MODEC, INC. and Consolidated Subsidiaries

Consolidated Financial Statements

As of December 31, 2011 and 2010

Together with Independent Auditors' Report

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2011 and 2010

A S S E T S

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
CURRENT ASSETS:			
Cash and time deposits (Note 1(s) and 16)	¥17,320	¥12,122	$222,794
Accounts receivable – trade (Note 16 and 20)	48,486	43,082	623,698
Inventories (Note 2)	2,315	875	29,785
Short-term loans receivable (Note 16 and 20)	6,244	31,291	80,325
Deferred tax assets (Note 13)	2,317	2,996	29,804
Other current assets	5,380	7,772	69,199
Less- Allowance for bad debts	(345)	(3)	(4,443)
Total current assets	81,717	98,135	1,051,162
PROPERTY AND EQUIPMENT:			
Buildings and structures (Note 12)	68	146	873
Machinery and equipment (Note 12)	1,301	1,673	16,732
Vessel	22,515	23,694	289,619
Construction in progress	—	6	—
Less- Accumulated depreciation	(11,921)	(10,486)	(153,334)
Net property and equipment	11,963	15,033	153,890
INTANGIBLE ASSETS (Note 4 and 12)	6,429	6,821	82,702
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3 and 16)	10,902	12,356	140,235
Long-term loans receivable from unconsolidated subsidiaries and affiliated companies (Note 16 and 20)	8,754	11,564	112,611
Deferred tax assets (Note 13)	3,435	1,406	44,183
Other investments	931	1,317	11,961
Less- Allowance for bad debts	—	(4)	—
Total investments and other assets	24,022	26,639	308,990
Total assets	¥124,131	¥146,628	$1,596,744

LIABILITIES AND NET ASSETS

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
CURRENT LIABILITIES:			
Accounts payable – trade (Note 16 and 20)	¥46,233	¥41,562	$594,711
Short-term loans payable (Note 5,7 and 16)	2,000	17,194	25,727
Current portion of long-term loans payable (Note 5 and 16)	3,460	6,043	44,505
Accrued expenses	3,878	2,843	49,886
Income taxes payable	2,746	2,143	35,328
Provision for product warranty	1,889	2,565	24,300
Accrued Employees' Bonuses	65	43	841
Accrued Directors' Bonuses	20	14	260
Advances Received	1,526	767	19,624
Deferred tax liabilities (Note 13)	31	7	397
Other Provisions	74	706	955
Other current liabilities	866	3,930	11,141
Total current liabilities	62,788	77,817	807,675
LONG-TERM LIABILITIES:			
Long-term loans payable (Note 5,16 and 20)	5,256	8,140	67,606
Severance and retirement benefits for employees (Note 10)	168	159	2,162
Deferred tax liabilities (Note 13)	301	710	3,867
Long-term accounts payable	—	302	—
Other long-term liabilities	3,387	1,176	43,570
Total long-term liabilities	9,112	10,487	117,205
CONTINGENT LIABILITIES (Note 14)			
NET ASSETS :			
SHAREHOLDERS' EQUITY (Note 8):			
Common stock;			
Authorized – 102,868,000 shares			
Issued – 46,408,000 shares	20,186	20,186	259,655
Capital surplus	20,916	20,916	269,046
Retained earnings	23,027	21,066	296,213
Treasury stock, at cost	(2)	(2)	(23)
Total shareholders' equity	64,127	62,166	824,891
ACCUMULATED LOSSES FROM VALUATION AND TRANSLATION ADJUSTMENTS			
Net unrealized holding losses on securities	(12)	(9)	(148)
Unrealized losses on hedging derivatives, net of tax	(6,579)	(123)	(84,633)
Foreign currency translation adjustments	(10,182)	(8,403)	(130,975)
Total accumulated losses from valuation and translation adjustments	(16,773)	(8,535)	(215,756)
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	4,877	4,693	62,729
Total net assets	52,231	58,324	671,864
Total liabilities and net assets	¥124,131	¥146,628	$1,596,744

The accompanying notes are an integral part of these balance sheets.

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2011 and 2010

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
SALES (Note 1 (p),19 and 20)	¥129,968	¥146,661	$1,671,835
COST OF SALES (Note 20)	122,352	134,595	1,573,873
Gross profit	7,616	12,066	97,962
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	7,322	8,502	94,186
Operating profit	294	3,564	3,776
OTHER INCOME (EXPENSES):			
Interest income and dividend income	1,403	1,351	18,046
Interest expense	(613)	(521)	(7,886)
Foreign exchange loss, net	(1,001)	(1,467)	(12,872)
Gain on revaluation of derivatives	—	392	—
Loss on revaluation of derivatives	(387)	—	(4,983)
Equity in earnings of affiliates and unconsolidated subsidiaries	5,198	2,568	66,862
Impairment loss on property and equipment	(105)	—	(1,350)
Impairment loss on intangible assets	(173)	—	(2,231)
Loss on liquidation of affiliates	—	(639)	—
Gain on disposal of property and equipment	—	209	—
Gain on step acquisitions	—	34	—
Gain on liquidation of subsidiaries	—	71	—
Gain on sales of subsidiaries and affiliates' stock	66	—	843
Provision of allowance for doubtful accounts	(305)	—	(3,929)
Other, net	160	269	2,086
Total other income (expenses)	4,243	2,267	54,586
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	4,537	5,831	58,362
INCOME TAXES (Note 13):			
Current	2,966	2,465	38,149
Deferred	(1,716)	(129)	(22,073)
INCOME BEFORE MINORITY INTERESTS	3,287	3,495	42,286
MINORITY INTERESTS	219	759	2,823
NET INCOME	¥3,068	¥2,736	$39,463

	Japanese yen		U.S. dollars
Net income per share (Note 9)	¥ 66.11	¥ 62.09	$ 0.85
Dividends per share (Note 9)	¥ 25.00	¥ 22.50	$ 0.32

The accompanying notes are an integral part of these statements.

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2011

	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
	2011	2011
Income before minority interests	¥3,287	$42,286
Other comprehensive income		
Net unrealized holding losses on securities	(2)	(31)
Unrealized losses hedging derivatives, net of tax	(51)	(657)
Foreign currency translation adjustments	(249)	(3,206)
Share of other comprehensive income of associates accounted for using equity method	(8,210)	(105,610)
Total	(8,512)	(109,504)
Comprehensive income	¥ (5,225)	$ (67,218)

	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
Comprehensive income attributable to owners of the parent	¥ (5,169)	$ (66,497)
Comprehensive income attributable to owners of minority interests	¥ (56)	$ (721)

The accompanying notes are an integral part of these statements.

