MODEC, INC. and Subsidiaries

CONSOLIDATED BALANCE SHEET

June 30, 2005

A S S E T S

	Thousand of Japanese yen	Thousand of U.S. dollars
CURRENT ASSETS:		
Cash and time deposits	¥ 10,529,955	$ 95,182
Accounts receivable – trade	12,063,379	109,043
Inventories	498,961	4,510
Short-term loans receivable	10,821,157	97,814
Other current assets	3,871,234	34,992
Less- Allowance for bad debts	(30,738)	(278)
Total current assets	37,753,948	341,263
PROPERTY AND EQUIPMENT:		
Vessel	5,256,162	47,511
Buildings and equipment	440,414	3,981
Construction in progress	1,622,122	14,663
	7,318,698	66,155
INTANGIBLE ASSETS	5,350,549	48,364
OTHER ASSETS:		
Investments securities	5,309,620	47,994
Long-term lease receivable	5,840,172	52,790
Other investments	4,244,704	38,369
Less- Allowance for bad debts	(6,400)	(58)
	15,388,096	139,095
Total assets	¥65,811,291	$594,877

The accompanying notes are an integral part of this balance sheet.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousand of Japanese yen	Thousand of U.S. dollars
CURRENT LIABILITIES:		
Accounts payable – trade	¥ 6,447,654	$ 58,281
Short-term loans payable	16,335,962	147,663
Current portion of long-term loans payable	2,784,668	25,171
Accrued expenses	899,561	8,131
Income taxes payable	375,253	3,392
Other current liabilities	4,078,427	36,866
Total current liabilities	30,921,525	279,504
LONG-TERM LIABILITIES:		
Long-term loans payable	7,023,124	63,483
Severance and retirement benefits		
For employees	112,639	1,018
For directors and corporate auditors	92,618	837
Deferred tax liabilities	1,426,226	12,892
Other long-term liabilities	77,441	700
Total long-term liabilities	8,732,048	78,930
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	1,699,935	15,366
SHAREHOLDERS' EQUITY :		
Common stock;		
authorized – 102,868,000 shares		
outstanding – 34,008,000 shares	7,159,000	64,711
Capital surplus	7,675,150	69,377
Retained earnings	8,892,161	80,377
Net unrealized holding gains on securities	643,245	5,814
Foreign currency translation adjustments	88,612	801
Less- Treasury stock at cost	(385)	(3)
	24,457,783	221,077
Total liabilities, minority interests and shareholders' equity	¥65,811,291	$594,877

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For 6 months ended June 30, 2005

	Thousand of Japanese yen	Thousand of U.S. dollars
SALES	¥21,788,053	$196,945
COST OF SALES	17,614,009	159,215
Gross profit	4,174,044	37,730
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,075,994	18,765
Operating profit	2,098,050	18,965
OTHER INCOME (EXPENSES):		
Interest income and dividend income	427,710	3,866
Interest expense	(471,953)	(4,266)
Foreign exchange gain, net	356,130	3,219
Equity in earnings of affiliates	95,243	861
Other, net	108,853	984
Total other expenses	515,983	4,664
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	2,614,033	23,629
INCOME TAXES:		
Current	356,841	3,226
Deferred	483,924	4,374
INCOME BEFORE MINORITY INTERESTS	1,773,268	16,029
MINORITY INTERESTS	(272,322)	(2,462)
NET INCOME	¥ 1,500,946	$13,567

	Yen	U.S. dollars (Note 1(a))
Net income per share	¥44.14	$0.40

The accompanying notes are an integral part of this statement.

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For 6 months ended June 30, 2005

	Thousand of Japanese yen	Thousand of U.S. dollars
COMMON STOCK		
Beginning and ending balance	¥7,159,000	$64,711
CAPITAL SURPLUS		
Beginning and ending balance	¥7,675,150	$69,377
RETAINED EARNINGS		
Beginning balance	¥7,531,745	$68,080
Net income	1,500,946	13,567
Cash dividends paid	(127,530)	(1,153)
Bonuses paid to directors	(13,000)	(117)
Ending balance	¥8,892,161	$80,377
NET UNREALIZED HOLDING GAINS ON SECURITIES		
Beginning balance	¥575,834	$5,205
Change for the year	67,411	609
Ending balance	¥643,245	$5,814
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS		
Beginning balance	¥(656,489)	$(5,934)
Change for the year	745,101	6,735
Ending balance	¥88,612	$801
TREASURY STOCK		
Beginning balance	¥(230)	$(2)
Purchases of treasury stock	(155)	(1)
Ending balance	¥(385)	$(3)

The accompanying notes are an integral part of this statement.

