

IR Report & Message vol.2

Fiscal Year from January 1, 2004 to December 31, 2004



MODEC, INC.

(company code: 6269)

To Our Shareholders



First of all, I would like to extend our heartfelt condolences to the victims and their families who suffered the earthquake and tsunami disaster in the Indian Ocean. MODEC has worked closely with Southeast Asian countries through offshore projects, and we wish a speedy recovery from the destruction in those countries.

In the fiscal year 2004, our construction projects progressed flawlessly. We completed the construction of CNR Baobab FPSO and Santos Mutineer-Exeter FPSO at Jurong shipyard in Singapore and the production from both units is expected to begin in the first half of 2005. In October 2004 MODEC International LLC was awarded an EPC contract of two TLPs by Amerada Hess for the development of the Oveng field and Okume/Ebano field, offshore Equatorial Guinea. Construction of the TLPs has begun at Samsung Heavy Industries in Korea.

Our FPSO/FSO charter projects made a steady advancement as well. Five years operation of the FPSO Buffalo Venture at Nexen's Buffalo field came to an end in November 2004 and the Buffalo FPSO is currently under modification for the relocation at PEARL's Jasmine field offshore Thailand. MEDCO/MOECO Langsa FPSO re-started the oil production in November 2004 after two years of suspended operations.

The offshore oil and gas industry is a growing market. While it attracts new players to enter the industry, only a handful of them have been successful in the severe business environment. We will sharpen our international competitiveness through every effort possible in order to survive in this tough yet exciting marketplace. We aim to become a premier contractor in the FPSO market and we keep our challenge to achieve this goal.

A handwritten signature in black ink that reads "K. Yamada". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Kenji Yamada
President & CEO
MODEC, Inc.

TOPICS

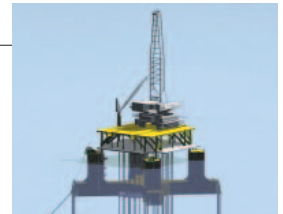
Two FPSOs Construction Works Completed

Conversion works of CNR Baobab FPSO and Santos Mutineer-Exeter FPSO were completed on schedule. Naming ceremonies were held in November and December 2004 respectively at Jurong shipyard in Singapore. (Please see Page 3)



MODEC International LLC Awarded Two TLPs for Eq. Guinea

MODEC International LLC was awarded an EPC contract of two TLPs for the development of Amerada Hess's Oveng field and Okume/Ebano field, offshore Equatorial Guinea. (Please see Page 5)



FPSO Buffalo Venture Re-Deployed for PEARL's Jasmine Field

Finishing its operation at Nexen's Buffalo field in November 2004, FPSO Buffalo Venture will be relocated at PEARL's Jasmine field offshore Thailand. First oil from Jasmine field is expected in May 2005.



Langsa FPSO Resumed Oil Production

MEDCO/MOECO Langsa FPSO resumed the oil production at Langsa field, offshore Sumatra in November 2004 after two years of production suspension.



