)	–	(480)
Net cash provided by (used in) financing activities	7,290,193	(1,274,061)	68,043
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(84,265)	(462,876)	(786)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,028,727	(3,310,996)	37,602
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,852,903	10,163,899	63,962
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO ADDITIONAL CONSOLIDATED SUBSIDIARIES	2,914,087	–	27,199
CASH AND CASH EQUIVALENTS AT ENDING OF YEAR	¥13,795,717	¥ 6,852,903	$128,763

The accompanying notes are an integral part of these statements.

MODEC, Inc. and 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 accounts and 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 Financial Reporting Standards and standards in other countries in certain respects 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 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 from the accounts and records maintained by the Company and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

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 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 December 31, 2003, which was ¥107.14 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 and Equity Method

The accompanying consolidated financial statements include the accounts of the Company and 13 of its subsidiaries for the year ended December 31, 2003 and 8 of its subsidiaries for the year ended December 31, 2002. Material inter-company balances, transactions and profits have been eliminated in consolidation.

Investments in significant unconsolidated subsidiaries and affiliates, which were 5 companies for the year ended December 31, 2003 and 6 companies for the year ended December 31, 2002, were accounted for by using the equity method.

The consolidated financial statements are required to include the accounts of the Company and significant companies that are controlled by the Company through substantial ownership of more than 50% of the voting rights or through ownership of a high percentage of the voting rights, even if it is equal to or less than 50%, and existence of certain conditions evidencing control by the Company of decision-making bodies of such companies.

Investments in significant unconsolidated subsidiaries and affiliates, of which the Company has ownership of 20% or more but less than or equal to 50%, and of 15% or more and less than 20% and can exercise significant influences over operating financial policies of investees, have been accounted for by the equity method.

All consolidated subsidiaries have the same balance sheet date, December 31, corresponding with that of the Company.

(c) Valuation of Assets and Liabilities of Subsidiaries

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.

(d) Consolidated Differences

The differences between cost and net assets acquired of consolidated subsidiaries and affiliated companies which are accounted for by using the equity method are recognized as consolidated differences and amortized using the straight-line method over estimated useful lives, except that these differences recognized in a consolidated subsidiary in the U.S.A. are treated in accordance with U.S. GAAP.

(e) Securities

In accordance with the Japanese accounting standard for financial instruments, all companies required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, “trading securities”), (b) debt securities intended to be held to maturity (hereafter, “held-to-maturity debt securities”), (c) equity securities issued by unconsolidated subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, “available-for-sale securities”).

Based on the examination of the intent of holding, the Company classifies its securities as equity securities issued by unconsolidated subsidiaries and affiliated companies and available-for-sale securities. Available-for-sale securities maturing within one year from the balance sheet date are included in current assets. Other securities are included in investments securities. The Company does not have trading securities or held-to-maturity debt securities.

Equity securities issued by unconsolidated subsidiaries and affiliated companies that are not accounted for by equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value as of balance sheet dates. Unrealized gains and 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. Available-for-sale securities without available fair market values are stated at moving-average cost.

(f) Inventories

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

(g) Property and Equipment

Property and equipment are carried substantially at cost. Depreciation of Floating Production Storage & Offloading (“FPSO”) and Floating Storage & Offloading (“FSO”), owned by the consolidated 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 other than FPSO and FSO is calculated as follows. The Company depreciates property and equipment 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. Consolidated overseas subsidiaries depreciate property and equipment using the straight-line method based on their useful lives.

(h) Intangible Assets

The Company amortizes intangible assets using the straight-line method based on their useful lives and residual value prescribed by the Japanese corporation tax laws and regulation and amortizes software costs using the straight-line method over the estimated useful life (5 years).

Goodwill of a consolidated overseas subsidiary is amortized using the straight-line method based on the terms of an agreement.

(i) Allowance for Bad Debts

The Company provides for a sufficient allowance for bad debts to cover probable losses on collection by estimating uncollectable amounts individually in addition to amounts for possible losses based on actual losses on collection in the past.

