

May 11, 2023

Consolidated Financial Results for the Three Months Ended March 31, 2023 (IFRS)

Company name: MODEC, INC.
 Listing: Tokyo Stock Exchange
 Securities code: 6269
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 Scheduled date to file quarterly securities report: May 12, 2023
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: None
 Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions.)

1. Consolidated financial results for the three months ended March 31, 2023 (from January 1, 2023 to March 31, 2023)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit	
	million yen	%	million yen	%	million yen	%	million yen	%
Three months ended								
March 31, 2023	99,472	22.3	2,759	—	2,755	—	1,255	—
March 31, 2022	81,310	(34.8)	(1,557)	—	(2,488)	—	(2,042)	—

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	million yen	%	million yen	%	yen	yen
Three months ended						
March 31, 2023	413	—	(3,536)	—	7.34	7.33
March 31, 2022	(2,039)	—	8,955	(34.3)	(36.18)	(36.18)

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
	million yen	million yen	million yen	%
As of				
March 31, 2023	401,163	108,790	103,999	25.9
December 31, 2022	416,206	111,625	107,712	25.9

Note: The original condensed consolidated financial statements of MODEC, INC. and its subsidiaries (hereinafter "the Company") for the three months ended March 31, 2023 and 2022 and for the year ended December 31, 2022 are presented in US dollars on page 4 of this material. The amount presented for consolidated operating results and consolidated financial position are converted to Japanese yen, respectively, as follows:

March 31, 2023 1 US dollar = 133.54 Japanese yen at the TTM rate of Sumitomo Mitsui Banking Corporation as of March 31, 2023

March 31, 2022 1 US dollar = 122.41 Japanese yen at the TTM rate of Sumitomo Mitsui Banking Corporation as of March 31, 2022

December 31, 2022 1 US dollar = 132.71 Japanese yen at the TTM rate of Sumitomo Mitsui Banking Corporation as of December 30, 2022

The percentage indicating year-on-year changes is calculated on Japanese yen basis presented above.

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total
Year ended December 31, 2022	yen —	yen 0.00	yen —	yen 0.00	yen 0.00
Year ending December 31, 2023	—				
Year ending December 31, 2023 (Forecast)		—	—	—	—

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Earnings forecast for 2023 (from January 1, 2023 to December 31, 2023)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full Year	398,130	9.5	7,962	(20.4)	9,289	27.7	5,971	20.4	105.94

Note: Revisions to the forecast most recently announced: None

The original consolidated earnings forecast of the Company is presented in US dollars on page 4 of this material. The amount presented for the earnings forecast for 2023 is converted to Japanese yen at 132.71 yen at the TTM rate of Sumitomo Mitsui Banking Corporation as of December 30, 2022.

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates

(i) Changes in accounting policies required by IFRS: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(3) Number of issued shares (ordinary shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2023	56,408,000 shares
As of December 31, 2022	56,408,000 shares

(ii) Number of treasury shares at the end of the period

As of March 31, 2023	38,217 shares
As of December 31, 2022	38,217 shares

(iii) Average number of shares outstanding during the period

Three months ended March 31, 2023	56,369,783 shares
Three months ended March 31, 2022	56,362,900 shares

* Quarterly financial results are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts and other special matters

- The Company voluntarily adopted International Financial Reporting Standards (IFRS) from the year ended December 31, 2021 for the consolidated financial statements.
- Accompanying condensed quarterly consolidated financial statements and selected notes are presented in functional currency of the Company, US dollars.
- Earnings forecast and other forward-looking statement included in this material are based on information currently available to the Company and are based on assumptions deemed reasonable. They are not meant to be a guarantee of future performance or outcomes. Actual results may differ materially subject to various factors.

[Reference] Consolidated financial results for the three months ended March 31, 2023 and earnings forecast for the year ending December 31, 2023 presented in functional currency of the Company, US dollars

(US dollar amounts are rounded down to thousands.)

1. Consolidated financial results for the three months ended March 31, 2023 (from January 1, 2023 to March 31, 2023)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit	
	US\$ thousand	%	US\$ thousand	%	US\$ thousand	%	US\$ thousand	%
Three months ended								
March 31, 2023	744,888	12.1	20,665	—	20,634	—	9,402	—
March 31, 2022	664,247	(41.0)	(12,725)	—	(20,328)	—	(16,688)	—

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share		Diluted earnings per share	
	US\$ thousand	%	US\$ thousand	%	US\$		US\$	
Three months ended								
March 31, 2023	3,096	—	(26,482)	—	0.05		0.05	
March 31, 2022	(16,657)	—	73,162	(34.3)	(0.30)		(0.30)	