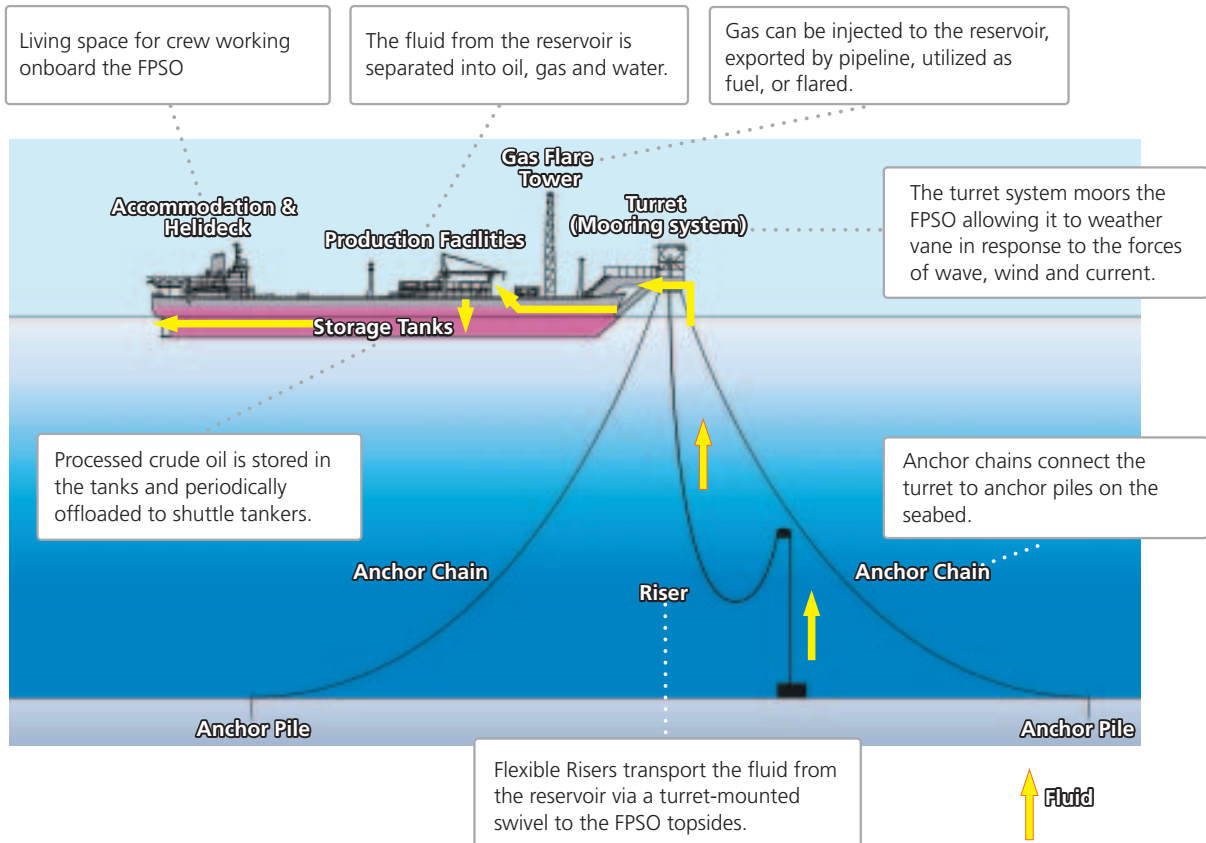
MODEC, Inc. Transferred to the First Section of Tokyo Stock Exchange

Following the IPO on the Second Section of the Tokyo Stock Exchange on July 2, 2003, MODEC, Inc.'s stock was successfully transferred to the First Section on June 1, 2004.

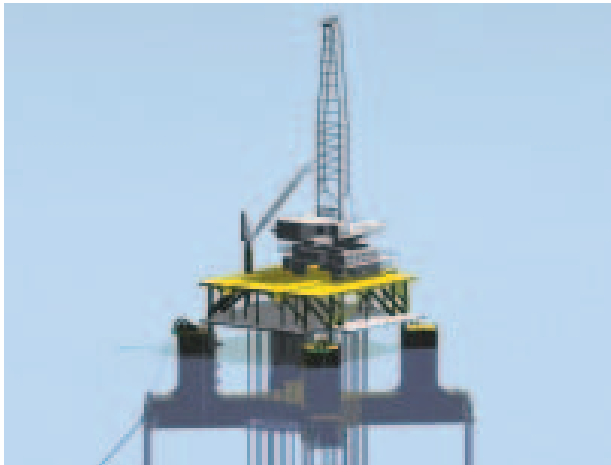


MODEC at a Glance — What is an FPSO?

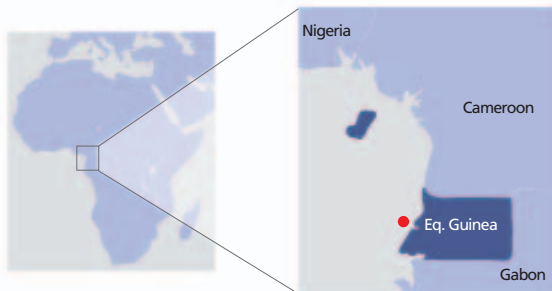
An FPSO (Floating Production, Storage and Offloading) is a floating production system that receives produced fluids from the subsurface reservoir via a turret-mounted swivel. Topside facilities separate the fluid into oil, gas and water and then, store the crude oil in the vessel's tanks. The crude oil is then periodically offloaded to shuttle tankers. FPSOs are the most widely used floating production systems for offshore oil and gas field development and currently more than 100 FPSOs are in operation worldwide.