(j) Accrued Employees' Bonuses

The Company accrues employees' bonuses based on the estimated amounts to be paid in the subsequent period.

(k) Provision for Product Warranty

Provision for product warranty is provided based on the estimated amounts for covering the probable product warranties.

(l) Severance and Retirement Benefits for Employees

The Company has an unfunded lump-sum severance and retirement payment plan for employees. Under the plan, employees whose employment is terminated or who retire are entitled to benefits which are, in general, determined on the basis of length of service and current basic salary at the time of termination or retirement. If the termination is involuntary, the employees are generally entitled to larger benefits than in the case of voluntary termination or retirement.

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

(m) Severance and Retirement Benefits for Directors and Corporate Auditors

Subject to shareholders' approval, directors and corporate auditors customarily receive lump-sum payments upon retirement under an unfunded retirement allowances plan.

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

(n) Translation of Foreign Currency Accounts

Foreign currency transactions are translated into Japanese yen using the exchange rate in effect at the time of each transaction or at the applicable exchange rates under forward exchange contracts.

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.

(o) Finance Lease Transactions without Transfer of Ownership

Finance lease transactions, other than those that transfer ownership of the leased property to the lessee, are accounted for in the same way as operating lease transactions.

(p) Derivative Transactions and Hedge Accounting

Derivative financial instruments of the Company are stated at fair value and gains or losses are recognized for changes in the fair value unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner.

1) If a forward foreign exchange contract is executed to hedge existing foreign currency receivables or payables,
   a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and

b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Some consolidated overseas subsidiaries adopt hedge accounting in accordance with U.S.GAAP.

(q) Revenue Recognition

The Company recognizes revenues on contracts 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 in which cases the percentage of completion method is used.

The U.S.A. consolidated subsidiary recognizes revenues on all contracts by the percentage of completion method.

(r) Income Taxes

The Company provides income taxes at the amounts currently payable based on taxable income for tax purposes that may be different from income for the accounting 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.

(s) Cash Flow Statement

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits, readily available short-term loans receivable based on the agreement and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2003 and 2002, were as follows:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Cash and time deposits	¥12,264,061	¥6,852,903	$114,468
Cash equivalents included in short-term loans receivable	1,531,656	–	14,295
Cash and cash equivalents	¥13,795,717	¥6,852,903	$128,763

(t) Reclassifications

Certain reclassifications have been made to previously reported fiscal 2002 amounts to conform to fiscal 2003 presentation. These reclassifications had no effect on previously reported net income or total shareholders' equity.

2. Change in Accounting Policy

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 each decreased by ¥460,441 thousand ($4,298 thousand).

3. Inventories

Inventories as of December 31, 2003 and 2002, consisted of the following:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Costs of uncompleted contracts	¥1,924,492	¥91,199	$17,962
	¥1,924,492	¥91,199	$17,962

4. Marketable Securities and Investment Securities

(a) The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of December 31, 2003 and 2002:

	Thousands of Japanese Yen		
2003 :	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥310,587	¥882,448	¥571,861
Total	¥310,587	¥882,448	¥571,861

	Thousands of Japanese Yen		
2002 :	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥129,615	¥198,790	¥69,175
Total	¥129,615	¥198,790	¥69,175
Other securities:			
Equity securities	¥130,977	¥120,000	¥(10,977)
Total	¥130,977	¥120,000	¥(10,977)

	Thousands of U.S. dollars		
2003 :	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	$2,898	$8,236	$5,338
Total	$2,898	$8,236	$5,338

(b) The following table summarizes book values of securities with no available fair values as of December 31, 2003 and 2002:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Available-for-sale securities:			
Unlisted equity securities	¥100,000	―	$933
Investments in non-consolidated subsidiaries and affiliates:	1,510,008	¥236,536	14,094
Total	¥1,610,008	¥236,536	$15,027

5. Consolidated Differences

Consolidated differences included in intangible assets as of December 31, 2003 and 2002 were ¥553,152 thousand ($5,163 thousand) and ¥ ― thousand, respectively.

