

Consolidated Financial Statements

MODEC, INC. and Consolidated Subsidiaries

For the Years ended December 31,
2014 and 2013
Together with Independent
Auditor's Report

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013

ASSETS

	Millions of Japanese yen	
	2014	2013
CURRENT ASSETS:		
Cash and time deposits (Note 1(t) and 17)	¥30,632	¥21,786
Accounts receivable – trade (Note 16, 17 and 20)	168,012	84,695
Inventories (Note 2)	5,929	3,666
Short-term loans receivable (Note 17 and 20)	41,008	—
Deferred tax assets (Note 13)	4,815	3,564
Other current assets	10,075	7,648
Less- Allowance for bad debts (Note 1 (j))	(481)	(472)
Total current assets	259,992	120,889
PROPERTY AND EQUIPMENT (Note 19):		
Buildings and structures	165	124
Machinery and equipment (Note 12)	39,954	36,006
Other property and equipment	4,148	2,032
Construction in progress (Note 12)	26	524
Less- Accumulated depreciation	(27,370)	(21,086)
Net property and equipment	16,924	17,602
INTANGIBLE ASSETS (Note 4)	7,795	7,394
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 3 and 17)	37,388	26,543
Long-term loans receivable from unconsolidated subsidiaries and affiliated companies (Note 17 and 20)	20,153	38,771
Deferred tax assets (Note 13)	5,053	3,521
Bankrupt and substantially bankrupt claims (Note 17)	1,824	1,594
Other investments	1,168	952
Less- Allowance for bad debts (Note 1 (j) and 17)	(1,824)	(1,594)
Total investments and other assets	63,763	69,788
Total assets	¥348,477	¥215,674

The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES

	Millions of Japanese yen	
	2014	2013
CURRENT LIABILITIES:		
Accounts payable – trade (Note 17 and 20)	¥160,077	¥87,782
Short-term loans payable (Note 5, 7 and 17)	5,967	9,483
Current portion of long-term loans payable (Note 5, 17 and 20)	2,198	1,405
Accrued expenses	8,677	6,596
Income taxes payable (Note 13)	8,521	3,626
Provision for product warranty (Note 1 (m))	5,692	3,195
Provision for repairs (Note 1 (n))	1,137	—
Accrued employees' bonuses	7	10
Accrued directors' bonuses	15	11
Advances received	4,657	1,537
Deferred tax liabilities (Note 13)	32	11
Other provisions	7	5
Foreign exchange contracts (Note 1 (v))	4,119	15
Other current liabilities (Note 1 (v))	2,040	1,369
Total current liabilities	203,152	115,050
LONG-TERM LIABILITIES:		
Long-term loans payable (Note 5, 17 and 20)	15,205	15,615
Severance and retirement benefits for employees (Note 10)	—	176
Net defined benefit liabilities (Note 1 (u) and 10)	192	—
Deferred tax liabilities (Note 13)	615	482
Liabilities from application of equity method (Note 1 (v))	14,954	1,312
Other long-term liabilities (Note 1 (v))	4,724	2,592
Total long-term liabilities	35,693	20,179
CONTINGENT LIABILITIES (Note 14)		
Total liabilities	¥238,845	¥135,230

NET ASSETS

	Millions of Japanese yen	
	2014	2013
NET ASSETS :		
SHAREHOLDERS' EQUITY (Note 8):		
Common stock;		
Authorized – 102,868,000 shares		
Issued – 56,408,000 and 46,408,000 shares as of December 31, 2014 and 2013, respectively	¥30,122	¥20,185
Capital surplus	30,852	20,915
Retained earnings	34,338	30,528
Treasury stock, at cost	(1)	(1)
Total shareholders' equity	<u>95,311</u>	<u>71,628</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Net unrealized holding gains (losses) on securities	1	(0)
Unrealized losses on hedging derivatives, net of tax	(13,741)	(4,977)
Foreign currency translation adjustments	15,402	4,306
Retirement liability adjustments for foreign consolidated subsidiaries	(197)	(145)
Total accumulated other comprehensive income (loss)	<u>1,464</u>	<u>(817)</u>
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	<u>12,855</u>	<u>9,633</u>
Total net assets	<u>109,631</u>	<u>80,444</u>
Total liabilities and net assets	<u>¥348,477</u>	<u>¥215,674</u>

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2014 and 2013

	Millions of Japanese yen	
	2014	2013
SALES (Note 1 (r), 19 and 20)	¥378,523	¥254,401
COST OF SALES (Note 1(r) and 20)	356,565	237,688
Gross profit	21,958	16,713
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	13,391	13,009
Operating profit	8,566	3,704
OTHER INCOME (EXPENSES):		
Interest income and dividend income	2,826	2,415
Foreign exchange gain, net	236	3,849
Equity in earnings of affiliates and unconsolidated subsidiaries	6,694	5,622
Interest expense	(740)	(696)
Commission fee	(153)	(120)
Gain (loss) on liquidation of subsidiaries and affiliates	(214)	101
Loss on sales of property and equipment	—	(39)
Loss on disposal of property and equipment	(1,207)	(156)
Impairment loss on property and equipment (Note 12)	(604)	(2,311)
Provision of allowance for doubtful accounts	(229)	(1,594)
Others, net	1,137	885
Total other income (expenses)	7,743	7,955
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	16,309	11,659
INCOME TAXES (Note 13):		
Current	11,047	4,353
Deferred	(1,935)	577
INCOME BEFORE MINORITY INTERESTS	7,197	6,728
MINORITY INTERESTS	1,775	1,805
NET INCOME	¥5,422	¥4,922
	Japanese yen	
Net income per share (Note 9)	¥101.67	¥106.07
Dividends per share (Note 9)	¥32.50	¥30.00

The accompanying notes are an integral part of these consolidated financial statements.

