MODEC, INC. and Subsidiaries

CONSOLIDATED BALANCE SHEET

June 30, 2006

A S S E T S

	Thousand of Japanese yen	Thousand of U.S. dollars
CURRENT ASSETS:		
Cash and time deposits	¥ 31,811,858	$ 276,193
Accounts receivable – trade	10,328,123	89,669
Inventories	1,911,708	16,598
Short-term loans receivable	23,728,127	206,009
Other current assets	4,965,585	43,111
Less- Allowance for bad debts	(1,411)	(12)
Total current assets	72,743,990	631,568
PROPERTY AND EQUIPMENT:		
Vessel	3,274,755	28,432
Buildings and equipment	584,616	5,075
Construction in progress	17,638	153
	3,877,009	33,660
INTANGIBLE ASSETS	5,430,853	47,151
OTHER ASSETS:		
Investments securities	8,776,811	76,201
Long-term loans receivable	10,916,813	94,780
Long-term lease receivable	3,861,069	33,522
Other investments	1,528,935	13,275
Less- Allowance for bad debts	(6,400)	(56)
	25,077,228	217,722
Total assets	¥107,129,080	$930,101

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	¥ 23,302,688	$ 202,315
Short-term loans payable	27,190,831	236,073
Current portion of long-term loans payable	3,005,622	26,095
Accrued expenses	1,616,837	14,037
Income taxes payable	1,451,736	12,604
Other current liabilities	3,662,300	31,797
Total current liabilities	60,230,014	522,921
LONG-TERM LIABILITIES:		
Long-term loans payable	5,213,106	45,260
Severance and retirement benefits		
For employees	122,288	1,062
For directors and corporate auditors	153,295	1,331
Deferred tax liabilities	1,460,861	12,683
Other long-term liabilities	138,216	1,200
Total long-term liabilities	7,087,766	61,536
NET ASSETS		
SHAREHOLDERS' EQUITY :		
Common stock;		
authorized – 102,868,000 shares		
outstanding – 37,408,000 shares	12,391,600	107,585
Capital surplus	13,121,672	113,923
Retained earnings	11,338,616	98,443
Less- Treasury stock at cost	(712)	(6)
Total shareholders' equity	36,851,176	319,945
DISCREPANCIES IN APPRAISALS and CONVERSIONS :		
Net unrealized holding gains on securities	799,153	6,938
Foreign currency translation adjustments	819,189	7,112
Total discrepancies in appraisals and Conversions	1,618,342	14,050
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES:	1,341,782	11,649
Total net assets	39,811,300	345,644
Total liabilities, net assets	¥107,129,080	$930,101

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For 6 months ended June 30, 2006

	Thousand of Japanese yen	Thousand of U.S. dollars
SALES	¥50,886,791	$441,802
COST OF SALES	46,912,106	407,294
Gross profit	3,974,685	34,508
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,702,288	23,461
Operating profit	1,272,397	11,047
OTHER INCOME (EXPENSES):		
Interest income and dividend income	1,602,169	13,910
Interest expense	(1,202,834)	(10,443)
Foreign exchange loss, net	(713,473)	(6,194)
Equity in earnings of affiliates	522,059	4,533
Other, net	59,061	512
Total other expenses	266,982	2,318
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,539,379	13,365
INCOME TAXES:		
Current	1,440,140	12,503
Deferred	(1,099,374)	(9,544)
INCOME BEFORE MINORITY INTERESTS	1,198,613	10,406
MINORITY INTERESTS	130,170	1,130
NET INCOME	¥ 1,068,443	$9,276

	Yen	U.S. dollars (Note 1(a))
Net income per share	¥28.56	$0.25

The accompanying notes are an integral part of this statement.

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For 6 months ended June 30, 2006

Thousand of Japanese yen

	Shareholders' equity					Discrepancies in appraisals and conversions			Minority Interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Foreign currency translation adjustments	Total discrepancies in appraisals and conversions		
Balance at December 31, 2005	12,391,600	13,121,672	10,434,178	(547)	35,946,903	865,195	1,031,558	1,896,753	1,807,072	39,650,728
Change of items										
Cash dividends paid			(187,039)		(187,039)			-		(187,039)
Bonuses paid to directors			(18,000)		(18,000)			-		(18,000)
Net income			1,068,443		1,068,443			-		1,068,443
Other			41,034		41,034			-		41,034
Purchases of treasury stock				(165)	(165)			-		(165)
Change in items other than Shareholders' Equity					-	(66,042)	(212,369)	(278,411)	(465,290)	(743,701)
Total change of items	-	-	904,438	(165)	904,273	(66,042)	(212,369)	(278,411)	(465,290)	160,572
Balance at June 30, 2006	12,391,600	13,121,672	11,338,616	(712)	36,851,176	799,153	819,189	1,618,342	1,341,782	39,811,300