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31, 2011 and 2010

Millions of Japanese yen

	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Net unrealized holding losses on securities	Unrealized losses on hedging derivatives, net of tax	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at December 31, 2009	¥12,392	¥13,122	¥19,249	¥ (2)	¥ (7)	¥ (1,327)	¥ (5,191)	¥1,838	¥40,074
Net income			2,736						2,736
Cash dividends paid			(896)						(896)
Issuance of new shares	7,794	7,794							15,588
Purchases of treasury stock				0					0
Decrease due to changes in fair market values of available-for-sale securities					(2)				(2)
Unrealized gains on hedging derivatives, net of tax						1,204			1,204
Adjustments from translation of foreign currency financial statements							(3,212)		(3,212)
Increase in minority interests in consolidated subsidiaries								2,855	2,855
Others			(23)						(23)
Balance at December 31, 2010	¥20,186	¥20,916	¥21,066	¥ (2)	¥ (9)	¥ (123)	¥ (8,403)	¥4,693	¥58,324
Net income			3,068						3,068
Cash dividends paid			(1,102)						(1,102)
Decrease due to changes in fair market values of available-for-sale securities					(3)				(3)
Unrealized losses on hedging derivatives, net of tax						(6,461)			(6,461)
Adjustments from translation of foreign currency financial statements							(1,779)		(1,779)
Increase in minority interests in consolidated subsidiaries								184	184
Others			(5)			5			0
Balance at December 31, 2011	¥20,186	¥20,916	¥23,027	¥ (2)	¥ (12)	¥ (6,579)	¥ (10,182)	¥4,877	¥52,231

Thousands of U.S. dollars
(Note 1 (a))

	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Net unrealized holding losses on securities	Unrealized losses on hedging derivatives, net of tax	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at December 31, 2010	$259,655	$269,046	$270,992	$ (23)	$ (117)	$ (1,587)	$ (108,094)	$60,371	$750,243
Net income			39,463						39,463
Cash dividends paid			(14,181)						(14,181)
Decrease due to changes in fair market values of available-for-sale securities					(31)				(31)
Unrealized losses on hedging derivatives, net of tax						(83,107)			(83,107)
Adjustments from translation of foreign currency financial statements							(22,881)		(22,881)
Increase in minority interests in consolidated subsidiaries								2,358	2,358
Others			(61)			61			0
Balance at December 31, 2011	$259,655	$269,046	$296,213	$ (23)	$ (148)	$ (84,633)	$ (130,975)	$62,729	$671,864

The accompanying notes are an integral part of these statements.

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011 and 2010

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥4,537	¥5,831	$58,362
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,773	958	35,674
Amortization of goodwill	258	211	3,315
Provision for (reversal of) allowance for bad debts	32	(88)	415
Provision of (reversal of) allowance for doubtful accounts	305	—	3,929
Provision for (reversal of) severance and retirement benefits for employees	9	12	118
Accrued directors' bonuses	7	—	87
Provision for (reversal of) product warranty	(597)	524	(7,674)
Interest income and dividend income	(1,403)	(1,351)	(18,046)
Interest expense	613	521	7,886
Foreign exchange losses (gains)	717	939	9,228
Loss (gain) on revaluation of derivatives	387	(392)	4,983
Equity in earnings of affiliates and unconsolidated subsidiaries	(5,198)	(2,568)	(66,862)
Loss on liquidation of subsidiaries and affiliates	—	569	—
Gain on step acquisition	—	(34)	—
Impairment loss on property and equipment	105	—	1,350
Impairment loss on intangible assets	173	—	2,231
Gain on disposal of fixed asset	—	(209)	—
Gain on sales of subsidiaries' stocks	(66)	—	(843)
Changes in assets and liabilities:			
Decrease (Increase) in			
– Accounts receivable - trade	(4,807)	8,270	(61,830)
– Inventories	(1,482)	(133)	(19,064)
Increase (Decrease) in			
– Accounts payable - trade	9,016	(8,461)	115,980
– Consumption tax payable	(39)	(53)	(507)
– Long-term accounts payable	(302)	(111)	(3,880)
Other, net	(523)	3,888	(6,776)
	4,515	8,323	58,076
Interest and dividend received	3,761	1,958	48,382
Interest paid	(648)	(487)	(8,336)
Income taxes paid	(2,836)	(2,291)	(36,478)
Net cash provided by (used in) operating activities	¥4,792	¥7,503	$ 61,644

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment and intangible assets	¥ (1,364)	¥ (624)	$ (17,548)
Proceeds from sale on property and equipment and intangible assets	0	778	2
Purchases of investments in affiliates	(3,347)	(2,168)	(43,055)
Decrease (Increase) in short-term loans receivable	30,794	(20,786)	396,114
Disbursement of long-term loans receivable	(3,344)	(2,163)	(43,010)
Collection of long-term loans receivable	—	246	—
Purchases of investment in subsidiaries	(1,222)	(15)	(15,725)
Proceeds from capital reduction in affiliates	—	1,412	—
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	1,684	—
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(64)	—	(820)
Net cash provided by (used in) investing activities	21,453	(21,636)	275,958
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (Decrease) in short-term loans payable	(14,412)	2,594	(185,385)
Repayment of long-term loans payable	(5,150)	(9,617)	(66,240)
Proceeds from issuance of common stock	—	15,588	—
Cash dividends paid	(1,101)	(896)	(14,168)
Net cash provided by (used in) financing activities	(20,663)	7,669	(265,793)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(384)	(2,971)	(4,948)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,198	(9,435)	66,861
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,122	31,505	155,933
DECREASE IN CASH AND CASH EQUIVALENTS DUE TO RESULTING FROM CHANGE OF SCOPE OF CONSOLIDATION	—	(9,948)	—
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1 (s))	¥17,320	¥12,122	$222,794

The accompanying notes are an integral part of these statements.

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 Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of the Company’s 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 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 Financial Instruments and Exchange Act. Some supplementary information reported in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are reported solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2011, which was ¥77.74 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 21 of its subsidiaries for the year ended December 31, 2011 and 23 of its subsidiaries for the year ended December 31, 2010. Material inter-company balances, transactions and profits have been eliminated in consolidation.

Investments in significant unconsolidated subsidiaries and affiliates, which were 15 companies for the year ended December 31, 2011 and 14 companies for the year ended December 31, 2010 were accounted for by using the equity method.

Another 3 subsidiaries for the year ended December 31, 2011 and for the year ended December 31, 2010 were not consolidated or not applied equity method as they would not have a material effect on the accompanying consolidated financial statements.

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 by using the fair value at the time the Company acquired the control of the respective subsidiaries.

(d) Goodwill

The excess of cost over the underlying investments in consolidated subsidiaries is recognized as goodwill and is amortized using the straight-line method over their estimated useful lives.

The excess of cost over the underlying investments in affiliates accounted for under the equity method is treated in the same manner.