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2014 and 2013

	Millions of Japanese yen	
	2014 (Note 15)	2013 (Note 15)
Income before minority interests	¥7,197	¥6,728
Other comprehensive income (loss)		
Net unrealized holding gains on securities	1	14
Unrealized gains (losses) on hedging derivatives, net of tax	(299)	1
Foreign currency translation adjustments	7,158	5,944
Retirement liability adjustments for foreign consolidated subsidiaries	(70)	(36)
Share of other comprehensive income (loss) of affiliates accounted for using equity method	(3,068)	8,769
Total	3,721	14,693
Comprehensive income	¥10,919	¥21,421

	Millions of Japanese yen	
	2014	2013
Comprehensive income attributable to owners of the parent	¥7,703	¥18,039
Comprehensive income attributable to minority interests	¥3,215	¥3,382

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MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31, 2014 and 2013

Millions of Japanese yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains (losses) on securities	Unrealized gains (losses) on hedging derivatives, net of tax	Foreign currency translation adjustments	Retirement liability adjustments for foreign consolidated subsidiaries	Minority interests in consolidated subsidiaries	Total net assets
Balance at January 1, 2013	¥20,185	¥20,915	¥26,940	¥ (1)	¥(14)	¥(8,102)	¥(5,679)	¥(137)	¥6,283	¥60,389
Net income			4,922							4,922
Cash dividends paid			(1,334)							(1,334)
Increase (decrease) due to changes in fair market values of available-for-sale securities					14					14
Unrealized gains (losses) on hedging derivatives, net of tax						3,124				3,124
Adjustments from translation of foreign currency financial statements							9,986			9,986
Adjustments from retirement liability for foreign consolidated subsidiaries								(8)		(8)
Increase in minority interests in consolidated subsidiaries									3,349	3,349
Balance at January 1, 2014	¥20,185	¥20,915	¥30,528	¥ (1)	¥ (0)	¥(4,977)	¥4,306	¥(145)	¥9,633	¥80,444
Net income			5,422							5,422
Cash dividends paid			(1,612)							(1,612)
Issuance of stocks	9,936	9,936								19,873
Increase (decrease) due to changes in fair market values of available-for-sale securities					1					1
Unrealized gains (losses) on hedging derivatives, net of tax						(8,763)				(8,763)
Adjustments from translation of foreign currency financial statements							11,095			11,095
Adjustments from retirement liability for foreign consolidated subsidiaries								(52)		(52)
Increase in minority interests in consolidated subsidiaries									3,222	3,222
Balance at December 31, 2014	¥30,122	¥30,852	¥34,338	¥(1)	¥1	¥(13,741)	¥15,402	¥(197)	¥12,855	¥109,631

The accompanying notes are an integral part of these consolidated financial statements.

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2014 and 2013

	Millions of Japanese yen	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥16,309	¥11,659
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,257	4,223
Impairment loss on property and equipment	604	2,311
Amortization of goodwill	399	349
Increase of allowance for bad debts	226	1,634
Increase of severance and retirement benefits for employees	—	9
Increase of net defined benefit liabilities	16	—
Increase of accrued directors' bonuses	4	0
Increase of provision for product warranty	2,040	437
Decrease of provision for loss on construction contracts	—	(191)
Increase of provision for repairs	1,137	—
Interest income and dividend income	(2,826)	(2,415)
Interest expense	740	696
Foreign exchange (gain) loss	884	(4,689)
Equity in earnings of affiliates and unconsolidated subsidiaries	(6,694)	(5,622)
Loss on sales of property and equipment	—	39
Loss on disposal of property and equipment	1,207	156
Loss (gain) on liquidation of subsidiaries and affiliates	214	(101)
Changes in assets and liabilities:		
Decrease (increase) in		
— Accounts receivable – trade	(74,482)	(38,897)
— Inventories	(1,916)	363
— Bankrupt and substantially bankrupt claims	(229)	(1,594)
Increase (decrease) in		
— Accounts payable – trade	63,499	21,356
— Consumption tax payable	(1,179)	(89)
Others, net	9,419	(1,300)
	14,633	(11,663)
Interest and dividend received	3,693	4,632
Interest paid	(860)	(683)
Income taxes paid	(5,133)	(5,187)
Net cash provided by (used in) operating activities	¥12,333	¥(12,901)

The accompanying notes are an integral part of these consolidated financial statements.

	Millions of Japanese yen	
	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and intangible assets	¥(3,755)	¥(8,833)
Proceeds from sale on property and equipment and intangible assets	3	28
Purchases of investments in affiliates	(3)	(5,387)
Decrease (increase) in short-term loans receivable	(4,826)	5,206
Disbursement of long-term loans receivable	(12,349)	(50,798)
Collection of long-term loans receivable	2,876	40,233
Proceeds from liquidation of subsidiaries and affiliates	20	—
Net cash used in investing activities	<u>(18,033)</u>	<u>(19,551)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in short-term loans payable	(4,584)	4,149
Proceeds from long-term loans payable	—	10,330
Repayment of long-term loans payable	(1,935)	(1,718)
Proceeds from issuance of stocks	19,873	—
Cash dividends paid	(1,611)	(1,333)
Cash dividends paid to minority shareholders	—	(28)
Repayments of finance lease obligations	(29)	(24)
Net cash provided by financing activities	<u>11,713</u>	<u>11,374</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>2,833</u>	<u>9,596</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,846	(11,482)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21,786	33,366
DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE OF SCOPE OF CONSOLIDATION	—	(98)
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>¥30,632</u>	<u>¥21,786</u>
(Note 1 (t))		

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.

All of the Japanese yen and U.S. dollar amounts presented in the accompanying consolidated financial statements and notes of the Company are rounded down to the million.

(b) Principles of Consolidation and Equity Method

The accompanying consolidated financial statements include the accounts of the Company and 22 of its subsidiaries for the years ended December 31, 2014 and 2013. Material inter-company balances, transactions and profits have been eliminated in consolidation.

Investments in significant unconsolidated subsidiaries and affiliates, which were 18 companies for the years ended December 31, 2014 and 2013 were accounted for using the equity method.

Another 5 subsidiaries for the year ended December 31, 2014 and 4 subsidiaries for the year ended December 31, 2013 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 using 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 lives mainly of 5 years, and amortizes intangible assets using the straight-line method based on the useful lives and residual values prescribed by the Japanese corporation tax laws and regulations. Consolidated overseas subsidiaries amortize intangible assets using the straight-line method over the estimated useful lives.