TLP Project in 2004 — Amerada Hess Oveng & Okume/Ebano TLPs



In October 2004 MODEC International LLC was awarded a contract by Amerada Hess for the engineering, procurement, construction and delivery of two TLPs for the development of Oveng field (280m water depth) and Okume/Ebano field (500m water depth), offshore Equatorial Guinea. The development area is located approximately 55km south west of Bata and 250km south of Malabo.



TLP hulls for this project are designed using an innovative concept. In preceding TLP projects, the deck and the hull are fabricated separately at the shipyard and integrated offshore. This project's new hull designs, however, have enough free floating stability to allow the deck to be integrated with the hull at the shipyard. This design eliminates the need for lifting and setting of the deck structure offshore and does so without using expensive temporary stability modules.



Offshore integration of deck and hull (Marco Polo TLP)

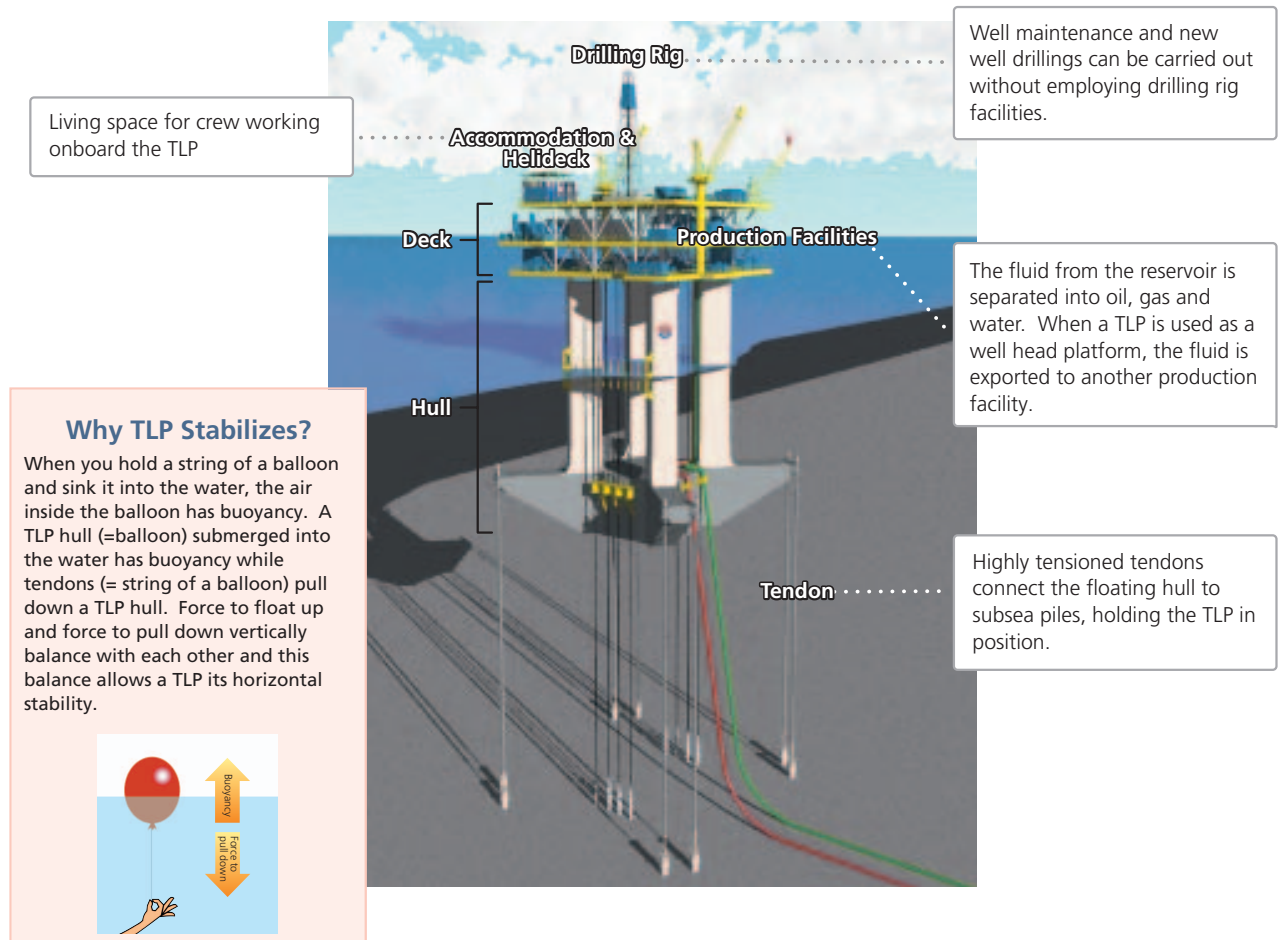
Previous success of the Prince TLP and Marco Polo TLP made way for the award of the third and fourth TLPs for MODEC. The construction work has commenced at Samsung Heavy Industries in Korea. The installation of the TLPs is planned in the second quarter of 2006.