(e) Securities

In accordance with the Japanese accounting standard for financial instruments, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("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 ("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 recorded in current assets. Other securities are recorded in investment 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

Both raw materials and costs of uncompleted contracts are stated at cost, determined on an individual project basis (Balance sheet value reflects downturn in profitability).

(g) Property and Equipment

Property and equipment are stated at cost. Depreciation of Floating Production Storage & Offloading Systems ("FPSOs") and Floating Storage & Offloading Systems ("FSOs"), owned by the consolidated overseas subsidiaries are calculated using the straight-line method based on their lease term or their economic useful lives.

Depreciation of property and equipment other than FPSOs and FSOs are calculated as follows. The Company depreciates property and equipment using the declining-balance method based on their useful lives and residual values prescribed by the Japanese corporation tax laws and regulations, except for buildings acquired after March 31, 1998, which are depreciated using the straight-line method. Consolidated overseas subsidiaries depreciate property and equipment using the straight-line method based on their estimated useful lives.

(h) Intangible Assets

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

Intangible assets of consolidated subsidiaries located in the U.S.A., are accounted for in accordance with U.S. GAAP.

(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) Accrued Directors' Bonuses

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

(l) Provision for Product Warranty

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

(m) Severance and Retirement Benefits for Employees

The Company and some overseas consolidated subsidiaries have unfunded lump-sum severance and retirement payment plans for employees. Under these plans, 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 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.

In accordance with the Japanese accounting standard for employees' severance and pension benefits, a "simpler method" can be adopted to calculate severance and retirement benefits for 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.

The Company and some overseas consolidated subsidiaries also adopt defined contribution pension plans.

(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 to Japanese yen at the year-end exchange rate, and the resulting gains or losses are recorded in other income (expenses) in the statement of income.

Financial statements of consolidated overseas subsidiaries are translated to 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) 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.

(p) Revenue Recognition

From the year ended December 31, 2010, the Company applied the percentage of completion method to the construction contracts in case that the outcome of construction contracts can be reliably estimated. The percentage of completion is calculated by percentage of cost method or units of work performed method which is based on physical progress measure.

The other construction contracts are recognized by the completed contract method.

Consolidated subsidiary located in the U.S.A. recognized revenues on all contracts by the percentage of completion method.

(Changes of Accounting Policies)
Effective from January 1, 2010, the Company adopted the new accounting standard, “Accounting Standard for Construction Contracts” (Statement No.15 issued by Accounting Standards Board of Japan on December 27, 2007) and “Guidance on Accounting Standard for Construction Contracts” (Guidance No.18 issued by the Accounting Standards Board of Japan on December 27, 2007).

This adoption had no effect on the financial statements.

(q) 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.

(r) Significant deferred assets

Stock issuance costs are recorded at total cost when expended.

(s) Cash Flow Statement

1) 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.

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, 2011 and 2010 are as follows:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
Cash and time deposits	¥17,320	¥12,122	$222,794
Less : Time deposits with maturities exceeding three months	–	–	–
Cash and cash equivalents	¥17,320	¥12,122	$222,794

2) For the year ended December 31, 2010, at the time of acquiring additional shares of newly consolidated subsidiary, MODEC VENTURE 11 B.V. and RANG DONG MV17 B.V., their assets, liabilities, the cost for the share acquisition and the net proceeds from the share acquisition are as follows:

	Millions of Japanese yen
	2010
Current Assets	¥2,380
Property and equipment	13,817
Goodwill	616
Current liabilities	(5,312)
Long-term liabilities	(5,740)
Minority interests in these consolidated subsidiaries	(2,315)
Book value of investment in these consolidated subsidiaries before the additional acquisition	(2,221)
The cost for the share acquisition	1,225
Outstanding amount of the cost for the share acquisition	(1,225)
Cash and cash equivalents of these consolidated subsidiaries	1,684
Net proceeds to acquire the share of newly consolidated subsidiaries	¥1,684

(Changes of Accounting Policies)

(t) Accounting standards for Asset Retirement Obligations and its Implementation Guidance

Effective from the year ended December 31, 2011, the Company and its subsidiaries adopted the new accounting standard, “Accounting Standard for Asset Retirement Obligations” (Statement No.18 issued by the Accounting Standards Board of Japan on March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (Guidance No.21 issued by the Accounting Standards Board of Japan on March 31, 2008).

As a result of adopting these standards, operating profit and income before income taxes and minority interests decreased by ¥11 million ($145,173 thousand) for the year ended December 31, 2011.

(u) Accounting Standard for Equity Method of Accounting for Investments and Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method

Effective from the year ended December 31, 2011, the Company and its subsidiaries adopted the new accounting standard, “Accounting Standard for Equity Method of Accounting for Investments” (Statement No. 16 issued by the Accounting Standards Board of Japan on March 10, 2008) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (PITF No.24 issued by the Accounting Standards Board of Japan on March 10, 2008).

This adoption had no effect on the financial statements.

(v) Accounting standards for business combinations and related matters

The Company adopted the new accounting standard, “Accounting Standard for Business Combinations” (Statement No.21 issued by Accounting Standards Board of Japan on December 26, 2008) which is applied to the business combinations after April 1, 2010.
Furthermore, the Company also adopts the new accounting standard, “Accounting Standard for Business Divestitures” (Statement No.7 issued by Accounting Standards Board of Japan on December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Guidance No.10 issued by Accounting Standards Board of Japan on December 26, 2008).

(Additional Information)

Effective from the year ended December 31, 2011, the Company and its subsidiaries adopted the new accounting standards, “Accounting Standard for Presentation of Comprehensive Income” (Statement No.25 issued by Accounting Standards Board of Japan on June 30, 2010) and “Revised Accounting Standard for Consolidated Financial Statements” (Statement No.22 issued by Accounting Standards Board of Japan on June 30, 2010).

As a result of adopting these standards, the Company and its subsidiaries have presented the consolidated statements of comprehensive income for the year ended December 31, 2011.

2. Inventories

Inventories as of December 31, 2011 and 2010 consisted of the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
Raw materials	¥919	¥32	$11,825
Costs of uncompleted contracts	1,396	843	17,960
	¥2,315	¥875	$29,785

3. Marketable Securities and Investment Securities

The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of December 31, 2011 and 2010

	Millions of Japanese yen		
2011 :	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	—	—	—
Sub Total	—	—	—
Securities with book values not exceeding acquisition costs:			
Equity securities	¥115	¥95	¥(20)
Sub Total	115	95	(20)
Total	¥115	¥95	¥(20)

	Millions of Japanese yen		
2010 :	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	—	—	—
Sub Total	—	—	—
Securities with book values not exceeding acquisition costs:			
Equity securities	¥115	¥99	¥(16)
Sub Total	115	99	(16)
Total	¥115	¥99	¥(16)

	Thousands of U.S. dollars (Note 1 (a))		
2011 :	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	—	—	—
Sub Total	—	—	—
Securities with book values not exceeding acquisition costs:			
Equity securities	$1,477	$1,225	$(252)
Sub Total	1,477	1,225	(252)
Total	$1,477	$1,225	$(252)

4. Goodwill

Goodwill recorded in intangible assets as of December 31, 2011 and 2010 were ¥4,816 million ($61,956 thousand) and ¥3,657 million, respectively.