(i) Finance Lease Transaction without Transfer of Ownership

Lessee:

The method of amortization of the lease assets related to finance lease transactions without transfer of ownership is by the straight-line method corresponding to lease period with zero residual value.

(j) 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.

(k) Accrued Employees' Bonuses

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

(l) Accrued Directors' Bonuses

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

(m) Provision for Product Warranty

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

(n) Provision for Repairs

Provision for repairs is provided based on the estimated amounts for foreseeable periodic repair expenses deemed to correspond to normal wear and tear of plant and equipment as of the end of the fiscal year to be paid in the subsequent period.

(o) 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.

(p) Translation of Foreign Currency Accounts

Foreign currency transactions are translated into Japanese yen using the exchange rate in effect at the time of each transaction or at the applicable exchange rates under forward exchange contracts.

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at appropriate year-end current exchange rates, and the resulting gains or losses are recorded in other income (expenses) in the statements of income.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen using the exchange rates prevailing at the end of each fiscal year, except the exchange rates in effect at the date of transactions are used for shareholders' equity. The Company records foreign currency translation adjustments as a component of net assets in the balance sheets.

(q) 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.

Certain consolidated overseas subsidiaries adopt hedge accounting in accordance with U.S.GAAP.

(r) Revenue Recognition

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.

(s) 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.

(t) Cash Flow Statements

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, 2014 and 2013 are as follows:

	Millions of Japanese yen	
	2014	2013
Cash and time deposits	¥30,632	¥21,786
Less : Time deposits with maturities exceeding three months	—	—
Cash and cash equivalents	<u>¥30,632</u>	<u>¥21,786</u>

Changes in Accounting Policies:

(u) Implementation of Accounting Standard for Retirement Benefits

The Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits,” May 17, 2012 (hereinafter, the “Accounting Standard”)); and Guidance on Application of Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, “Application Guidelines of Accounting Standards for Business Enterprises,” May 17, 2012 (hereinafter, the “Guidance”)) was applied at the end of the current fiscal year (excluding rules cited in the main text of Item 35 in the Accounting Standard and Item 67 in the Guidance). As a result, for the year ended December 31, 2014, net defined benefit liabilities amounted to ¥ 192 million. This implementation had no effect on previously reported net assets.

Changes in Presentation:

(v) Reclassifications

The Company made certain reclassifications to the previously reported fiscal year 2013 amounts to conform to fiscal year 2014 presentation. These reclassifications had no effect on previously reported net income or net assets.

2. Inventories

Inventories as of December 31, 2014 and 2013 consisted of the following:

	Millions of Japanese yen	
	2014	2013
Raw materials	¥4,382	¥1,307
Costs of uncompleted contracts	1,547	2,359
	<u>¥5,929</u>	<u>¥3,666</u>

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, 2014 and 2013

	Millions of Japanese yen		
	Acquisition cost	Book value	Difference
2014:			
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥64	¥79	¥14
Securities with book values not exceeding acquisition costs:			
Equity securities	49	37	(12)
Total	¥114	¥116	¥1

	Millions of Japanese yen		
	Acquisition cost	Book value	Difference
2013:			
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥64	¥73	¥8
Securities with book values not exceeding acquisition costs:			
Equity securities	49	41	(8)
Total	¥114	¥114	¥(0)

4. Goodwill

Goodwill recorded in intangible assets as of December 31, 2014 and 2013 were ¥3,810 million and ¥3,679 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 1.12% and 0.93% as of December 31, 2014 and 2013, respectively.

Long-term loans payable as of December 31, 2014 and 2013 are summarized below:

	Millions of Japanese yen	
	2014	2013
Loans from banks and others due through 2023	¥17,404	¥17,021
Less: Current portion included in current liabilities, at average rate of 0.45%	(2,198)	(1,405)
Loans from banks and others, at average rate of 0.75% due through 2023 (Excluding current portion)	¥15,205	¥15,615

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

Year ending December 31,	Millions of Japanese yen
2015	¥2,198
2016	2,563
2017	3,351
2018	6,831
2019	578
2020 and thereafter	1,880
	¥17,404

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. Unused Balance of Overdraft Facilities and Lending Commitment

The Company has a commitment line agreement with a syndicate of six financial institutions, an overdraft facility agreement with two financial institutions and a notes payable agreement denominated in U.S. dollars with eight financial institutions for the purpose of efficient providing operating funds. The commitment line amount is \$110 million as of December 31, 2014 and 2013 without any drawdown. The overdraft facility line amount is ¥3,000 million and \$30 million without any drawdown as of December 31, 2014 and with the unused balance of ¥3,150 million as of December 31, 2013. The unused balance of notes payable denominated in U.S. dollars is \$253 million as of December 31, 2014 and \$149 million as of December 31, 2013.

8. Shareholders' Equity

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 28, 2014, the shareholders approved cash dividends amounting to ¥696 million for the year ended December 31, 2013.

At the annual shareholders' meeting held on March 27, 2015, the shareholders approved cash dividends amounting to ¥916 million. Such appropriations have not been accrued in the consolidated financial statements as of December 31, 2014. Such appropriations are recognized in the period in which they are approved by the shareholders.

For the year ended December 31, 2014, the company issued stocks of 10,000,000 shares. 3,096,000 shares were issued through public offering (open to all parties) and 6,439,800 shares were issued through third-party allotment with Mitsui Engineering & Shipbuilding Co., Ltd. and Mitsui & Co., Ltd. as allottees on April 22, 2014. In additions, 464,200 shares were issued through sales of shares (sales through over-allotment) on May 21, 2014.

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, 2014 and 2013.