6. Pledged Assets

Assets pledged as collateral for loans payable as of December 31, 2003 and 2002, were as follows:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Vessel	–	¥1,448,351	–
	–	¥1,448,351	–

Loans payable secured by the above pledged assets as of December 31, 2003 and 2002, were as follows:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Current portion of long-term loans payable	–	¥875,261	–
	–	¥875,261	–

7. Idle Assets

Book value of fixed assets which are not used by the Company and its consolidated subsidiaries included in vessel as of December 31, 2003 and 2002, were ¥3,117,100 thousand ($29,094 thousand) and ¥2,666,247 thousand, respectively.

8. Loans Payable

Short-term loans payable represent notes payable to banks due generally in twelve months and bearing an average interest rate of 2.2% and 2.7% as of December 31, 2003 and 2002, respectively.

Long-term loans payable as of December 31, 2003 and 2002, are summarized below:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Loans from banks and others, at average rate of 1.6% due through 2008	¥17,211,996	¥19,989,613	$160,650
Less: Current portion included in current liabilities	(3,314,132)	(5,683,648)	(30,933)
	¥13,897,864	¥14,305,965	$129,717

The aggregate annual maturities of long-term loans payable are summarized below:

Year ended December 31,	Thousands of Japanese Yen	Thousands of U.S. dollars
2004	¥ 3,314,132	$ 30,933
2005	7,694,779	71,820
2006	1,964,412	18,335
2007	2,065,981	19,283
2008 and thereafter	2,172,692	20,279
	¥17,211,996	$160,650

9. Shareholders' Equity and Per Share Data

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of

Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code.

The Company issued 3,300,000 and 975,000 shares of common stock to the third party on July 2, 2003 and July 30, 2003, respectively. Consequently, common stock increased from ¥3,133,025 thousand to ¥4,659,200 thousand ($43,487 thousand), and additional paid-in capital increased from ¥2,683,025 thousand to ¥5,175,350 thousand ($48,305 thousand).

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

Effective January 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Legal Reserves", issued by Accounting Standards Board of Japan on February 21, 2002). The adoption of the new accounting standard had no impact on the financial statements.

10. Severance and Retirement Benefits for Employees

The Company has an unfunded lump-sum severance and retirement payment plan for employees. In accordance with the Japanese accounting standard for employees' severance and pension benefits, a "simpler method" can be adopted to calculate severance and retirements benefits employees if the number of employees is less than 300. Therefore the Company adopts the "simpler method", and records severance and retirement benefits for employees at the amounts payable if all employees voluntarily terminated their employment at the balance sheet date. None of the consolidated subsidiaries have any termination and retirement allowances plan for employees.

The severance and retirement benefits for employees included in the liability section of the consolidated balance sheets as of December 31, 2003 and 2002 consisted of the following:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥95,859	¥84,322	$895
Severance and retirement benefits for employees	¥95,859	¥84,322	$895

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended December 31, 2003 and 2002, were comprised of the following:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Service costs – benefits earned during the year	¥26,816	¥20,169	$250
Severance and retirement benefit expenses	¥26,816	¥20,169	$250

All the severance and retirement benefit expenses are included in "service costs – benefits earned during the year" because the Company adopts the simpler method.

11. Research and Development Costs

Costs relating to research and development activities charged to income for the years ended December 31, 2003 and 2002 are ¥12,316 thousand ($115 thousand) and ¥ − thousand, respectively.

12. Income Taxes

The aggregate statutory income tax rate will be reduced for the years commencing on January 1, 2005 or later due to the revised local tax law. At December 31, 2003, the Company applied the reduced aggregate statutory income tax rate of 41% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on January 1, 2005 or later. As a result of this change, net unrealized holding gains on investment securities increased by ¥5,719 thousand ($53 thousand), deferred tax liabilities decreased by ¥4,011 thousand ($37 thousand) and the amount of provision for deferred income taxes increased by ¥1,708 thousand ($16 thousand).