5. Loans Payable

Short-term loans payable represent notes payable to banks due generally in twelve months and bearing an average interest rate of 0.7% and 1.0% as of December 31, 2011 and 2010, respectively.

Long-term loans payable as of December 31, 2011 and 2010 are summarized below:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
Loans from banks and others due through 2017	¥8,716	¥14,183	$112,111
Less: Current portion included in current liabilities, at average rate of 1.3%	(3,460)	(6,043)	(44,505)
Loans from banks and others, at average rate of 1.9% due through 2017 (Excluding current portion)	¥5,256	¥8,140	$67,606

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

Year ended December 31,	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
2012	¥3,460	$44,505
2013	1,727	22,215
2014	850	10,932
2015	288	3,701
2016	303	3,893
2017 and thereafter	2,088	26,865
	¥8,716	$112,111

6. Asset Retirement Obligation

The Company and its subsidiaries recognized the asset retirement obligation following the office rental contract. The note is not required to disclose due to total amount of this liability is immaterial.

The Company and its subsidiaries estimated the unrecoverable security deposit amount as the asset retirement obligation. This loss is recognized as the expense instead of the liability.

7. Unexecuted Balance of Overdraft Facilities and Lending Commitment

The Company has a commitment line agreement with a syndicate of seven financial institutions, an overdraft facility agreement with one financial institution and a notes payable agreement denominated in U.S. dollars with four financial institutions for the purpose of efficient providing operating funds. The commitment line amount is $110,000 thousand as of December 31, 2011 without any drawdown. The overdraft facility line amount is ¥3,000 million ($38,590 thousand) and the unexecuted balance of loan as of December 31, 2011 is ¥1,000 million ($12,863 thousand). The unexecuted balance of notes payable as of December 31, 2011 is $104 thousand.

8. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is recorded in capital surplus.

Under The Japanese Corporate Law (“the Law”), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Law.

At the annual shareholders' meeting held on March 30, 2011, the shareholders approved cash dividends amounting to ¥522 million for the year ended December 31, 2010.

At the annual shareholders' meeting held on March 29, 2012, the shareholders approved cash dividends amounting to ¥580 million ($7,462 thousand). Such appropriations have not been accrued in the consolidated financial statements as of December 31, 2011. Such appropriations are recognized in the period in which they are approved by the shareholders.

9. Per Share Data

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

Diluted net income per share reflects the effect of potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. There is no outstanding potential common stock for the years ended December 31, 2011 and 2010.

Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

10. Severance and Retirement Benefits for Employees

The severance and retirement benefits for employees recorded in the liability section of the consolidated balance sheets as of December 31, 2011 and 2010 consisted of the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
Projected benefit obligation	¥168	¥159	$2,162
Severance and retirement benefits for employees	¥168	¥159	$2,162

Severance and retirement benefit expenses recorded in the consolidated statements of income for the years ended December 31, 2011 and 2010 consisted of the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
Service costs – benefits earned during the year	¥45	¥24	$578
Others	25	24	321
Severance and retirement benefit expenses	¥70	¥48	$899

11. Research and Development Expenses

Research and development expenses recorded in selling, general and administration expenses were ¥324 million ($4,168 thousand) and ¥814 million for the years ended December 31, 2011 and 2010 respectively.

12. Impairment losses on property, equipment and intangible assets

Impairment losses on property, equipment and intangible assets for the year ended December 31, 2011 consisted of the following:

(a) Overview of the impairment losses on property, equipment and intangible assets

Location	Use	Type of assets	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
Japan	Office	Buildings and structures Machinery and Equipments	¥105	$1,350
Singapore	Inspection	Intangible asset	¥173	$2,231

(b) Grouping Unit

The business assets have been grouped by each company.

(c) The recognition and the amount of the impairment losses

In conjunction with the Company decision to relocate its office and to dispose the fixed assets, the Company reduced the carrying amount of the fixed assets to the recoverable amount and recognized the impairment loss ¥105 million ($1,350 thousand).
The subsidiary in Singapore reduced the carrying amount of the intangible asset of inspection to its recoverable amount due to a downturn in profitability and recognized the impairment loss ¥173 million ($2,231 thousand).

(d) The measurement of the impairment losses

The Company measured the recoverable amount based on a value in use which was not discounted due to the remaining useful lives of the fixed assets were less than one year.
The subsidiary in Singapore measured the recoverable amount based on a value in use and calculated by discounting future cash flow at an interest rate of 1.9%.

13. Income Taxes

The normal statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes are 41% for the years ended December 31, 2011 and 2010.

1) 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 year ended December 31, 2011. For the year ended December 31, 2010, reconciliation is not required to be disclosed because the difference between the rates is less than 5%.

	2011
Statistical income tax rate	41.0%
Difference of statutory tax rate between the Company and overseas subsidiaries	(10.0)
Equity in earnings of affiliates and unconsolidated subsidiaries	(47.0)
Valuation Allowance	11.9
Income of foreign subsidiaries taxed at lower than Japanese normal rate	20.5
Income taxes for prior periods	5.0
Deferred tax assets resulted from the change of the effective corporate tax rate	2.5
Others	3.6
Effective tax rate	27.5%

2) Significant components of deferred tax assets and liabilities as of December 31, 2011 and 2010 are as follows:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
Deferred tax assets:			
Current assets:			
Enterprise tax payable	¥42	—	$545
Accrued employees' bonuses	26	33	340
Provision for product warranty	230	431	2,964
Provision for doubtful debt	139	—	1,794
Impairment loss	48	—	619
Foreign tax credit	191	—	2,461
Other Provisions	1,553	307	19,974
Tax loss carry forward	485	334	6,240
Undistributed profits in a tax haven	135	135	1,742
Foreign exchange losses	—	1,279	—
Tax effect to the investment for the liquidated subsidiaries	—	739	—
Others	414	526	5,289
Sub total	3,263	3,784	41,968
Valuation Allowance	(741)	(391)	(9,531)
Offset to deferred tax liabilities (short-term)	(205)	(397)	(2,633)
Total	2,317	2,996	29,804
Fixed assets:			
Unrealized inter-company profit on fixed assets	2,917	2,832	37,524
Tax loss carry forward	533	1,019	6,857
Long-term foreign exchange losses	1,212	—	15,586
Loss on valuation of golf membership	—	20	—
Severance and retirement benefits for employees	61	65	778
Depreciation	418	—	5,381
Long-term foreign tax credit	161	—	2,075
Long term account payable	—	124	—
Other Provisions	—	178	—
Net unrealized holding losses on securities	—	6	—
Others	63	66	803
Sub total	5,365	4,310	69,004
Valuation allowance	(288)	(324)	(3,703)
Offset to deferred tax liabilities (long-term)	(1,642)	(2,580)	(21,118)
Total	3,435	1,406	44,183
Total deferred tax assets	¥5,752	¥4,402	$73,987