Installed in 1,311m water (the world record at that time), Marco Polo TLP started the production in July 2004.



MODEC at a Glance — What is a TLP?

A TLP (Tension Leg Platform) is a floating platform suitable for deepwater oil and gas field development. TLPs can be utilized as production platforms or as well head platforms with production undertaken at another facility such as an FPSO. Currently approximately twenty TLPs are in operation in the Gulf of Mexico and other areas.

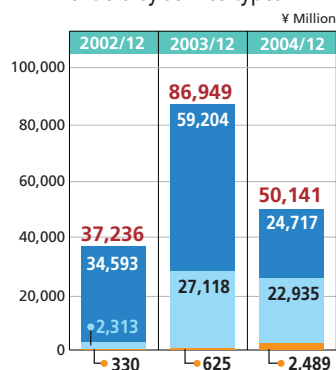


Financial Highlight for the Fiscal Year 2004

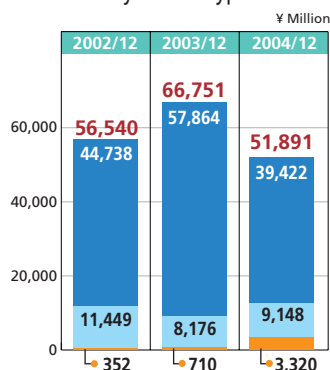
Financial Highlight for the Fiscal Year 2004

- Construction works progressed on schedule.
- MODEC was awarded two TLPs for Eq. Guinea and re-charter of Buffalo Venture FPSO.
- MEDCO/MOECO Langsa FPSO re-started the oil production.
- MODEC, Inc. was transferred to the First Section of the Tokyo Stock Exchange.
- New shares of MODEC, Inc. were issued by third party allotment.
- MODEC International LLC became 100% subsidiary of MODEC (U.S.A.), Inc.

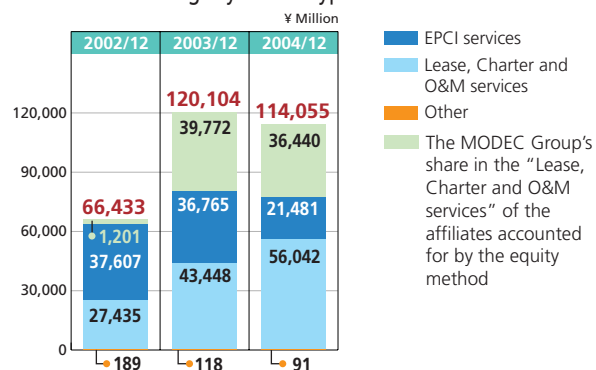
Orders by service types



Sales by service types



Order backlogs by service types



* As MODEC International LLC became a consolidated subsidiary in 2003, in the above graph chart, the yearly figures prior to 2003 were adjusted as if the subsidiary were consolidated.

Review of Operations

Review of Operations

High oil prices promoted the increasing trend of offshore oil and gas development projects in the fiscal year 2004. In this favorable business climate, MODEC Group continued the marketing activities in areas of South East Asia, Oceania, West Africa, Gulf of Mexico and Brazil.