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 net defined benefit liabilities recorded in the liability section of the consolidated balance sheets as of December 31, 2014 and the severance and retirement benefits for employees recorded in the liability section of the consolidated balance sheets as of December 31, 2013 consisted of the following:

a) Net defined benefit liabilities

i) Reconciliation of net defined benefit liabilities recorded in the consolidated balance sheets (simpler method)

	<u>Millions of Japanese yen</u>
	<u>2014</u>
Balance as of January 1, 2014	¥176
Severance and retirement benefit expenses	45
Benefits paid	(29)
Balance as of December 31, 2014	<u>¥192</u>

ii) Reconciliation of projected retirement benefit obligation recorded in the consolidated balance sheets

	<u>Millions of Japanese yen</u>
	<u>2014</u>
Retirement benefit obligation (Unfunded termination and retirement allowance plan)	¥192
Net defined benefit assets/liabilities recorded in the consolidated balance sheets	<u>¥192</u>

iii) Current service costs

	<u>Millions of Japanese yen</u>
	<u>2014</u>
Current service costs (simpler method)	<u>¥45</u>

Contribution to pension plans amounted to ¥53 million for the year ended December 31, 2014.

b) Severance and retirement benefits for employees

	<u>Millions of Japanese yen</u>
	<u>2013</u>
Projected benefit obligation	¥176
Severance and retirement benefits for employees	<u>¥176</u>

Severance and retirement benefit expenses recorded in the consolidated statements of income for the years ended December 31, 2013 consisted of the following:

	<u>Millions of Japanese yen</u>
	<u>2013</u>
Service costs – benefits earned during the year	¥24
Others	40
Severance and retirement benefit expenses	<u>¥65</u>

11. Research and Development Expenses

Research and development expenses recorded in selling, general and administration expenses are ¥150 million and ¥708 million for the years ended December 31, 2014 and 2013, respectively.

12. Impairment Losses on Property and Equipment

Impairment losses on property and equipment for the years ended December 31, 2014 and 2013 consisted of the following:

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

Location	Use	Type of Assets
Saga, Japan	Floating wind & current hybrid power generator	Construction in progress (Machinery and equipment)

(b) Grouping unit

The business assets have been grouped by each company. FPSOs, FSOs and floating wind & current hybrid power generator have been grouped by each cash-generating unit.

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

Floating wind & current hybrid power generator is under construction. The Company conservatively assessed the future cash flow of the asset and realized it is below the book value because forecast of purchase price of electricity is unpredictable.

As a result, the Company reduced the carrying amount of the asset to the recoverable amount and recognized the impairment loss of ¥604 million and ¥2,311 million for the years ended December 31, 2014 and 2013, respectively.

(d) The measurement of the impairment losses

The Company measured the recoverable amount based on a value in use and calculated it by discounting future cash flow at an interest rate of 2.0%.

13. Income Taxes

The statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes is 38% for the years ended December 31, 2014 and 2013, respectively.

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 years ended December 31, 2014 and 2013.

	2014	2013
Statutory income tax rates	38.0%	38.0%
Difference of statutory tax rate between the Company and overseas subsidiaries	(6.2)	(3.9)
Equity in earnings of affiliates and unconsolidated subsidiaries	(15.6)	(18.3)
Valuation Allowance	35.2	29.7
Income of foreign subsidiaries taxed at lower than Japanese statutory rate	1.0	1.2
Income taxes for prior periods	0.1	(0.5)
Others	3.3	(4.0)
Effective tax rates	<u>55.8%</u>	<u>42.2%</u>

2) Significant components of deferred tax assets and liabilities as of December 31, 2014 and 2013 are as follows:

	Millions of Japanese yen	
	2014	2013
Deferred tax assets:		
Current assets:		
Enterprise tax payable	¥349	¥41
Accrued employees' bonuses	3	9
Provision for product warranty	1,037	611
Allowance for bad debts	172	176
Other provisions	2,755	2,353
Others	2,076	803
Sub total	<u>6,395</u>	<u>3,996</u>
Valuation allowance	(353)	(4)
Offset to deferred tax liabilities (short-term)	(1,226)	(426)
Total	<u>4,815</u>	<u>3,564</u>
Fixed assets:		
Unrealized inter-company profit on fixed assets	4,094	3,131
Tax loss carry forward	6,925	3,526
Severance and retirement benefits for employees	—	63
Net defined benefit liabilities	69	—
Depreciation	87	127
Long-term foreign tax credit	1,268	1,045
Temporary difference for investment in subsidiaries	956	978
Allowance for bad debts	656	573
Impairment loss	1,542	831
Others	2,069	859
Sub total	<u>17,670</u>	<u>11,138</u>
Valuation allowance	(9,249)	(4,780)
Offset to deferred tax liabilities (long-term)	(3,367)	(2,836)
Total	<u>5,053</u>	<u>3,521</u>
Total deferred tax assets	<u>¥9,869</u>	<u>¥7,086</u>

	Millions of Japanese yen	
	2014	2013
Deferred tax liabilities:		
Current liabilities:		
Temporary difference of foreign exchange gain in overseas subsidiaries	—	¥(102)
Difference on percentage-of-completion method	¥(1,070)	(200)
Others	(188)	(135)
Sub total	(1,258)	(438)
Offset to deferred tax assets (short-term)	1,226	426
Total	(32)	(11)
Long-term liabilities:		
Depreciation	(1,034)	(1,033)
Long-term foreign exchange gain	(1,725)	(1,634)
Difference on percentage-of-completion method	(1,211)	(602)
Undistributed earnings of overseas subsidiaries	—	(31)
Others	(10)	(17)
Sub total	(3,982)	(3,319)
Offset to deferred tax assets (long-term)	3,367	2,836
Total	(615)	(482)
Total deferred tax liabilities	(647)	(494)
Net deferred tax assets	¥9,221	¥6,591

The Company made certain reclassifications to the previously reported fiscal year 2013 amounts to conform to fiscal year 2014 presentation. These reclassifications had no effect on previously reported net income or net assets.

3) The revision of the corporate income tax rate after December 31, 2014

The “Act for Partial Revision of Income Tax Act, etc.” (Act No.10 of 2014) was promulgated on March 31, 2014 and the income tax rate is to be changed accordingly with the effect on fiscal year beginning on January 1, 2015 onward.