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
Deferred tax liabilities:			
Current liabilities:			
Temporary difference of foreign exchange gain in overseas subsidiaries	¥(96)	¥(106)	$(1,235)
Others	(140)	(298)	(1,795)
Sub total	(236)	(404)	(3,030)
Offset to deferred tax assets (short-term)	205	397	2,633
Total	(31)	(7)	(397)
Long-term liabilities:			
Depreciation	(755)	(1,337)	(9,716)
Difference on percentage-of-completion method	(241)	(375)	(3,097)
Undistributed earnings of overseas subsidiaries	(947)	(1,501)	(12,172)
Others	—	(77)	—
Sub total	(1,943)	(3,290)	(24,985)
Offset to deferred tax assets (long-term)	1,642	2,580	21,118
Total	(301)	(710)	(3,867)
Total deferred tax liabilities	(332)	(717)	(4,264)
Net deferred tax assets	¥5,420	¥3,685	$69,723

3) The revision of the corporate income tax rate after December 31, 2011:

The "Reform bill for partial revision of income tax law, etc. in response to the changing economic structure" (Bill No.114, 2011) and "Special measure to secure the funds to realize the restoration of the damages following the Great East Japan Earthquake" (Bill No.117, 2011) were promulgated on December 2, 2011.

From the year beginning on or after January 1, 2013, the reduced corporate income tax rate and the special surtax for the restoration of the damages following the Great East Japan Earthquake is enacted.

38.0% is applied to the temporary differences which suppose to be eliminated from the year beginning on or after January 1, 2013 to the year beginning on or after January 1, 2015. And 36.0% is applied to the temporary differences which suppose to be eliminated on or after January 1, 2016.

Applying this revision, the deferred tax expense increased by ¥115 million ($1,480 thousand) and the long-term deferred tax asset decreased by ¥115 million ($1,480 thousand) from the year ended December 31, 2011.

14. Contingent Liabilities and Commitments

As of December 31, 2011 and 2010, the Company was contingently liable for the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
Guarantees of bank loans and other indebtedness for unconsolidated subsidiaries and affiliates	¥33,880	¥51,844	$435,806
Guarantees of interest rate swap contracts for unconsolidated subsidiaries and affiliates	—	¥ (6,346)	—

For the year ended December 31, 2011, the fair market values of swap contracts are included in the consolidated financial statements due to the adoption of “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (PITF No.24 issued by the Accounting Standards Board of Japan on March 10, 2008).

15. Leases

(Lessor)

Future lease receivables related to the non-cancellable operating lease are as follows:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
Due within one year	¥990	¥1,035	$12,737
Due after one year	4,775	6,045	61,422
Total	¥5,765	¥7,080	$74,159

16. Financial Instruments

(a) Articles concerning status of financial instruments

i) Policies for financial instruments

The Company and its consolidated subsidiaries adopt only short-term financial instruments for operating funds.

The Company and its consolidated subsidiaries have the policy of procuring bank-loans to raise funds.

As to derivative financial instruments, the Company and its consolidated subsidiaries utilize them not for speculation but for hedging purpose only.

ii) Substances and risks of financial instruments and managing of financial instruments

Accounts receivable - trade are exposed to credit risks of customers. The Company and its subsidiaries research the credit standings and select credit worthy customers, and manage the balance of accounts receivable - trade at regular intervals to reduce credit risks.

Short-term and long-term loans receivable that are granted to cater the affiliated companies mainly established to accomplish charter projects are exposed to credit risks of their customers. The Company reduces the share of risks by arranging project finance or by the cooperation with general trading companies and other business partners.

Majority of accounts receivable - trade and loans receivable are denominated in foreign currencies and net of these balances with accounts payable - trade and loans payable are exposed to currency fluctuation risks. These risks are basically hedged by using forward foreign exchange contracts.

Investment securities are exposed to market fluctuation risks. The Company and its subsidiaries have the business relationships with the issuers of most of investment securities and periodically research the fair market value and financial position of the issuers.

Majority of accounts payable - trade are due within one year. Accounts payable - trade denominated in foreign currencies arising from overseas procurement of materials are exposed to currency fluctuation risks, but these accounts payable - trade are controlled not to exceed accounts receivable - trade in the same foreign currencies.

Short-term and long-term loans payable are mainly raising funds for the affiliated companies. Majority of loans payable are exposed to currency fluctuation risks, but these loans payable are not exceed loans receivable in the same foreign currencies. In addition, the Company arranges the interest rate swap transaction for some of long-term loans payable by each contract to fix the interest expense and to reduce the interest rate fluctuation risks.

Derivative transactions are consisted of mainly forward foreign exchange contracts arranged for the purpose of hedging currency fluctuation risks arising from foreign currency accounts receivable - trade and accounts payable - trade, and interest rate swap transaction for the purpose of interest rate fluctuation risks arising from loans payable.

Accounts payable – trade and loans payable are exposed to the liquidity risks. To manage the liquidity risks, our finance sections appropriately prepare and update the cash management plan.

iii) Supplementary explanation about fair value of financial instruments
The fair value is based on their fair market value quoted market price, if available, or reasonably estimated value if market price is not available. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amount is not indicative of the actual market risk involved in derivative transactions.

As to the contract amount of derivatives transactions, please see the following “(b) Articles concerning fair value of financial instruments”.

(b) Articles concerning fair value of financial instruments

Consolidated balance sheets amounts and fair market value of financial instruments, the difference between for the year ended December 31, 2011 and 2010 are as follows. Financial instruments in which the fair value is considered to be extremely difficult to recognize are not included in the list below.