(2) Consolidated financial position

	Total assets		Total equity		Equity attributable to owners of parent		Ratio of equity attributable to owners of parent to total assets	
	US\$ thousand		US\$ thousand		US\$ thousand		%	
As of								
March 31, 2023	3,004,069		814,665		778,791		25.9	
December 31, 2022	3,136,213		841,121		811,640		25.9	

2. Earnings forecast for 2023 (from January 1, 2023 to December 31, 2023)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share	
	US\$ thousand	%	US\$ thousand	%	US\$ thousand	%	US\$ thousand	%	US\$	
Full Year	3,000,000	9.5	60,000	(20.4)	70,000	27.7	45,000	20.4	0.80	

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1. Qualitative information on quarterly financial results

(1) Results of operations

In the first quarter of this year, the personal consumption and corporate profits recovery were observable in Japanese economy. However, it still faces the growing uncertainties due to the soaring energy and raw material prices. On the other hand, the global economy was generally on a moderate recovery trend.

Oil price temporarily fell to the upper US\$60s a barrel due to the financial instability caused by the bankruptcy of US regional banks. Since then, it rose to the mid US\$70s a barrel at the end of this quarter due to the ease of concern over the financial system as the result of subsequent actions taken by the financial authorities and the tightened supply and demand of oil caused by the suspension of oil pipeline operations in the Middle East. Coexisting with the decarbonization trend and maintaining stable energy supply remains an important issue. In that context the Group expects the oil companies to maintain the deep-sea oilfield development projects. In addition, the Group expects steady demand for the Group's main business of floating, production, storage and offloading systems for oil and gas productions especially in the ultra-deep water large-scale projects in which the Group has a competitive advantage.

Under these circumstances, for the three months ended as of March 31, 2023, the total orders on a consolidated basis resulted in US\$239,641 thousand (US\$127,149 thousand in YTD 1Q 2022) due to the variation orders of FPSO construction projects. The consolidated revenue was US\$744,888 thousand (US\$664,247 thousand in YTD 1Q 2022) due to progress in the construction of FPSOs.

In terms of profit, the operating profit was US\$20,665 thousand (operating loss of US\$12,725 thousand in YTD 1Q 2022). This is due to the revenue recognized from the progress of construction projects and share of profit of investments accounted for using equity method despite the lowering effect of profit from the improvement costs of asset integrity incurred for the FPSOs and FSO operating in Brazil.

In addition, the amount of finance income and finance costs were approximately the same despite exchange loss incurred from asset denominated in foreign currency due to the effect of higher US dollars, and therefore the profit before tax for the three months ended as of March 31, 2023 was US\$20,634 thousand (loss before tax of US\$20,328 thousand in YTD 1Q 2022). As a result, the profit attributable to owners of parent for the three months was US\$3,096 thousand (loss attributable to owners of parent of US\$16,657 thousand in YTD 1Q 2022).

(2) Financial position

The total assets at the end of first quarter of this year decreased by US\$132,144 thousand to US\$3,004,069 thousand from the end of previous year primarily due to decrease in cash and cash equivalents and trade and other receivables.

The total liabilities decreased by US\$105,688 thousand to US\$2,189,404 thousand from the end of previous year primarily due to decrease in trade and other payables and contract liabilities.

The total equity decreased by US\$26,456 thousand to US\$814,665 thousand from the end of previous year primarily due to decrease in other components of equity.

2. Condensed quarterly consolidated financial statements and selected notes

(1) Condensed quarterly consolidated statement of financial position

in thousands of US dollars

	December 31, 2022	March 31, 2023
Assets		
Current assets		
Cash and cash equivalents	492,625	466,122
Trade and other receivables	478,083	373,371
Contract assets	257,328	262,712
Other financial assets	37,288	39,480
Other current assets	141,820	158,310
Total current assets	1,407,147	1,299,997
Non-current assets		
Property, plant and equipment	64,314	61,882
Intangible assets	70,213	67,724
Investments accounted for using equity method	1,114,066	1,097,019
Loans receivable	365,032	366,747
Other financial assets	13,603	13,954
Deferred tax assets	65,016	62,100
Other non-current assets	36,819	34,641
Total non-current assets	1,729,066	1,704,071
Total assets	3,136,213	3,004,069

in thousands of US dollars

	December 31, 2022	March 31, 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	921,708	887,201
Contract liabilities	499,383	443,862
Borrowings	19,084	31,155
Income taxes payable	38,389	45,703
Provisions	109,704	110,791
Other financial liabilities	99,219	107,337
Other current liabilities	76,954	63,654
Total current liabilities	1,764,443	1,689,707
Non-current liabilities		
Bonds and borrowings	374,293	360,075
Deferred tax liabilities	1,283	678
Defined benefit liability	43,959	42,648
Provisions	56,675	55,899
Other financial liabilities	37,127	33,836
Other non-current liabilities	17,310	6,558
Total non-current liabilities	530,649	499,696
Total liabilities	2,295,092	2,189,404
Equity		
Share capital	282,292	282,292
Capital surplus	280,686	280,713
Retained earnings	131,004	134,073
Treasury shares	(1,092)	(1,092)
Other components of equity	118,748	82,804
Equity attributable to owners of parent	811,640	778,791
Non-controlling interests	29,481	35,873
Total equity	841,121	814,665
Total liabilities and equity	3,136,213	3,004,069

