MODEC, INC. and Subsidiaries

CONSOLIDATED BALANCE SHEET

June 30, 2004

ASSETS

	Thousand of Japanese yen	Thousand of U.S. dollars
CURRENT ASSETS:		
Cash and time deposits	¥ 9,699,780	$ 89,457
Accounts receivable – trade	16,590,764	153,009
Costs of uncompleted contracts	166	2
Short-term loans receivable	15,238,297	140,536
Other current assets	4,663,817	43,011
Less- Allowance for bad debts	(4,901)	(45)
Total current assets	46,187,923	425,970
PROPERTY AND EQUIPMENT:		
Vessel	5,584,850	51,506
Other property and equipment	502,737	4,636
	6,087,587	56,142
INTANGIBLE ASSETS	952,079	8,781
OTHER ASSETS:		
Investments securities	3,541,280	32,660
Long-term lease receivable	7,499,948	69,169
Other investments	3,471,556	32,016
Less- Allowance for bad debts	(5,300)	(49)
	14,507,484	133,796
Total assets	¥67,735,073	$624,689

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousand of Japanese yen	Thousand of U.S. dollars
CURRENT LIABILITIES:		
Accounts payable – trade	¥ 14,408,878	$ 132,886
Short-term loans payable	15,628,800	144,137
Current portion of long-term loans payable	6,875,763	63,412
Accrued expenses	1,317,617	12,152
Income taxes payable	782,493	7,217
Other current liabilities	710,697	6,554
Total current liabilities	39,724,248	366,358
LONG-TERM LIABILITIES:		
Long-term loans payable	7,560,173	69,724
Severance and retirement benefits		
For employees	102,019	941
For directors and corporate auditors	74,080	683
Deferred tax liabilities	1,489,614	13,738
Total long-term liabilities	9,225,886	85,086
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	2,675,803	24,678
SHAREHOLDERS' EQUITY (Note 2):		
Common stock;		
authorized – 102,868,000 shares		
outstanding – 29,992,000 shares	4,659,200	42,970
Capital surplus	5,175,350	47,730
Retained earnings	6,228,426	57,442
Net unrealized holding gains on securities	454,496	4,192
Foreign currency translation adjustments	(408,336)	(3,767)
	16,109,136	148,567
Total liabilities, minority interests and shareholders' equity	¥67,735,073	$624,689

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For 6 months ended June 30, 2004

	Thousand of Japanese yen	Thousand of U.S. dollars
SALES	¥30,649,893	$282,670
COST OF SALES	28,048,469	258,678
Gross profit	2,601,424	23,992
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,899,340	17,517
Operating profit	702,084	6,475
OTHER INCOME (EXPENSES):		
Interest income and dividend income	374,859	3,457
Interest expenses	(323,510)	(2,984)
Foreign exchange loss, net	(56,760)	(523)
Equity in earnings of affiliates	175,059	1,614
Gain on cancellation of derivative transaction	119,056	1,098
Depreciation of idle assets	(155,180)	(1,431)
Loss on sales of fixed assets, net	(52,113)	(481)
Bad debt loss	(252,664)	(2,330)
Other, net	84,393	779
Total other expenses	(86,860)	(801)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	615,224	5,674
INCOME TAXES:		
Current	899,396	8,295
Adjustment to prior years	(509,806)	(4,702)
Deferred	(690,509)	(6,368)
INCOME BEFORE MINORITY INTERESTS	916,143	8,449
MINORITY INTERESTS	101,439	935
NET INCOME	¥ 814,704	$7,514

	Yen	U.S. dollars (Note 1(a))
Net income per share (Note 2)	¥27.16	$0.25
Diluted net income per share (Note 2)	26.34	0.24

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, 2004

	Thousand of Japanese yen	Thousand of U.S. dollars
COMMON STOCK		
Beginning and ending balance	¥ 4,659,200	$42,970
CAPITAL SURPLUS		
Beginning and ending balance	¥5,175,350	$47,730
RETAINED EARNINGS		
Beginning balance	¥5,648,661	$52,095
Net income	814,704	7,514
Cash dividends paid	(224,939)	(2,075)
Bonuses paid to directors	(10,000)	(92)
Ending balance	¥6,228,426	$57,442
NET UNREALIZED HOLDING GAINS ON SECURITIES		
Beginning balance	¥337,398	$3,112
Change for the year	117,098	1,080
Ending balance	¥454,496	$4,192
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS		
Beginning balance	¥(638,583)	$(5,889)
Change for the year	230,247	2,122
Ending balance	¥(408,336)	$(3,767)

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 June 30, 2004, which was ¥108.43 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 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) Valuation of Assets and Liabilities of Subsidiaries

The accompanying consolidated financial statements include the accounts of the Company and 13 of its subsidiaries for the 6 months ended June 30, 2004. 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 6 months ended June 30, 2004, 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.

(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 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.

(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.

(h) 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.

(i) Provision for Product Warranty

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

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

2. 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.