In accordance with the revision, statutory effective tax rates used to calculate the amounts of deferred tax assets and liabilities have been applied as follows depending on the timing of reversal for each temporary item. Applying this revision, income taxes - deferred increased by ¥132 million and the long-term deferred tax asset decreased by ¥132 million for the year ended December 31, 2014.

Timing of reversal for temporary items	Tax rate
January 1, 2014 through December 31, 2014	38.0%
January 1, 2015 onward	36.0%

14. Contingent Liabilities and Commitments

As of December 31, 2014 and 2013, the Company was contingently liable for the following:

	Millions of Japanese yen	
	2014	2013
Guarantees of bank loans and other indebtedness for unconsolidated subsidiaries and affiliates	¥167,569	¥58,444

For the years ended December 31, 2014 and 2013, 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. Comprehensive Income

Each component of other comprehensive income for the years ended of December 31, 2014 and 2013 was the followings:

	Millions of Japanese yen	
	2014	2013
Net unrealized holding gains on securities:		
Amount of generation	¥2	¥22
Amount of rearrangement adjustment	—	—
Before adjusting the tax effect	2	22
Tax effect	(0)	(8)
Net unrealized holding gains on securities	1	14
Unrealized gains / (losses) on hedging derivatives, net of tax		
Amount of generation	(163)	168
Amount of rearrangement adjustment	(250)	(171)
Before adjusting the tax effect	(414)	(2)
Tax effect	115	3
Unrealized gains / (losses) on hedging derivatives, net of tax	(299)	1
Foreign currency translation adjustments		
Amount of generation	7,628	5,844
Amount of rearrangement adjustment	(214)	101
Before adjusting the tax effect	7,413	5,945
Tax effect	(254)	(0)
Foreign currency translation adjustments	7,158	5,944
Retirement liability adjustments for foreign consolidated subsidiaries		
Amount of generation	(177)	(137)
Amount of rearrangement adjustment	20	15
Before adjusting the tax effect	(157)	(121)
Tax effect	86	84
Retirement liability adjustments for foreign consolidated subsidiaries	(70)	(36)
Share of other comprehensive income / (loss) of affiliates accounted for using equity method		
Amount of generation	(2,392)	7,531
Amount of rearrangement adjustment	(676)	1,237
Share of other comprehensive income / (loss) of affiliates accounted for using equity method	(3,068)	8,769
Total	¥3,721	¥14,693

16. Leases

Lessor:

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

	Millions of Japanese yen	
	2014	2013
Due within one year	¥1,531	¥1,338
Due after one year	2,810	3,795
Total	¥4,342	¥5,133

17. Financial Instruments

(a) 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.

The Company and some of its consolidated subsidiaries transfer funds to each other through an inter-company cash management systems (CMS).

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) Concerning fair value of financial instruments

Consolidated balance sheets amounts and fair market value of financial instruments, the difference between for the years ended December 31, 2014 and 2013 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.

2014:	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥30,632	¥30,632	—
(2) Accounts receivable – trade	168,012	168,012	—
(3) Short-term loans receivable	41,008	41,008	—
(4) Investment securities	116	116	—
(5) Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	20,153	21,283	¥1,130
(6) Bankrupt and substantially bankrupt claims	1,824		
Allowance for bad debts (*1)	(1,824)		
	—	—	—
Assets total	¥259,923	¥261,054	¥1,130
(7) Accounts payable – trade	¥160,077	¥160,077	—
(8) Short-term loans payable	5,967	5,967	—
(9) Current portion of long-term loans payable	2,198	2,198	—
(10) Long-term loans payable	15,205	15,205	—
Liabilities total	¥183,449	¥183,449	—
(11) Derivative transactions (*2)			
i) Derivative transactions for which hedge accounting has not been applied	—	—	—
ii) Derivative transactions for which hedge accounting has been applied	¥(4,473)	¥(4,473)	—
Derivative transactions total	¥(4,473)	¥(4,473)	—

*1: Bankrupt and substantially bankrupt claims are presented net of allowance for bad debts.

*2: Derivative transactions are presented net of receivables and payables, and figures with parenthesis indicate payables.

2013:

	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥21,786	¥21,786	—
(2) Accounts receivable – trade	84,695	84,695	—
(3) Investment securities	114	114	—
(4) Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	38,771	39,358	¥587
(5) Bankrupt and substantially bankrupt claims	1,594		
Allowance for bad debts (*1)	(1,594)		
	—	—	—
Assets total	¥145,367	¥145,955	¥587
(6) Accounts payable – trade	¥87,782	¥87,782	—
(7) Short-term loans payable	9,483	9,483	—
(8) Current portion of long-term loans payable	1,405	1,405	—
(9) Long-term loans payable	15,615	15,615	—
Liabilities total	¥114,286	¥114,286	—
(10) Derivative transactions (*2)			
i) Derivative transactions for which hedge accounting has not been applied	—	—	—
ii) Derivative transactions for which hedge accounting has been applied	¥(518)	¥(518)	—
Derivative transactions total	¥(518)	¥(518)	—

*1: Bankrupt and substantially bankrupt claims are presented net of allowance for bad debts.

*2: Derivative transactions are presented net of receivables and payables, and figures with parenthesis indicate payables.

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

Assets

(1) Cash and time 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 Note 3. Marketable Securities and Investment Securities.)

(5) Long-term loans receivable from unconsolidated subsidiaries and affiliated companies

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.

(6) Bankrupt and substantially bankrupt claims

Fair value of these accounts is stated at the balance sheet amounts because the estimated amounts of bad debts are calculated based on the collectible amounts and fair value of the amounts are considered to be close to the balance sheet amounts.

Liabilities

- (7) Accounts payable – trade, (8) Short-term loans payable and (9) 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.

- (10) 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 Note 18. 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	
	2014	2013
Privately owned equity securities	¥37,271	¥26,428

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 estimate fair market value.