In October 2004, MODEC International LLC was awarded construction work of two TLPs for the development of Amerada Hess's Oveng field and Okume/Ebano field, offshore Equatorial Guinea. Buffalo FPSO Pte Ltd., an affiliate company of MODEC, Inc., was awarded time charter contract of FPSO Buffalo Venture for PEARL's Jasmine field, offshore Thailand in December 2004. This is the first project for MODEC Group to re-deploy its owned FPSO unit to another field. Lastly, MEDCO/MOECO Langsa FPSO re-started the oil production at Langsa field, offshore Sumatra in November 2004 after two years of suspended operations.

As a result, the Consolidated Order totaled 50,141 million yen and Consolidated Sales totaled 51,891 million yen. On the profit side, Operating Profit declined to 3,779 million yen as a result of deferring some portion of profits from EPCI services as unrealized gain, while Ordinary Income and Net Income increased to 3,701 million yen and 2,230 million yen respectively.

● EPCI Services

Conversion works of CNR Baobab FPSO and Santos Mutineer-Exeter FPSO progressed on schedule. Remaining construction works of Esso Chad FSO, Shell Bijupira-Salema FPSO and Anadarko Marco Polo TLP were completed as well. As a result, sales from EPCI services totaled 39,422 million yen.

● Lease, Charter and O&M Services

MODEC Group operated five units that the Group's subsidiaries and affiliate companies own, namely PEMEX

Cantarell FSO, ConocoPhillips Elang/Kakatua FPSO, Nexen Buffalo FPSO, CLJOC Su Tu Den FPSO, and MEDCO/MOECO Langsa FPSO. In addition the Group operated two units owned by oil companies; Petronas Carigali Ruby FPSO and Shell Bijupira-Salema FPSO. As a result, sales from Lease, Charter and O&M Services totaled 9,148 million yen.

● Other Services

As after-sales services, MODEC supplied spare parts and provided engineering support to the FPSO/FSOs that the Group had constructed and delivered to the oil development companies. Fee income for providing management services to affiliate companies flowed in steadily. As a result, sales from other services totaled 3,320 million yen.

Outlook for the Fiscal Year 2005

The investments in the offshore oil and gas field development in the fiscal year 2005 will likely shift on high level, backed up by high oil prices and continuous demands on energy supply. The number of new orders for offshore floating facilities will continue to increase.

Under this business environment, MODEC will keep refining the Group's engineering capability, project management capacity, and cost competitiveness, to receive awards of new projects.

In year 2005, two units, CNR Baobab FPSO and Santos Mutineer-Exeter FPSO, will start oil production. In addition, FPSO Buffalo Venture will be re-deployed at PEARL's Jasmine field. In summary, the Group will operate seven self-owned units and two units owned by oil companies. For the fiscal year 2005, the Company forecast Sales of 55,000 million yen, Ordinary Income of 4,500 million yen and Net Income of 2,500 million yen.

Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of Japanese yen.
Amounts are rounded down to
the nearest million.)

	Fiscal year 2004 (December 31, 2004)	Fiscal year 2003 (December 31, 2003)
–Assets–		
Current Assets	42,700	42,782
Cash and time deposits	14,061	12,264
Accounts receivable - trade	14,059	15,326
Inventories	165	1,924
Short-term loans receivable	9,783	8,945
Short-term lease receivables	1,735	1,542
Other	2,894	2,779
Non-Current Assets	23,820	17,480
Property and Equipment	5,708	4,677
Machinery and equipment	5,606	4,563
Other	102	114
Intangible Assets	4,769	994
Other Assets	13,341	11,807
Investment securities	3,882	2,492
Long-term lease receivables	6,273	8,256
Other	3,186	1,059
Total Assets	66,521	60,262
–Liabilities–		
Current Liabilities	34,909	26,222
Accounts payable - trade	10,255	11,329
Short-term loans payable	12,663	8,529
Current portion of long-term loans payable	6,652	3,314
Other	5,337	3,049
Long-term Liabilities	7,932	16,230
Long-term loans payable	6,345	13,897
Other	1,587	2,332
Total Liabilities	42,842	42,453
Minority Interests in Consolidated Subsidiaries	1,393	2,627
–Shareholders' Equity–		
Common stock	7,159	4,659
Capital surplus	7,675	5,175
Retained earnings	7,531	5,648
Net unrealized holding gains on securities	575	337
Foreign currency translation adjustments	△656	△638
Treasury stock	△0	—
Total Shareholders' Equity	22,285	15,182
Total Liabilities and Shareholders' Equity	66,521	60,262

Intangible assets increased as a result of MODEC International LLC becoming a 100% subsidiary of MODEC (U.S.A.), Inc.