(2) Condensed quarterly consolidated statement of profit or loss and condensed quarterly consolidated statement of other comprehensive income

Condensed quarterly consolidated statement of profit or loss
For the three months ended March 31

in thousands of US dollars

	2022	2023
Revenue	664,247	744,888
Cost of sales	(657,272)	(715,939)
Gross profit	6,975	28,948
Selling, general and administrative expenses	(44,171)	(42,488)
Share of profit of investments accounted for using equity method	24,750	34,097
Other income	114	235
Other expenses	(395)	(127)
Operating profit (loss)	(12,725)	20,665
Finance income	16,262	11,973
Finance costs	(23,865)	(12,004)
Profit (loss) before tax	(20,328)	20,634
Income tax expense	3,640	(11,232)
Profit (loss) for the period	(16,688)	9,402

Profit attributable to		
Owners of parent	(16,657)	3,096
Non-controlling interests	(30)	6,305
Profit (loss) for the period	(16,688)	9,402

in US dollars

Earnings per share		
Basic earnings per share	(0.30)	0.05
Diluted earnings per share	(0.30)	0.05

Condensed quarterly consolidated statement of other comprehensive income

For the three months ended March 31

in thousands of US dollars

	2022	2023
Profit (loss) for the period	(16,688)	9,402
Other comprehensive Income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit liability	1	(27)
Total items that will not be reclassified subsequently to profit or loss	1	(27)
Items that may be reclassified subsequently to profit or loss		
Effective portion of cash flow hedges	825	684
Exchange differences on translation of foreign operations	(3,276)	(2,058)
Share of other comprehensive income of investments accounted for using equity method	92,300	(34,484)
Total items that may be reclassified subsequently to profit or loss	89,849	(35,857)
Total other comprehensive income, net of tax	89,851	(35,884)
Total comprehensive income for the period	73,162	(26,482)
Total comprehensive income attributable to		
Owners of parent	73,187	(32,874)
Non-controlling interests	(24)	6,391
Total comprehensive income	73,162	(26,482)

(3) Condensed quarterly consolidated statement of changes in equity

For the three months ended March 31, 2022

in thousands of US dollars

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
					Remeasurements of defined benefit liability	Effective portion of cash flow hedges
At January 1, 2022	282,292	280,711	85,957	(1,291)	—	(90,866)
Loss for the period	—	—	(16,657)	—	—	—
Other comprehensive income	—	—	—	—	1	92,848
Total comprehensive income for the period	—	—	(16,657)	—	1	92,848
Dividends to non-controlling interests	—	—	—	—	—	—
Share-based payment transactions	—	53	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	1	—	(1)	—
Total transactions with owners	—	53	1	—	(1)	—
At March 31, 2022	282,292	280,765	69,301	(1,291)	—	1,982

	Equity attributable to owners of parent			Non-controlling interests	Total equity
	Other components of equity		Total equity attributable to owners of parent		
	Exchange differences on translation of foreign operations	Total other components of equity			
At January 1, 2022	(24,262)	(115,129)	532,541	22,218	554,759
Loss for the period	—	—	(16,657)	(30)	(16,688)
Other comprehensive income	(3,005)	89,844	89,844	6	89,851
Total comprehensive income for the period	(3,005)	89,844	73,187	(24)	73,162
Dividends to non-controlling interests	—	—	—	(364)	(364)
Share-based payment transactions	—	—	53	—	53
Transfer from other components of equity to retained earnings	—	(1)	—	—	—
Total transactions with owners	—	(1)	53	(364)	(310)
At March 31, 2022	(27,268)	(25,286)	605,782	21,829	627,612

For the three months ended March 31, 2023

in thousands of US dollars

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
					Remeasurements of defined benefit liability	Effective portion of cash flow hedges
At January 1, 2023	282,292	280,686	131,004	(1,092)	—	142,790
Profit for the period	—	—	3,096	—	—	—
Other comprehensive income	—	—	—	—	(27)	(33,911)
Total comprehensive income for the period	—	—	3,096	—	(27)	(33,911)
Share-based payment transactions	—	26	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	(27)	—	27	—
Total transactions with owners	—	26	(27)	—	27	—
At March 31, 2023	282,292	280,713	134,073	(1,092)	—	108,878