(note 3) The expected redemption amount of monetary credit and securities with maturity after December 31, 2014 and 2013 are as follows:

2014:	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 time deposits	¥30,632	—	—	—
Accounts receivable – trade	168,012	—	—	—
Short-term loans receivable	41,008	—	—	—
Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	—	¥5,807	¥4,067	¥10,278

2013:	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 time deposits	¥21,786	—	—	—
Accounts receivable – trade	84,695	—	—	—
Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	—	¥26,537	¥3,554	¥8,679

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

	Millions of Japanese yen
2016	¥2,563
2017	3,351
2018	6,831
2019	578
2020 and thereafter	1,880
Total	¥15,205

18. 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:

<u>Hedging instruments:</u>	<u>Hedged items:</u>
Foreign exchange forward contracts	Foreign currency receivables and payables including future transactions
Currency swap 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.

Certain consolidated overseas subsidiaries adopt hedge accounting in accordance with U.S.GAAP.

The following tables summarize market value information as of December 31, 2014 and 2013 of derivative transactions for which hedge accounting has been applied:

2014:		Millions of Japanese yen		
Currency related derivatives		Contract Amount		
Type	Hedged Items	Total	Due after one year	Contract Amount less Market Value
Forward contract (principle method)				
To sell U.S. dollars	Accounts receivable – trade and others	¥19,702	–	¥(3,494)
Forward contract (principle method)				
To buy Euro		3,446	¥26	(242)
To buy Norwegian krone		1,359	–	(237)
To buy Japanese yen	Accounts payable – trade and others	455	–	(67)
To buy STG pounds		1,117	–	(8)
To buy Singapore dollars		194	–	(0)
To buy Switzerland franc		1,012	–	(68)
				¥(4,119)

2013:		Millions of Japanese yen		
Currency related derivatives		Contract Amount		
Type	Hedged Items	Total	Due after one year	Contract Amount less Market Value
Forward contract (principle method)				
To buy STG pounds	Accounts payable –	¥418	–	¥24
To buy Euro	trade and others	2,559	¥1,187	(40)
To buy Norwegian krone		109	–	0
				¥(15)

2014:		Millions of Japanese yen		
Interest related derivatives		Contract Amount		
Type	Hedged Items	Total	Due after one year	Contract Amount less Market Value
Interest rate swap (principle method)				
To receive float, pay fix	Long-term loans payable	¥4,252	¥3,246	¥(354)

2013:		Millions of Japanese yen		
Interest related derivatives		Contract Amount		
Type	Hedged Items	Total	Due after one year	Contract Amount less Market Value
Interest rate swap (principle method)				
To receive float, pay fix	Long-term loans payable	¥4,550	¥3,716	¥(503)

19. Segment Information

(1) Overview of reportable segment

The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as single business therefore overview of reportable segment is not presented.

(2) Information by products and services

The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as single business therefore information by products and services is not presented.

(3) Information by geographical area

(a) Sales

2014:

Millions of Japanese yen					
Brazil	Ghana	Oceania	Asia	Other	Total
¥241,873	¥91,376	¥21,087	¥12,156	¥12,029	¥378,523

2013:

Millions of Japanese yen					
Brazil	Ghana	Oceania	Asia	Other	Total
¥184,065	¥27,531	¥20,336	¥13,264	¥9,203	¥254,401

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

(b) Property and equipment

2014:

Millions of Japanese yen				
Australia	Vietnam	U.S.A.	Other	Total
¥7,946	¥6,087	¥1,929	¥960	¥16,924

2013:

Millions of Japanese yen			
Australia	Vietnam	Other	Total
¥10,003	¥5,963	¥1,635	¥17,602

(4) Information by major customer

2014:

Millions of Japanese yen		
Customer	Sales	Related Segment
Carioca MV27 B.V.	¥98,604	(note 1)
T.E.N. Ghana MV25 B.V.	79,295	(note 1)
Cernambi Norte MV26 B.V.	56,083	(note 1)
Cernambi Sul MV24 B.V.	38,136	(note 1)

2013:

Millions of Japanese yen		
Customer	Sales	Related Segment
Cernambi Norte MV26 B.V.	¥70,527	(note 1)
Cernambi Sul MV24 B.V.	54,943	(note 1)

(note 1) The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as single business therefore related segment is not presented.

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 its parent company for the year ended December 31, 2014 are as follows:

2014:	Related party	Transactions	Millions of Japanese yen
	Mitsui Engineering & Shipbuilding Co., Ltd.	Allotment of capital increase	¥10,105

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2014 are as follows:

2014:	Related party	Transactions	Millions of Japanese yen
	Cernambi Sul MV24 B.V.	Disbursement of loans for working capital	¥12,349
	Cernambi Sul MV24 B.V.	Guarantees of bank Loans	23,925
	T.E.N. Ghana MV25 B.V.	Construction of FPSO (Sales)	81,438
	T.E.N. Ghana MV25 B.V.	Collection of loans for capital expenditure	2,875
	T.E.N. Ghana MV25 B.V.	Guarantees of contract fulfillment	6,028
	T.E.N. Ghana MV25 B.V.	Guarantees of bank Loans	18,518
	Cernambi Norte MV26 B.V.	Construction of FPSO (Sales)	7,210
	Cernambi Norte MV26 B.V.	Guarantees of bank Loans	55,504
	Carioca MV27 B.V.	Construction of FPSO (Sales)	19,110
	Carioca MV27 B.V.	Disbursement of loans for capital expenditure	21,011
	Carioca MV27 B.V.	Collection of loans for capital expenditure	20,891
	Carioca MV27 B.V.	Guarantees of bank Loans	57,868
	Tartaruga MV29 B.V.	Construction of FPSO (Sales)	5,667
	Tartaruga MV29 B.V.	Disbursement of loans for capital expenditure	4,705
	MODEC and TOYO offshore production systems Pte. Ltd.	Construction of FPSO (Cost of sales)	10,827

2014:	Related party	Consolidated balance sheets accounts	Millions of Japanese yen
	Song Doc MV19 B.V.	Short-term loans receivable	¥3,761
	Gas Opportunity MV20 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	4,067
	Tupi Pilot MV22 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	5,883
	Cernambi Sul MV24 B.V.	Short-term loans receivable	31,048
	T.E.N. Ghana MV25 B.V.	Accounts receivable - trade	41,257
	Cernambi Norte MV26 B.V.	Accounts receivable - trade	11,990
	Carioca MV27 B.V.	Accounts receivable - trade	20,182
	Tartaruga MV29 B.V.	Accounts receivable - trade	5,667
	Tartaruga MV29 B.V.	Short-term loans receivable	4,786
	MODEC and TOYO offshore production systems Pte. Ltd.	Accounts payable - trade	964