The following table summarizes the significant differences between the statutory tax rate and the Company and its consolidated subsidiaries' effective tax rate for financial statement purposes for the years ended December 31, 2003 and 2002:

	2003	2002

	2003	2002
Statutory tax rate	42.0%	42.0%
Non-deductible expenses for tax purposes	0.4	0.3
Additional payment or refund based on tax examination	(3.4)	20.4
Taxation on revenue basis of foreign subsidiaries	4.2	8.6
Deductible expenses excluded from accounting purposes	(5.2)	(8.0)
Effect of tax rate change	(1.3)	(1.8)
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(6.8)	(7.2)
Tax loss carry forward	2.7	2.8
Equity in earning of affiliates	(1.6)	(1.5)
Credit for foreign taxes	(3.1)	–
Others	(1.2)	(0.7)
Effective tax rate	26.7%	54.9%

Significant components of deferred tax assets and liabilities as of December 31, 2003 and 2002, were as follows:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Current assets:			
Enterprise tax payable	¥27,618	¥36,814	$258
Accrued employees' bonuses	13,442	10,942	125
Credit for foreign taxes	32,385	—	302
Foreign exchange losses	35,982	—	336
Unrealized inter-company profits on inventories	—	114,396	—
Provision for product warranty	—	19,982	—
Others	21,822	20,110	204
Sub total	131,249	202,244	1,225
Offset to deferred tax liabilities (short-term)	(96,327)	—	(899)
Total	34,922	202,244	326
Fixed assets:			
Unrealized inter-company profit on fixed assets	492,009	425,648	4,592
Tax loss carry forward	354,139	418,563	3,305
Depreciation	209,141	139,269	1,952
Asset tax in Mexico	41,852	256,646	391
Severance and retirement benefits for employees	32,768	25,853	306
Undistributed profits in a tax haven	—	45,247	—
Others	45,878	84,995	428
Sub total	1,175,787	1,396,221	10,974

Valuation allowance	(392,956)	(720,456)	(3,668)
Offset to deferred tax liabilities (long-term)	(81,681)	(81,631)	(762)
Total	701,150	594,134	6,544
Total deferred tax assets	¥736,072	¥796,378	$6,870
Deferred tax liabilities:			
Current liabilities:			
Reduction of tax rate in foreign subsidiaries	¥ (104,105)	¥ (125,461)	$ (972)
Refund repair costs	(144,339)	—	(1,347)
Others	(96,327)	(80,246)	(899)
Sub total	(344,771)	(205,707)	(3,218)
Offset to deferred tax assets (short-term)	96,327	—	899
Total	(248,444)	(205,707)	(2,319)
Long-term liabilities:			
Finance lease	(1,203,821)	(1,350,840)	(11,236)
Depreciation	(211,953)	(254,227)	(1,978)
Net unrealized holding gains on securities	(234,463)	(24,443)	(2,188)
Gain from forgiveness of debt	(92,068)	—	(859)
Others	(15,408)	(3,759)	(144)
Sub total	(1,757,713)	(1,633,269)	(16,405)
Offset to deferred tax assets (long-term)	81,681	81,631	762
Total	(1,676,032)	(1,551,638)	(15,643)
Total deferred tax liabilities	(1,924,476)	(1,757,345)	(17,962)
Net deferred tax liabilities	¥(1,188,404)	¥(960,967)	$(11,092)

13. Contingent Liabilities

As of December 31, 2003 and 2002, the Company was contingently liable for the following:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Guarantees of bank loans and other indebtedness	¥5,264,609	¥3,358,424	$49,138

14. Leases

(a) As Lessee

i) Information on a "as if capitalized" basis of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation equivalent of finance leases that do not transfer ownership of the leased property to the lessee for the years ended December 31, 2003 and 2002, were as follows:

	Thousands of Japanese Yen	
2003:	Buildings and equipment	Total
Acquisition cost	¥15,700	¥15,700
Accumulated depreciation	(6,597)	(6,597)
Net leased property	¥ 9,103	¥ 9,103