Investments and other assets increased due to funds paid to MODEC FPSO B.V. and MODEC Venture 11 B.V. that own and lease FPSOs to oil companies.

Common stock and Capital Surplus increased as a result of Stock Option Exercise and new share issuance by Third Party Allotment.

Consolidated Financial Statements

Consolidated Statements of Income

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

	Fiscal year 2004 (January 1, 2004 thru December 31, 2004)	Fiscal year 2003 (January 1, 2003 thru December 31, 2003)
Sales	51,891	66,751
Cost of Sales	44,553	59,062
Gross Profit	7,338	7,689
Selling, General and Administrative Expenses	3,559	3,541
Operating Profit	3,779	4,147
Other Income	1,342	379
Interest income	836	191
Dividend income	5	1
Equity in earnings of affiliates	128	148
Other	372	38
Other Expenses	1,420	1,336
Interest expenses	685	652
Foreign exchange loss, net	420	226
Depreciation of idle assets	229	366
Other	85	90
Ordinary Income	3,701	3,190
Extraordinary Profits	41	731
Recovery of repair costs	—	369
Gain on forgiveness of debt	—	361
Gain on sales of fixed assets	41	—
Extraordinary Loss	329	—
Bad debt loss	242	—
Loss on sales of fixed assets	86	—
Income before Income Taxes and Minority Interests	3,414	3,922
Income Taxes		
Current	2,290	1,037
Adjustment to prior years	△489	△191
Deferred	△1,174	197
Minority Interests	557	849
Net Income	2,230	2,029

Sales from EPCI services declined reflecting the delayed awards of new projects and less change orders received from the clients compared to the previous year.

Increase of loans advanced to the affiliate companies for the construction work expenditures led to the increase of interest income, which pushed up Ordinary Income.

Extraordinary loss was incurred as a result of Langsa FPSO Pte Ltd. providing a bad debt loss on collection of the credit to Matrix Oil.

The 2004 results renewed the Company's highest Net income record.

Consolidated Financial Statements

Consolidated Statements of Earned Surplus

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

	Fiscal year 2004 (January 1, 2004 thru December 31, 2004)	Fiscal year 2003 (January 1, 2003 thru December 31, 2003)
-Capital Surplus-		
Beginning balance	5,175	2,683
Increase in capital surplus	2,499	2,492
Issuance of new shares	2,499	2,492
Decrease in capital surplus	—	—
Ending balance	7,675	5,175
-Retained Earnings-		
Beginning balance	5,648	3,822
Increase in retained earnings	2,230	2,029
Net income	2,230	2,029
Decrease in retained earnings	347	202
Cash dividends paid	337	192
Bonuses paid to directors	10	10
Ending balance	7,531	5,648

Consolidated Statements of Cash Flows

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

	Fiscal year 2004 (January 1, 2004 thru December 31, 2004)	Fiscal year 2003 (January 1, 2003 thru December 31, 2003)
Cash flows from operating activities	9,623	5,452
Cash flows from investing activities	△14,402	△8,629
Cash flows from financing activities	5,164	7,290
Effect of exchange rate changes on cash and cash equivalents	△119	△84
Net increase in cash and cash equivalents	266	4,028
Increase in cash and cash equivalents due to additional consolidated subsidiaries	—	2,914
Cash and cash equivalents at beginning of year	13,795	6,852
Cash and cash equivalents at ending of year	14,061	13,795

Cash flows from operating activities increased considerably due to steady progress of construction works and collection of accounts receivable - trade to affiliate companies.