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For 6 months ended June 30, 2005

	Thousand of Japanese yen	Thousand of U.S. dollars
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥2,614,033	$23,629
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:		
Depreciation and amortization	497,807	4,500
Amortization of consolidated differences	13,243	120
Provision for allowance for bad debts	25,346	229
Provision for severance and retirement benefits for employees	9,530	86
Provision for severance and retirement benefits for directors and corporate auditors	(12,362)	(112)
Reversal of product warranty	(81,352)	(735)
Interest income and dividend income	(427,710)	(3,866)
Interest expense	471,953	4,266
Foreign exchange loss	244,991	2,215
Equity in earnings of affiliates	(95,243)	(861)
Changes in assets and liabilities:		
Decrease (Increase) in		
– Accounts receivable - trade	4,693,251	42,423
– Inventories	(333,845)	(3,018)
– Consumption taxes refund receivable	8,528	77
Decrease in		
– Accounts payable - trade	(4,264,015)	(38,543)
Bonuses paid to directors	(13,000)	(118)
Other, net	(521,216)	(4,712)
	2,829,939	25,580
Interest and dividend received	149,386	1,350
Interest paid	(658,123)	(5,949)
Income taxes paid	(1,543,129)	(13,948)
Net cash provided by operating activities	778,073	7,033

	Thousand of Japanese yen	Thousand of U.S. dollars
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and intangible assets	¥(2,129,376)	$(19,248)
Purchases of investments in affiliates	(1,076,671)	(9,732)
Increase in short-term loans receivable	507,986	4,592
Disbursement of long-term loans receivable	(1,392,177)	(12,584)
Collection of long-term loans receivable	347,611	3,142
Net cash used in investing activities	(3,742,627)	(33,830)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term loans payable	2,954,352	26,705
Proceeds from long-term loans payable	2,094,226	18,930
Repayment of long-term loans payable	(6,086,641)	(55,018)
Cash dividends paid to minority interests	(56,421)	(510)
Cash dividends paid	(127,359)	(1,151)
Other, net	(155)	(2)
Net cash used in financing activities	(1,221,998)	(11,046)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	654,580	5,917
NET INCREASE IN CASH AND CASH EQUIVALENTS	(3,531,972)	(31,926)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,061,927	127,108
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO ADDITIONAL CONSOLIDATED SUBSIDIARIES	-	-
CASH AND CASH EQUIVALENTS AT ENDING OF YEAR	¥10,529,955	$95,182

The accompanying notes are an integral part of this statement.

MODEC, INC. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of MODEC, Inc. (the "Company) have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) 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 translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at June 30, 2005, which was ¥110.63 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 17 of its subsidiaries for the 6 months ended June 30, 2005. Material intercompany balances, transactions and unrealized profits and losses have been eliminated in consolidation.

Investments in significant affiliates, which are 5 companies for the 6 months ended June 30, 2005, are accounted for by 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, June 30, 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) 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.

(e) Inventories

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

(f) Property and Equipment

Property and equipment are carried substantially at cost. Depreciation of vessel (Floating Production Storage & Offloading and Floating Storage & Offloading) owned by the consolidated overseas subsidiaries is calculated by using the straight-line method based on their lease term or their economic useful lives.

Depreciation of buildings and equipment 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. Consolidated overseas subsidiaries depreciate buildings and equipment using the straight-line method based on their useful lives.

(g) 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.

Mining rights of a consolidated overseas subsidiary is amortized using the production method based on the amount of production forecast.

(h) Impairment of Fixed Assets

Effective January 1, 2005, the Company chooses early adoption of the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). There is no effect to statement of income, as a result of adopting new accounting standard for impairment of fixed assets.

(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.

If a forward foreign exchange contract is executed to hedge existing foreign currency receivables or payables, 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

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.

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) Recognition of Revenues

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 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.

(t) Shareholder’s 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.

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