Significant related party transactions and corresponding balances between the consolidated subsidiaries and the parent company or major shareholders (corporation only) for the year ended December 31, 2014 are as follows:

2014:	Related party	Transactions	Millions of Japanese yen
	Mitsui & Co., Ltd.	Repayment of long-term loans payable	¥642

2014:	Related party	Consolidated balance sheets accounts	Millions of Japanese yen
	Mitsui & Co., Ltd.	Current portion of long-term loans payable	¥764
	Mitsui & Co., Ltd.	Long-term loans payable	2,239

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2014 are as follows:

2014:	Related party	Transactions	Millions of Japanese yen
	Cernambi Norte MV26 B.V.	Construction of FPSO (Sales)	¥50,796
	Carioca MV27 B.V.	Construction of FPSO (Sales)	85,928
	MODEC and TOYO offshore production systems Pte. Ltd.	Construction of FPSO (Cost of sales)	80,249

2014:	Related party	Consolidated balance sheets accounts	Millions of Japanese yen
	Guara MV23 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	¥6,599
	Cernambi Norte MV26 B.V.	Accounts receivable - trade	10,127
	Carioca MV27 B.V.	Accounts receivable - trade	3,496
	MODEC and TOYO offshore production systems Pte. Ltd.	Accounts payable - trade	5,292

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2013 are as follows:

2013:	Related party	Transactions	Millions of Japanese yen
	Gas Opportunity MV20 B.V.	Disbursement of loans for capital expenditure	¥681
	Tupi Pilot MV22 B.V.	Disbursement of loans for capital expenditure	775
	Guara MV23 B.V.	Disbursement of loans for capital expenditure	34,957
	Guara MV23 B.V.	Collection of loans for working capital	39,762
	Cernambi Sul MV24 B.V.	Construction of FPSO (Sales)	7,779
	Cernambi Sul MV24 B.V.	Disbursement of loans for capital expenditure	7,895
	Cernambi Sul MV24 B.V.	Guarantees of bank Loans	20,910
	T.E.N. Ghana MV25 B.V.	Construction of FPSO (Sales)	18,370
	T.E.N. Ghana MV25 B.V.	Disbursement of loans for capital expenditure	881
	T.E.N. Ghana MV25 B.V.	Collection of loans for working capital	1,478
	T.E.N. Ghana MV25 B.V.	Guarantees of bank Loans	2,634
	Cernambi Norte MV26 B.V.	Construction of FPSO (Sales)	10,072
	Cernambi Norte MV26 B.V.	Disbursement of loans for capital expenditure	82
	Cernambi Norte MV26 B.V.	Collection of loans for working capital	3,866
	Cernambi Norte MV26 B.V.	Guarantees of bank Loans	29,032
	Carioca MV27 B.V.	Construction of FPSO (Sales)	3,606
	MODEC and TOYO offshore production systems Pte. Ltd.	Construction of FPSO (Cost of sales)	3,525

2013:	Related party	Consolidated balance sheets accounts	Millions of Japanese yen
	Espadarte MV14 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	¥2,118
	Pra-1 MV15 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	2,268
	Opportunity MV18 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	2,275
	Song Doc MV19 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	3,287
	Gas Opportunity MV20 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	3,554
	Tupi Pilot MV22 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	5,142
	Cernambi Sul MV24 B.V.	Accounts receivable - trade	9,529
	Cernambi Sul MV24 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	15,156
	T.E.N. Ghana MV25 B.V.	Accounts receivable - trade	12,790
	T.E.N. Ghana MV25 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	2,887
	Cernambi Norte MV26 B.V.	Accounts receivable - trade	7,414
	Carioca MV27 B.V.	Accounts receivable - trade	3,606
	MODEC and TOYO offshore production systems Pte. Ltd.	Accounts payable - trade	431

Significant related party transactions and corresponding balances between the consolidated subsidiaries and the parent company or major shareholders (corporation only) for the year ended December 31, 2013 are as follows:

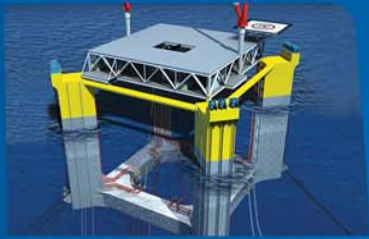
2013:	Related party	Transactions	Millions of Japanese yen
	Mitsui & Co., Ltd.	Proceeds from long-term loans payable	¥864
	Mitsui & Co., Ltd.	Repayment of long-term loans payable	314

2013:	Related party	Consolidated balance sheets accounts	Millions of Japanese yen
	Mitsui & Co., Ltd.	Current portion of long-term loans payable	¥367
	Mitsui & Co., Ltd.	Long-term loans payable	2,819

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2013 are as follows:

2013:	Related party	Transactions	Millions of Japanese yen
	Cernambi Sul MV24 B.V.	Construction of FPSO (Sales)	¥46,600
	Cernambi Norte MV26 B.V.	Construction of FPSO (Sales)	60,568
	MODEC and TOYO offshore production systems Pte. Ltd.	Construction of FPSO (Cost of sales)	52,978

2013:	Related party	Consolidated balance sheets accounts	Millions of Japanese yen
	Cernambi Sul MV24 B.V.	Accounts receivable - trade	¥1,092
	Cernambi Norte MV26 B.V.	Accounts receivable - trade	4,396
	MODEC and TOYO offshore production systems Pte. Ltd.	Accounts payable - trade	6,216