Non-Consolidated Financial Statements

Non-consolidated Balance Sheets

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

	Fiscal year 2004 (December 31, 2004)	Fiscal year 2003 (December 31, 2003)
–Assets–		
Current Assets	25,620	31,710
Non-Current Assets	16,815	4,663
Property and Equipment	29	33
Intangible Assets	5	7
Other Assets	16,780	4,623
Total Assets	42,435	36,374
–Liabilities–		
Current Liabilities	22,877	17,580
Long-term Liabilities	503	5,816
Total Liability	23,380	23,396
–Shareholders' Equity–		
Common stock	7,159	4,659
Capital surplus	7,675	5,175
Capital reserve	7,675	5,175
Retained earnings	3,645	2,806
Earned reserve	68	68
Voluntary reserve	2	2
Unappropriated retained earnings	3,574	2,734
Net unrealized holding gains on securities	575	337
Treasury stock	△0	—
Total Shareholders' Equity	19,054	12,978
Total Liabilities and Shareholders' Equity	42,435	36,374

Appropriation Statements

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

	Fiscal year 2004 (January 1, 2004 thru December 31, 2004)	Fiscal year 2003 (January 1, 2003 thru December 31, 2003)
Unappropriated retained earnings at end of year	3,574	2,734
Transfer from voluntary reserve		
Transfer from special reserve for depreciation	0	0
Total	3,575	2,735
To be appropriated as follows:		
Cash dividends	127	224
Bonuses to directors	13	10
Retained earnings carried forward	3,434	2,500

Non-consolidated Statements of Income

(Millions of Japanese yen,
Amounts are rounded down to
the nearest million.)

	Fiscal year 2004 (January 1, 2004 thru December 31, 2004)	Fiscal year 2003 (January 1, 2003 thru December 31, 2003)
Sales	19,426	39,473
Cost of Sales	16,226	37,016
Gross Profit	3,200	2,456
Selling, General and Administrative Expenses	1,043	1,078
Operating Profit	2,156	1,377
Other Income	984	583
Interest income	817	222
Dividend income	5	325
Other	161	35
Other Expenses	959	538
Interest expense	477	188
Foreign exchange loss	406	263
New share issuance expense	25	54
Other	51	33
Ordinary Income	2,181	1,422
Extraordinary Loss	—	130
Bad debt loss	—	130
Income before Income Taxes	2,181	1,291
Income Taxes	1,455	464
Income Tax Adjustment	△459	31
Net Income	1,186	795
Retained earnings at beginning of year	2,500	1,938
Interim dividends	112	—
Unappropriated retained earnings at end of year	3,574	2,734

MODEC, Inc. paid a dividend of 3.75 yen per share for six months ended December 31, 2004. In combination with interim dividends of 3.75 yen per share, the annual dividends totaled 7.5 yen per share.

Corporate Data (as of December 31, 2004)

- **Company name:** MODEC, INC.
- **Founded:** June 1, 1987
- **Head office:** 2-8, Kohinata 4-chome, Bunkyo-ku
Tokyo 112-0006, Japan
TEL: +81-3-5800-6081
FAX: +81-3-5800-6060/6070
- **Paid-in capital:** 7,159 million Japanese yen
- **Number of employees:** 106 (non-consolidated, including temporary employees)
837 (consolidated, including temporary employees)
- **Main banks:** Sumitomo Mitsui Banking Corporation
Mizuho Corporate Bank, Ltd.
Chuo Mitsui Trust and Banking Co., Ltd.
Sumitomo Trust & Banking Co., Ltd.
The Norinchukin Bank

● Management (as of March 29, 2005)

Kenji Yamada	President & CEO
Mitsuhiro Mokumoto	Managing Director & CFO
Nobuhiro Yaji	Managing Director & COO
Masaki Kawase	Director - FPSO & FSO Division
Shashank Karve	Director MODEC International LLC - President & CEO
Naomasa Kosaka	Director - FPSO Operations Division
Shoichi Yabuki	Director
Takao Sunami	Director
Yasuhiro Iwanami	Corporate Auditor
Toshiro Miyazaki	Corporate Auditor
Yasuo Asama	Corporate Auditor
Yoshihiro Takizawa	Corporate Auditor

● Main Subsidiaries

MODEC International L.L.C.
EPCI service of FPSO/FSO, TLP and Production Semisubmersibles in North & South America and West Africa