	Equity attributable to owners of parent			Non-controlling interests	Total equity
	Other components of equity		Total equity attributable to owners of parent		
	Exchange differences on translation of foreign operations	Total other components of equity			
At January 1, 2023	(24,041)	118,748	811,640	29,481	841,121
Profit for the period	—	—	3,096	6,305	9,402
Other comprehensive income	(2,032)	(35,971)	(35,971)	86	(35,884)
Total comprehensive income for the period	(2,032)	(35,971)	(32,874)	6,391	(26,482)
Share-based payment transactions	—	—	26	—	26
Transfer from other components of equity to retained earnings	—	27	—	—	—
Total transactions with owners	—	27	26	—	26
At March 31, 2023	(26,073)	82,804	778,791	35,873	814,665

(4) Condensed quarterly consolidated statement of cash flows

For the three months ended March 31

in thousands of US dollars

	2022	2023
Cash flows from operating activities		
Profit (loss) before tax	(20,328)	20,634
Depreciation and amortization	9,800	10,127
Increase (decrease) in provisions	(18,011)	23
Increase (decrease) in defined benefit liability	30	(1,311)
Share of profit of investments accounted for using equity method	(24,750)	(34,097)
Finance income and finance costs	7,603	30
Decrease (increase) in trade and other receivables	40,150	106,560
Decrease (increase) in contract assets	30,420	(5,383)
Decrease (increase) in other current assets	(342)	8,222
Increase (decrease) in trade and other payables	(93,037)	(52,690)
Increase (decrease) in contract liabilities	(47,693)	(67,353)
Increase (decrease) in other current liabilities	(9,067)	(11,117)
Other	4,105	(5,502)
Subtotal	(121,120)	(31,856)
Interest received	8,944	10,471
Dividends received	33,349	17,112
Interest paid	(3,789)	(2,179)
Income taxes paid	(11,951)	(11,074)
Net cash used in operating activities	(94,568)	(17,526)
Cash flows from investing activities		
Net decrease (increase) in short-term loans receivable	1,204	—
Acquisition of property, plant and equipment and intangible assets	(2,564)	(1,396)
Proceeds from capital reduction of investments accounted for using equity method	9,749	—
Net cash provided by (used in) investing activities	8,390	(1,396)
Cash flows from financing activities		
Repayments of long-term borrowings	(20,242)	(2,379)
Payments of lease liabilities	(5,161)	(6,315)
Dividends paid	(3)	(0)
Dividends paid to non-controlling interests	(364)	—
Receipt of government grants	—	114
Proceeds from settlement of derivative contracts	582	—
Net cash used in financing activities	(25,189)	(8,581)
Effect of changes in exchange rates on cash and cash equivalents	4,265	1,001
Net decrease in cash and cash equivalents	(107,101)	(26,503)
Cash and cash equivalents at beginning of period	810,131	492,625
Cash and cash equivalents at end of period	703,030	466,122

(5) Selected notes to the condensed quarterly consolidated financial statements

(Note to ability to continue as a going concern)

There are no material uncertainties that require disclosure.

(Additional information)

As approved in the annual shareholders' meeting on March 28, 2023 the Company plans to reclassify 19,500 million Japanese yen of share capital and 19,823 million Japanese yen of capital reserve to retained earnings on May 31, 2023. The effect of consolidated financial statements will be the Japanese yen amounts above translated to US dollars using the exchange rate applicable on May 31, 2023.

(Important subsequent event)

The Company resolved in the board of directors' meeting on April 28, 2023 the issuance of additional shares through third-party allotment to Mitsui & Co., Ltd. and Mitsui O.S.K. Lines, Ltd. The detail is as follows:

1. Summary of issuance of additional shares through third-party allotment

(1) Type and number of shares	Common stock 11,937,300 shares
(2) Per share amount	1,264 Japanese yen per share
(3) Total amount of shares issued	15,088 million Japanese yen
(4) Increase of share capital and capital surplus	Share capital 7,544 million Japanese yen Capital surplus 7,544 million Japanese yen
(5) Allotted companies and allotted number of shares	Mitsui & Co., Ltd. 1,775,000 shares Mitsui O.S.K. Lines, Ltd. 10,162,300 shares
(6) Subscription due date	June 29th, 2023
(7) Payment due date	June 30th, 2023

The effect of consolidated financial statements will be the Japanese yen amounts stated above translated to US dollars using the exchange rate applicable on payment date.

2. Usage of proceeds

The Company intends to invest or lend the entire amount to each special purpose company, which the Company established for the purpose of engaging in the charter business of FPSOs and FSOs.