2011	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥17,320	¥17,320	—
(2) Accounts receivable – trade	48,486	48,486	—
(3) Short-term loans receivable	6,244	6,244	—
(4) Investment securities	95	95	—
(5) Long-term loans receivable	8,754	10,015	1,261
Assets total	¥80,899	¥82,160	¥1,261
(6) Accounts payable – trade	¥46,233	¥46,233	—
(7) Short-term loans payable	2,000	2,000	—
(8) Current portion of long-term loans payable	3,460	3,460	—
(9) Long-term loans payable	5,256	5,231	(25)
Liabilities total	¥56,949	¥56,924	¥ (25)
(10) Derivative transactions *			
i) Derivative transactions for which hedge accounting has not been applied	¥453	¥453	—
ii) Derivative transactions for which hedge accounting has been applied	(716)	(716)	—
Derivative transactions total	¥ (263)	¥ (263)	—

2010	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥12,122	¥12,122	—
(2) Accounts receivable – trade	43,082	43,082	—
(3) Short-term loans receivable	31,291	31,291	—
(4) Investment securities	99	99	—
(5) Long-term loans receivable	11,564	11,728	164
Assets total	¥98,158	¥98,322	¥164
(6) Accounts payable – trade	¥41,562	¥41,562	—
(7) Short-term loans payable	17,194	17,194	—
(8) Current portion of long-term loans payable	6,043	6,043	—
(9) Long-term loans payable	8,140	8,239	99
Liabilities total	¥72,939	¥73,038	¥99
(10) Derivative transactions *			
i) Derivative transactions for which hedge accounting has not been applied	¥2,564	¥2,564	—
ii) Derivative transactions for which hedge accounting has been applied	(685)	(685)	—
Derivative transactions total	¥1,879	¥1,879	—

2011	Thousands of U.S. dollars (Note 1 (a))		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	$222,794	$222,794	—
(2) Accounts receivable – trade	623,698	623,698	—
(3) Short-term loans receivable	80,325	80,325	—
(4) Investment securities	1,225	1,225	—
(5) Long-term loans receivable	112,611	128,831	16,220
Assets total	$1,040,653	$1,056,873	$16,220
(6) Accounts payable – trade	$594,711	$594,711	—
(7) Short-term loans payable	25,727	25,727	—
(8) Current portion of long-term loans payable	44,505	44,505	—
(9) Long-term loans payable	67,606	67,282	(324)
Liabilities total	$732,549	$732,225	$ (324)
(10) Derivative transactions *			
i) Derivative transactions for which hedge accounting has not been applied	$5,824	$5,824	—
ii) Derivative transactions for which hedge accounting has been applied	(9,214)	(9,214)	—
Derivative transactions total	$ (3,390)	$(3,390)	—

*Derivative transactions are presented net of receivables and payables, and figures within parenthesis indicate payables.

(note 1) Articles concerning calculation method of fair value, marketable securities and derivative transactions

<u>Assets</u>

(1) Cash and deposits, (2) Accounts receivable – trade and (3) Short-term loans receivable

Fair value of these accounts is stated at the balance sheet amounts because they are considered to be close to the balance sheet amounts and these accounts are settled in short-term.

(4) Investment securities

Fair value of these accounts is based on available market price. Securities held by intent are described in the corresponding pages. (Please see 3. Marketable Securities and Investment Securities.)

(5) Long-term loans receivable

Fair value of these accounts is stated at the present value calculated from the future cash flows discounted by the premium-added rate on the proper index like yield on the government bonds.

Liabilities

(6) Accounts payable – trade, (7) Short-term loans payable and (8) Current portion of long-term loans payable

Fair value of these accounts is stated at the balance sheet amounts because they are considered to be close to the balance sheet amounts and these accounts are settled in short-term.

(9) Long-term loans payable

Fair market value of long-term loans payable with floating interest rate is stated at the balance sheet date. Considering that floating interest rate reflects latest market conditions and credit of the Company considered being almost same as before, fair market value of long-term loans payable is close to the balance sheet amounts.

The exceptional treatment for interest rate swap transaction is applied to some of long-term loans payable. These principals and interests are discounted by the practically estimated interest rates which are applied to when the Company arrange the same loans payable from the outside.

Derivative Transactions

Please see 17. Derivative Transactions of the Company and its Consolidated Subsidiaries.

(note 2) Financial instruments for which the fair value is considered to be extremely difficult to recognize are as follows:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2011	2010	2011
Unlisted equity securities	¥10,807	¥12,256	$139,010

As to these financial instruments, there is no available fair market value. So these financial instruments are not included in (4) Investment securities because it is considered to be extremely difficult to recognize fair market value.

(note 3) The expected redemption amount of monetary credit and securities with maturity after December 31, 2011 and 2010 are as follows:

2011	Millions of Japanese yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	¥17,320	—	—	—
Accounts receivable – trade	48,486	—	—	—
Short-term loans receivable	6,244	—	—	—
Long-term loans receivable	—	4,221	3,173	1,360

2010	Millions of Japanese yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	¥12,122	―	―	―
Accounts receivable – trade	43,050	32	―	―
Short-term loans receivable	31,291	―	―	―
Long-term loans receivable	―	6,057	3,327	2,180

2011	Thousands of U.S. dollars (Note 1 (a))			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	$222,794	―	―	―
Accounts receivable – trade	623,698	―	―	―
Short-term loans receivable	80,325	―	―	―
Long-term loans receivable	―	54,300	40,815	17,496

(note 4) The aggregate annual maturities of long-term loans payable are as follows:

	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
2013	¥1,727	$22,215
2014	850	10,932
2015	288	3,701
2016	303	3,893
2017 and thereafter	2,088	26,865
Total	¥5,256	$67,606

(Additional Information)
Effective from the year ended December 31, 2010, the Company and its consolidated subsidiaries adopted the revised accounting standard, "Accounting Standard for Financial Instruments" (Statement No.10 issued by ASBJ on March 10, 2008) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (Guidance No. 19 issued by ASBJ on March 10, 2008).

17. 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:
Foreign exchange forward contracts	Foreign currency receivables and payables including future transactions
Currency swap contracts	Foreign currency receivables and payables
Currency option contracts	Foreign currency receivables and payables
Interest rate swap contracts	Foreign currency bonds and loans payable

The Company evaluates hedge effectiveness on a quarterly 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.

(a) The following tables summarize market value information as of December 31, 2011 and 2010 of derivative transactions for which hedge accounting has not been applied:

	Millions of Japanese yen			
	Notional amount			
2011:	Total	Due after one year	Market value	Unrealized gain (loss)
Currency swaps:				
Receive / JPY Floating rate				
Pay / USD Fixed rate	¥2,300	—	¥453	¥453
				¥453

	Millions of Japanese yen			
	Notional amount			
2010:	Total	Due after one year	Market value	Unrealized gain (loss)
Currency related derivatives:				
Foreign exchange forward contracts:				
To buy U.S. dollars	¥5,890	—	¥5,863	¥ (27)
To sell U.S. dollars	24,612	—	22,861	1,751
				¥1,724
Currency swaps:				
Receive / JPY Floating rate				
Pay / USD Fixed rate	¥5,000	¥2,300	¥840	¥840
				¥840

2011:	Thousands of U.S. dollars (Note 1 (a)) Notional amount Total	Due after one year	Market value	Unrealized gain (loss)
Currency swaps:				
Receive / JPY Floating rate				
Pay / USD Fixed rate	$29,586	—	$5,824	$5,824
				$5,824

(b) The following tables summarize market value information as of December 31, 2011 and 2010 of derivative transactions for which hedge accounting has been applied