Thousand of U.S. dollars

	Shareholders' equity					Discrepancies in appraisals and conversions			Minority Interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Foreign currency translation adjustments	Total discrepancies in appraisals and conversions		
Balance at December 31, 2005	107,585	113,923	90,590	(5)	312,093	7,512	8,956	16,468	15,689	344,250
Change of items										
Cash dividends paid			(1,624)		(1,624)			-		(1,624)
Bonuses paid to directors			(156)		(156)			-		(156)
Net income			9,276		9,276			-		9,276
Other			357		357			-		357
Purchases of treasury stock				(1)	(1)			-		(1)
Change in items other than Shareholders' Equity					-	(574)	(1,844)	(2,418)	(4,040)	(6,458)
Total change of items	-	-	7,853	(1)	7,852	(574)	(1,844)	(2,418)	(4,040)	1,394
Balance at June 30, 2006	107,585	113,923	98,443	(6)	319,945	6,938	7,112	14,050	11,649	345,644

MODEC, INC. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For 6 months ended June 30, 2006

	Thousand of Japanese yen	Thousand of U.S. dollars
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥1,539,379	$13,365
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:		
Depreciation and amortization	332,059	2,883
Amortization of consolidated differences	13,243	115
Provision for allowance for bad debts	(1,602)	(14)
Provision for severance and retirement benefits for employees	8,449	73
Provision for severance and retirement benefits for directors and corporate auditors	32,351	281
Provision for product warranty	32,608	283
Interest income and dividend income	(1,602,169)	(13,910)
Interest expense	1,202,834	10,443
Foreign exchange loss	140,409	1,219
Equity in earnings of affiliates	(522,059)	(4,533)
Changes in assets and liabilities:		
Decrease in		
– Accounts receivable - trade	7,058,854	61,285
– Inventories	281,325	2,442
– Consumption taxes refund receivable	61,266	532
Increase in		
– Accounts payable - trade	4,806,685	41,732
Bonuses paid to directors	(18,000)	(156)
Other, net	1,165,230	10,118
	14,530,862	126,158
Interest and dividend received	1,460,145	12,677
Interest paid	(1,119,281)	(9,718)
Income taxes paid	(382,325)	(3,319)
Net cash provided by operating activities	14,489,401	125,798

	Thousand of Japanese yen	Thousand of U.S. dollars
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and intangible assets	¥(469,968)	$(4,080)
Purchases of investments in affiliates	(1,557)	(14)
Increase in short-term loans receivable	(2,318,545)	(20,130)
Disbursement of long-term loans receivable	(28,197,259)	(244,810)
Collection of long-term loans receivable	24,794,662	215,269
Purchases of investments in subsidiaries	(14,719)	(128)
Net cash used in investing activities	(6,207,386)	(53,893)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in short-term loans payable	(85,191)	(740)
Proceeds from long-term loans payable	1,153,282	10,013
Repayment of long-term loans payable	(1,462,556)	(12,698)
Cash dividends paid to minority interests	(559,378)	(4,857)
Cash dividends paid	(186,783)	(1,622)
Other, net	(165)	(0)
Net cash used in financing activities	(1,140,791)	(9,904)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(392,391)	(3,406)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,748,833	58,595
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	25,061,948	217,589
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO EXCLUSION OF CONSOLIDATED SUBSIDIARIES	1,077	9
CASH AND CASH EQUIVALENTS AT ENDING OF YEAR	¥31,811,858	$276,193

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 is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at June 30, 2006, which was ¥115.18 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 19 of its subsidiaries for the 6 months ended June 30, 2006. Material intercompany balances, transactions and unrealized profits and losses have been eliminated in consolidation.

Investments in significant affiliates, which are 11 companies for the 6 months ended June 30, 2006, 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

Both raw materials and 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) 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) Accrued Employees' Bonuses

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

(j) Provision for Product Warranty

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

(k) Severance and Retirement Benefits for Employees

The Company has an unfunded lump-sum severance and retirement payment plan for employees. The Company and some overseas consolidated subsidiaries also adopt defined contribution pension plans. 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.

(l) 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.

(m) Accrued bonuses for directors and corporate auditors

Accrued bonus for directors and corporate auditors are provided based on the estimation of bonus payment for directors and corporate auditors in the subsequent period.

(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 interim 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 Company Law 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 Company Law 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 Company Law.

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

(u) Changes in Basic of Presenting Consolidated Financial Statements

1) Effective January 1, 2006, “Accounting standard for bonus for directors and corporate auditors” (Corporate Accounting Standard Section No.4, November 29, 2005) is applied.

   As a result, operating income and surplus before income taxes during current interim accounting period decreased by ¥9,000 thousand ($78 thousand) compared to the former method.

2) Accounting standard for the indication of net asset section in the balance sheet

   Effective January 1, 2006, “Accounting standard for the indication of net asset section in the balance sheet” (Corporate Accounting Standard Section No.5, December 9, 2005) and “Application guidance of accounting standard for the indication of net asset section in the balance sheet” (Corporate Accounting Standard Application Guidance Section No.8, December 9, 2005) are applied.

   Heretofore the amount equivalent with total capital section was ¥38,469,518 thousand ($333,995 thousand). However, as per the revision on interim financial statement regulation, the net asset section on balance sheet as of June 30, 2006, is in accordance with new interim financial statement regulation.