Cantarell FSO, Inc., S.A. de C.V.
PEMEX Cantarell FSO Owner Operator

Elang EPS Pte Ltd.
ConocoPhillips Elang/Kakatua FPSO Owner Operator

Langsa FPSO Pte Ltd.
MEDCO/MOECO Langsa FPSO Owner Operator

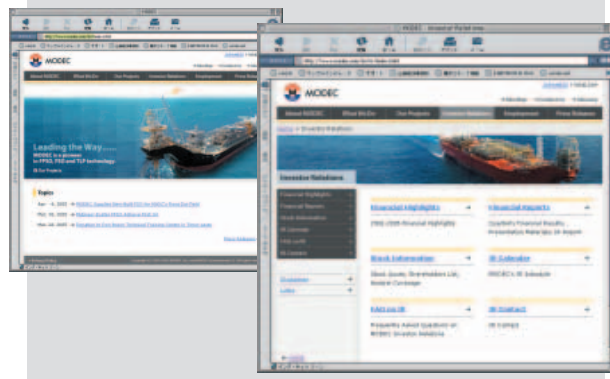
MODEC Management Services Pte Ltd.
Petronas Carigali Ruby FPSO & CLJOC Su Tu Den FPSO Operator

Buffalo FPSO Pte Ltd.
Nexen Buffalo FPSO (⇒PEARL Jasmine FPSO) Owner Operator

MODEC FPSO B.V.
CLJOC Su Tu Den FPSO Owner Operator

<http://www.modec.com/>

Please visit our website for up-to-date
Investor Relations information.



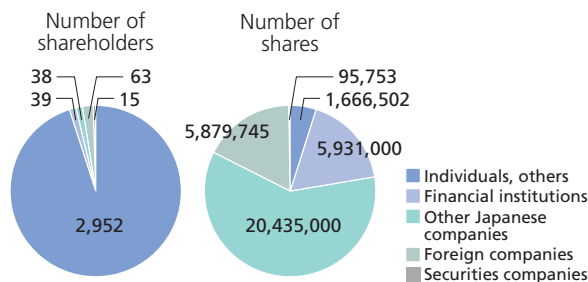
Stock Information (as of December 31, 2004)

- Number of Authorized Shares 102,868,000
- Number of Issued Shares 34,008,000
- Number of shareholders 3,107

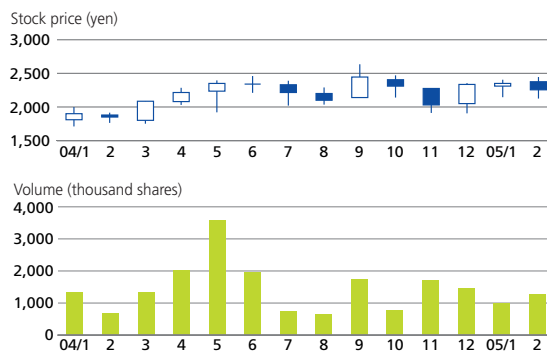
● Major Shareholders

Name	Number of Shares Held (thousand shares)	Ratio of shareholding (%)
Mitsui Engineering & Shipbuilding Co., Ltd.	17,116	50.32
FMC Technologies, Inc.	2,600	7.64
Mitsui & Co., Ltd.	2,466	7.25
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,262	6.65
UFJ Trust Bank Ltd. (Trust Account A)	743	2.18
Sojitz Corporation	700	2.05
Japan Trustee Services Bank, Ltd. (Trust Account)	693	2.03
The Chase Manhattan Bank, NA London SL Omnibus Account	575	1.69
Government of Singapore Investment Corporation Pte Ltd.	443	1.30
Goldman Sachs International	436	1.28
Total	28,036	82.43

● Shareholders Breakdown



● Stock Quote



Fiscal year end: December 31 of each year

General meeting of shareholders: March of each year

Shareholder registration date for year-end dividend: December 31 of each year

Shareholder registration date for interim dividend: June 30 of each year

Shareholding unit: 100 shares

Transfer agent:
Chuo Mitsui Trust and Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

Transfer agent office:
Chuo Mitsui Trust and Banking Co., Ltd.
Transfer Agent Dept. (Transfer Agent Administration Center)
8-4, Izumi 2-chome, Sugunami-ku, Tokyo 168-0063, Japan
Tel: +81-3-3323-7111

Agents:
Chuo Mitsui Trust and Banking Co., Ltd.: Branch offices in Japan
Japan Securities Agents, Ltd.: Head office and branch offices

MODEC, INC. Administration Dept.

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