2011
Currency related derivatives

Type	Hedged Items	Millions of Japanese yen Contract Amount Total	Due after one year	Market Value
Forward contract (Principle method)	Accounts payable – trade and others			
To buy STG pounds		¥80	–	¥ (3)
To buy Euro		539	–	(18)
To buy Norwegian krone		1,522	–	(18)
				¥ (39)

2010
Currency related derivatives

Type	Hedged Items	Millions of Japanese yen Contract Amount Total	Due after one year	Market Value
Forward contract (Principle method)	Accounts payable – trade and others			
To buy STG pounds		¥129	–	¥129
To buy Euro		338	–	337
				¥466

2011
Currency related derivatives

Type	Hedged Items	Thousands of U.S. dollars (Note 1 (a)) Contract Amount Total	Due after one year	Market Value
Forward contract (Principle method)	Accounts payable – trade and others			
To buy STG pounds		$1,025	–	$(34)
To buy Euro		6,929	–	(234)
To buy Norwegian krone		19,584	–	(239)
				$(507)

(note 1) Effective from January 1, 2011, the amount of market value does not include the notional amount.

2011
Interest related derivatives

Type	Hedged Items	Millions of Japanese yen Contract Amount Total	Due after one year	Market Value
Interest rate swap (Principle method)				
To receive float, pay fix	Long-term loans payable	¥4,497	¥3,942	¥ (677)
Interest rate swap (Exceptional treatment)				
To receive float, pay fix	Short-term loans payable and Long-term loans payable	2,300	—	(note 2)
				¥ (677)

2010

Interest related derivatives

Type	Hedged Items	Millions of Japanese yen		
		Contract Amount		
		Total	Due after one year	Market Value
Interest rate swap (Principle method)	Long-term loans payable			
To receive float, pay fix		¥5,269	¥4,716	¥ (682)
Interest rate swap (Exceptional treatment)	Short-term loans payable and Long-term loans payable			
To receive float, pay fix		6,184	2,300	(116)
				¥ (798)

2011

Interest related derivatives

Type	Hedged Items	Thousands of U.S. dollars (Note 1 (a))		
		Contract Amount		
		Total	Due after one year	Market Value
Interest rate swap (Principle method)	Long-term loans payable			
To receive float, pay fix		$57,845	$50,702	$(8,707)
Interest rate swap (Exceptional treatment)	Short-term loans payable and Long-term loans payable			
To receive float, pay fix		29,586	—	(note 2)
				$(8,707)

(note 2) Effective from January 1, 2011, interest rate swap evaluated by exceptional treatment is treated as a single item and market value evaluated by exceptional treatment is included in the market value of the current portion of long-term loans payable.

18. <u>Business Combinations</u>

Transactions applied to purchase method during the year ended December 31, 2010.

(1) Outline of the business combination

(a) Name of company acquired and its businesses
Name of company :MODEC VENTURE 11 B.V.
Line of Business :Charter of FPSO

(b) Main reason for the business combination
It is expected that steady production from the charter project contribute to the mid-and-long term expansion of profit of MODEC Group

(c) Date of business combination
December 31, 2010

(d) Legal form of business combination
Acquisition of shares for cash consideration

(e) Name of entity after business combination
MODEC VENTURE 11 B.V.

(f) Percentage share of voting rights acquired

Before business combination	40%
Additional share acquired at the date of business combination	20%
Total	60%

(g) Main reason for deciding acquired company
It is because the Company acquired the share for cash consideration

(2) Period of business results of the acquired company included in the financial statements

Since the company was regarded as being acquired on December 31, 2010, none of its business results is included in the financial statements of the Company and its subsidiaries.
However, the Company includes their profits as Equity in earnings.

(3) The measurement of acquisition cost

(a) Acquisition Cost of the Company and Breakdown of the Cost

		Millions of Japanese yen
		2010
Acquisition cost of shares	Common stock of MODEC VENTURE 11 B.V.	¥1,174
Expenses directly incurred for acquisition		—
Acquisition Cost - Net		¥1,174

(b) Gain of step acquisition is ¥34 million

(4) Goodwill, reason for recognizing goodwill, amortization method and amortization period

(a) Amounts of goodwill
¥51 million
(b) Reason for recognizing goodwill
The acquisition cost exceeded the fair value of the company at the time of business combination and the variance between these amounts is recognized as goodwill.
(c) Method and period to amortize goodwill
Straight-line method over effective period

(5) Amounts of assets and liabilities acquired on the day of the business combination

	Millions of Japanese yen
Current assets	¥ 2,021
Property and equipment	8,006
Total assets	10,027
Current liabilities	3,726
Long-term liabilities	514
Total liabilities	¥ 4,240

19. Segment Information

Industry segment information for the year ended December 31, 2010 is 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, 2010 is as follows:

2010:	Japan	Asia	Central and South America	North America	Others	Total	Corporate and Elimination	Consolidated
	Millions of Japanese yen							
Sales:								
Outside customers	¥38,589	¥10,896	¥859	¥96,317	¥0	¥146,661	–	¥146,661
Inter segment	3,689	961	―	23,072	942	28,664	(28,664)	―
Total	42,278	11,857	859	119,389	942	175,325	(28,664)	146,661
Operating expenses	42,391	11,578	1,044	115,682	917	171,612	(28,515)	143,097
Operating profit (losses)	¥ (113)	¥279	¥ (185)	¥3,707	¥25	¥3,713	¥ (149)	¥3,564
Assets	¥106,026	¥5,102	¥747	¥63,779	¥21,311	¥196,965	¥ (50,337)	¥146,628

The overseas sales of the Company and its consolidated subsidiaries for the year ended December 31, 2010 consisted of the following:

2010:	Asia	Africa	Oceania	Central and South America	North America	Other	Total
	Millions of Japanese yen						
Overseas sales	¥6,901	¥48,292	¥10,316	¥80,137	¥427	¥225	¥146,298
Consolidated sales	―	―	―	―	―	―	¥146,661
The ratio of consolidated sales	4.7%	32.9%	7.0%	54.6%	0.3%	0.2%	99.7%

[Related Information]

(1) Overview of Reportable Segment

The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as single business and overview of reportable segment is omitted.

(Additional information)
Effective from the year ended December 31, 2011, the Company and its subsidiaries adopted the new accounting standard, "Accounting Standard for Disclosures about Segments of an Enterprise and Related information (Statement No.17 issued by the Accounting Standards Board of Japan on March 27, 2009) and the Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related information (Guidance No.20 issued by the Accounting Standards Board of Japan on March 21, 2008).

(2) Information by products and services

The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as single business and information by products and services is omitted.