	Thousands of Japanese Yen	
2002:	Buildings and equipment	Total
Acquisition cost	¥6,000	¥6,000
Accumulated depreciation	(2,167)	(2,167)
Net leased property	¥3,833	¥3,833

	Thousands of U.S. dollars	
2003:	Buildings and equipment	Total
Acquisition cost	$147	$147
Accumulated depreciation	(62)	(62)
Net leased property	$ 85	$ 85

ii) Obligations under finance leases:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 5,083	¥2,171	$48
Due after one year	4,942	1,990	46
Total	¥10,025	¥4,161	$94

iii) Annual lease payments and depreciation equivalent:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Annual lease payments	¥4,830	¥2,171	$45
Depreciation equivalent	4,430	2,000	41
Interest expense equivalent	556	272	5

Depreciation equivalent is computed by a straight-line method over the lease period with no residual value. The difference between total lease payments and acquisition costs under finance leases is recognized as interest expense equivalent, which is allocated to relevant accounting period based on the interest method.

(b) As Lessor

Future lease receivables from operating lease transactions as of December 31, 2003 and 2002, were as follows:

	Thousands of Japanese Yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥921,444	¥2,414,082	$8,600
Due after one year	–	83,661	–
Total	¥921,444	¥2,497,743	$8,600

15. Derivative Transactions of the Company and its Consolidated Subsidiaries

The Company and its consolidated subsidiaries utilize forward foreign currency contracts in order to hedge currency fluctuation risks arising from export of products in addition to hedging through increases in overseas production and overseas procurement of materials.

The Company and its consolidated subsidiaries also utilize interest rate swaps as derivative transactions in order to hedge interest rate risks of bonds and loans payable.

As the derivative transactions are made solely with leading financial institutions, the Company and its consolidated subsidiaries do not expect any credit risks.

The Company follows its internal regulations for derivatives, which stipulates the policy, objective, scope, organization, procedures, and financial institutions to deal with, and has a reporting system for derivative transactions reflecting proper internal control functions.

The following summarizes hedging derivative financial instruments used and items hedged:

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency receivables and payables including future transactions
Currency swap contracts	Foreign currency receivables and payables
Interest rate swap contracts	Foreign currency bonds and loans payable

The Company evaluates hedge effectiveness on a semi-annual basis by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items with the corresponding changes in the hedging derivative instruments.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Some consolidated overseas subsidiaries adopt hedge accounting in accordance with U.S.GAAP.

The following tables summarize market value information as of December 31, 2003 of derivative transactions for which hedge accounting has not been applied:

	Thousands of Japanese Yen			
	Notional amount			
2003:	Total	Due after one year	Market value	Unrealized gain (loss)
Currency related derivatives:				
Forward contracts:				
To sell U.S. dollars	¥5,917,624	–	¥5,740,797	¥176,827
				¥176,827

	Thousands of U.S. dollars			
	Notional amount			
2003:	Total	Due after one year	Market value	Unrealized gain (loss)
Currency related derivatives:				
Forward contracts:				
To sell U.S. dollars	$55,232	–	$53,582	$1,650
				$1,650

Market value information as of December 31, 2002 was not disclosed because hedge accounting was applied to all derivative transactions.

16. Segment Information

Industry segment information as of December 31, 2003 and 2002, were not disclosed because the Company and its consolidated subsidiaries operate a single business relevant to floating production facilities.

Geographical segment information by area for the years ended December 31, 2003 and 2002, were as follows:

	Thousands of Japanese Yen							
2003:	Japan	Asia	Central and South America	North America	Others	Total	Corporate and Elimination	Consolidated
Sales:								
Outside customers	¥37,973,915	¥4,912,869	¥ 2,731,715	¥21,133,131	–	¥66,751,630	–	¥66,751,630
Inter segment	1,513,265	17,011	–	3,189,017	–	4,719,293	¥ (4,719,293)	–
Total	39,487,180	4,929,880	2,731,715	24,322,148	–	71,470,923	(4,719,293)	66,751,630
Operating expenses	38,356,812	4,393,246	1,188,883	23,782,930	–	67,721,871	(5,118,193)	62,603,678
Operating profit	¥ 1,130,368	¥536,634	¥ 1,542,832	¥ 539,218	–	¥ 3,749,052	¥ 398,900	¥4,147,952
Assets	¥37,286,454	¥8,054,915	¥13,838,357	¥12,236,840	¥5,195	¥71,421,761	¥(11,159,300)	¥60,262,461