(3) Information by geographical area

(a) Sales

Millions of Japanese yen					
Brazil	Angola	Oceania	Asia	Other	Total
¥76,050	¥24,464	¥11,197	¥8,959	¥9,298	¥129,968

Thousands of U.S. dollars (Note 1 (a))					
Brazil	Angola	Oceania	Asia	Other	Total
$978,257	$314,691	$144,035	$115,241	$119,611	$1,671,835

(Note) Sales amount is based on the place of customer and classified by country or geographical area.

(b) Property and equipment

Millions of Japanese yen			
Australia	Vietnam	Other	Total
¥5,985	¥5,349	¥629	¥11,963

Thousands of U.S. dollars (Note 1 (a))			
Australia	Vietnam	Other	Total
$76,985	$68,804	$8,101	$153,890

(4) Information by major customer

Millions of Japanese yen		
Customer	Sales	Related Segment
GUARA MV23 B.V.	¥33,817	(note 1)
BP EXPLORATION (ANGOLA) LTD.	24,464	(note 1)
OSX 3 LEASING B.V.	16,044	(note 1)

Thousands of U.S. dollars (Note 1 (a))		
Customer	Sales	Related Segment
GUARA MV23 B.V.	$435,003	(note 1)
BP EXPLORATION (ANGOLA) LTD.	314,691	(note 1)
OSX 3 LEASING B.V.	206,374	(note 1)

(note 1) The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as single business and related segment is omitted.

[Information about losses on impairment of property and equipment for each Reportable Segment]
Not applicable.

[Information about goodwill amortization amount and year-end balance for each Reportable Segment]
Not applicable.

[Information about gains on negative goodwill for each Reportable Segment]
Not applicable.

20. Related Party Transactions

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2011 are as follows:

2011: Related party	Transactions	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
JUBILEE GHANA MV21 B.V.	Disbursement of loans for capital expenditure	¥2,182	$28,072
JUBILEE GHANA MV21 B.V.	Collection of loans for capital expenditure	17,511	225,245
TUPI PILOT MV22 B.V.	Disbursement of loans for working capital	7,908	101,721
TUPI PILOT MV22 B.V.	Collection of loans for capital expenditure	9,810	126,193
GUARA MV23 B.V.	Construction of FPSO (Sales)	34,426	442,829
GUARA MV23 B.V.	Disbursement of loans for capital expenditure	24,363	313,386
GUARA MV23 B.V.	Collection of loans for capital expenditure	39,339	506,027
GUARA MV23 B.V.	Guarantees of bank Loans	29,302	376,929
CERNAMBI SUL MV24 B.V.	Construction of FPSO (Sales)	1,371	17,634
CERNAMBI SUL MV24 B.V.	Disbursement of loans for capital expenditure	4,766	61,312
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Construction of FPSO (Cost of sales)	21,333	274,410

2011: Related party	Balances	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
MODEC VENTURE 10 B.V.	Short-term loans receivable	¥1,555	$20,000
ESPADARTE MV14 B.V.	Long-term loans receivable	1,796	23,100
OPPORTUNITY MV18 B.V.	Long-term loans receivable	1,679	21,600
SONG DOC MV19 B.V.	Long-term loans receivable	2,425	31,200
GAS OPPORTUNITY MV20 B.V.	Long-term loans receivable	2,078	26,735
JUBILEE GHANA MV21 B.V.	Short-term loans receivable	155	2,000
TUPI PILOT MV22 B.V.	Long-term loans receivable	3,172	40,800
GUARA MV23 B.V.	Short-term loans receivable	861	11,080
GUARA MV23 B.V.	Accounts receivable	9,684	124,569
CERNAMBI SUL MV24 B.V.	Short-term loans receivable	4,668	60,040
CERNAMBI SUL MV24 B.V.	Accounts receivable	1,367	17,587
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Accounts payable	5,490	70,614

Significant related party balances between the consolidated subsidiaries and the parent company or major shareholders (corporation only) for the year ended December 31, 2011 are as follows:

2011: Related party	Balances	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
MITSUI & CO., LTD.	Long-term loans payable	¥1,931	$24,835

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2011 are as follows:

2011: Related party	Transactions	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
JUBILEE GHANA MV21 B.V.	Construction of FPSO (Sales)	¥2,901	$37,323
CERNAMBI SUL MV24 B.V.	Construction of FPSO (Sales)	7,271	93,528

2011: Related party	Balances	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
JUBILEE GHANA MV21 B.V.	Accounts receivable - trade	¥1,556	$20,018
CERNAMBI SUL MV24 B.V.	Accounts receivable - trade	7,228	92,974

Significant related party transactions and corresponding balance between the Company and the parent company or major shareholders (corporation only) for the year ended December 31, 2010 are as follows:

2010 : Related party	Transactions	Millions of Japanese yen
MITSUI ENGINEERING & SHIPBUILDING CO., LTD.	Underwrite an issue	¥7,809

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2010 are as follows:

2010 : Related party	Transactions	Millions of Japanese yen
RONG DOI MV12 PTE. LTD.	Guarantees of bank Loans	¥1,335
GAS OPPORTUNITY MV20 B.V.	Disbursement of loans for working capital	17,536
GAS OPPORTUNITY MV20 B.V.	Collection of loans for capital expenditure	16,043
JUBILEE GHANA MV21 B.V.	Guarantees of bank Loans	16,376
TUPI PILOT MV22 B.V.	Disbursement of loans for capital expenditure	5,352
TUPI PILOT MV22 B.V.	Guarantees of bank Loans	26,165
GUARA MV23 B.V.	Disbursement of loans for capital expenditure	16,352
GUARA MV23 B.V.	Guarantees of bank Loans	5,722
GUARA MV23 B.V.	Construction of FPSO (Sales)	33,389
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Construction of FPSO (Cost of sales)	15,138

2010 : Related party	Balances	Millions of Japanese yen
MODEC VENTURE 10 B.V.	Long-term loans receivable	¥1,630
ESPADARTE MV14 B.V.	Long-term loans receivable	1,883
OPPORTUNITY MV18 B.V.	Long-term loans receivable	1,761
SONG DOC MV19 B.V.	Long-term loans receivable	2,543
GAS OPPORTUNITY MV20 B.V.	Long-term loans receivable	2,179
JUBILEE GHANA MV21 B.V.	Short-term loans receivable	16,194
GUARA MV23 B.V.	Short-term loans receivable	15,637
GUARA MV23 B.V.	Accounts receivable - trade	15,297
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Accounts payable - trade	4,538

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2010 are as follows:

2010 :

Related party	Transactions	Millions of Japanese yen
JUBILEE GHANA MV21 B.V.	Construction of FPSO (sales)	¥10,495
TUPI PILOT MV22 B.V.	Construction of FPSO (sales)	25,547

2010 :

Related party	Balances	Millions of Japanese yen
JUBILEE GHANA MV21 B.V.	Accounts receivable - trade	¥2,918
TUPI PILOT MV22 B.V.	Accounts receivable - trade	3,525