	Thousands of Japanese Yen							
2002:	Japan	Asia	Central and South America	North America	Others	Total	Corporate and Elimination	Consolidated
Sales:								
Outside customers	¥20,004,690	¥ 8,161,412	¥ 3,270,089	–	–	¥31,436,191	–	¥31,436,191
Inter segment	913,717	–	–	–	–	913,717	¥ (913,717)	–
Total	20,918,407	8,161,412	3,270,089	–	–	32,349,908	(913,717)	31,436,191
Operating expenses	19,811,491	6,188,694	1,310,772	¥ 74,821	–	27,385,778	(1,004,610)	26,381,168
Operating profit	¥ 1,106,916	¥ 1,972,718	¥ 1,959,317	¥ (74,821)	–	¥ 4,964,130	¥90,893	¥ 5,055,023
Assets	¥16,484,191	¥10,452,514	¥15,876,365	¥1,342,624	¥5,937	¥44,161,631	¥(2,565,911)	¥41,595,720

	Thousands of U.S. dollars							
2003:	Japan	Asia	Central and South America	North America	Others	Total	Corporate and Elimination	Consolidated
Sales:								
Outside customers	$354,433	$45,854	$ 25,497	$197,248	–	$623,032	–	$623,032
Inter segment	14,124	159	–	29,765	–	44,048	$ (44,048)	–
Total	368,557	46,013	25,497	227,013	–	667,080	(44,048)	623,032
Operating expenses	358,007	41,004	11,097	221,980	–	632,088	(47,771)	584,317
Operating profit	$ 10,550	$ 5,009	$14,400	$ 5,033	–	$34,992	$3,723	$ 38,715
Assets	$348,016	$75,181	$129,161	$114,214	$49	$666,621	$(104,156)	$562,465

North America, which was included in Others during fiscal 2002, is separately presented in fiscal 2003. This change was made because sales of North America exceeded 10% of consolidated sales following Modec International L.L.C. becoming a consolidated subsidiary of the Company in fiscal 2003. The above industry segment information of fiscal 2002 was restated based on the new classification.

As a result of the change in accounting policy for Unrealized Profits or Losses as explained in Note 2 for the year ended December 31, 2003, operating profit for Japan and North America was decreased by ¥261,457 thousand ($2,441 thousand) and ¥198,984 thousand ($1,857 thousand), respectively.

The overseas sales of the Company and its consolidated subsidiaries for the years ended December 31, 2003 and 2002, consisted of the following:

	Thousands of Japanese Yen					
2003:	Asia	Africa	Oceania	Central and South America	North America	Total
Overseas sales	¥16,742,196	¥21,873,837	¥8,674,662	¥13,546,739	¥5,659,535	¥66,496,969
Consolidated sales						¥66,751,630
The ratio of consolidated sales	25.1%	32.7%	13.0%	20.3%	8.5%	99.6%

	Thousands of Japanese Yen					
2002:	Asia	Africa	Oceania	Central and South America	North America	Total
Overseas sales	¥15,888,502	¥7,356,336	¥3,992,424	¥3,270,089	¥584,308	¥31,091,659
Consolidated sales						¥31,436,191
The ratio of consolidated sales	50.5%	23.4%	12.7%	10.4%	1.9%	98.9%

	Thousands of U.S. dollars					
2003:	Asia	Africa	Oceania	Central and South America	North America	Total
Overseas net sales	$156,265	$204,160	$80,966	$126,440	$52,824	$620,655
Consolidated sales						$623,032
The ratio of consolidated sales	25.1%	32.7%	13.0%	20.3%	8.5%	99.6%