MODEC, Inc. 2014 Financial Results Supplementary Presentation

February 10, 2015

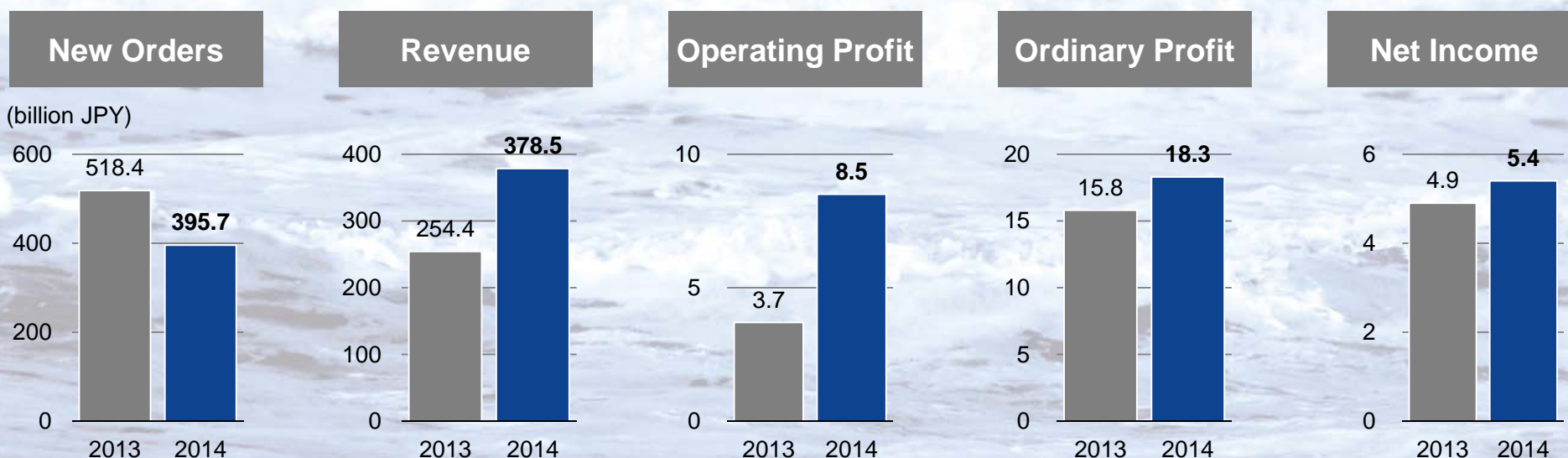


2014 Financial Results : Highlight

(billion JPY)

	2013	2014	Variance
New Orders	518.4	395.7	- 23.7%
Revenue	254.4	378.5	+ 48.8%
Operating Profit	3.7	8.5	+ 131.3%
Ordinary Profit	15.8	18.3	+ 15.9%
Net Income	4.9	5.4	+ 10.2%
FX Rate on Closing Dates(\$/¥)	105.37	120.56	+ 15.19 yen

- New orders for 1 FPSO (Petrobras Tartaruga MV29: EPCI + Charter) and 1 TLP (Hess Stampede: ECM)
- Revenue hit a record high of 378.5 billion JPY
 - EPCI progressed well on MV25 (Tullow TEN), MV26 (Petrobras Iracema Norte) and MV27 (Petrobras Carioca); revenue from EPCI was an all-time high of approx. 290 billion JPY
- Operating profit, ordinary profit, net income, all hit record highs



2014 Financial Results : Highlight

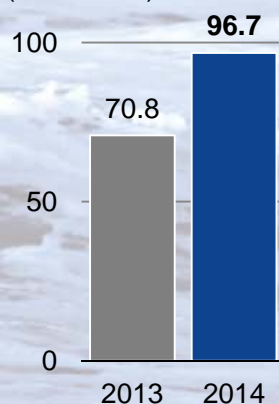
(billion JPY)

	2013	2014	Variance
Total Assets	215.6	348.4	+ 61.6%
Total Liabilities	135.2	238.8	+ 76.6%
Interest-Bearing Debt	26.5	23.3	- 11.8%
Total Net Assets	80.4	109.6	+ 36.3%
Equity	70.8	96.7	+ 36.7%
Dividends per Share (yen)	30.00	32.50	+ 2.50 yen

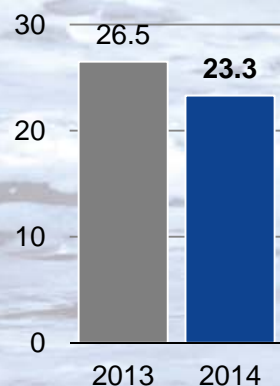
- Raised approx. 20 billion JPY by public offering and third-party allotment; equity increased to 96.7 billion JPY
- Accounts receivable and payable increased by approx. 83 billion JPY and 72 billion JPY respectively, due to EPCI progress and timing difference between progress recognition and actual cash settlement
- Proposed annual dividends: 32.50 yen per share
 - Dividends increased 10 years in a row

Equity

(billion JPY)

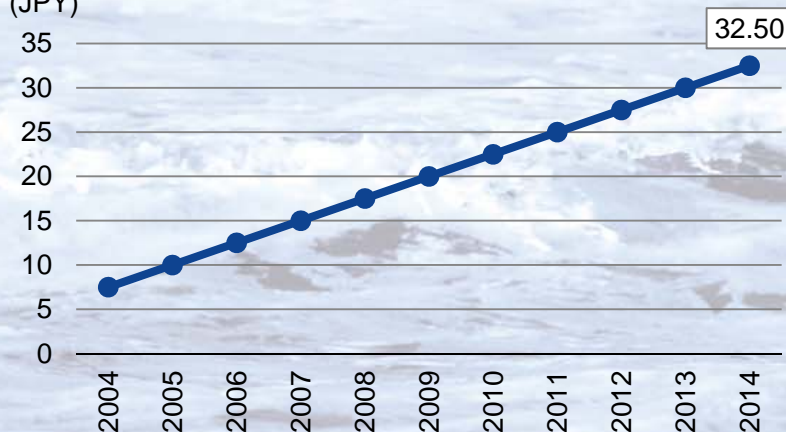


Interest-Bearing Debt



Dividends per Share

(JPY)



2015 Financial Forecast

Exchange Rate on Closing Dates (\$/¥)

2011	2012	2013	2014	2015(F)
77.74	86.56	105.37	120.56	110.00

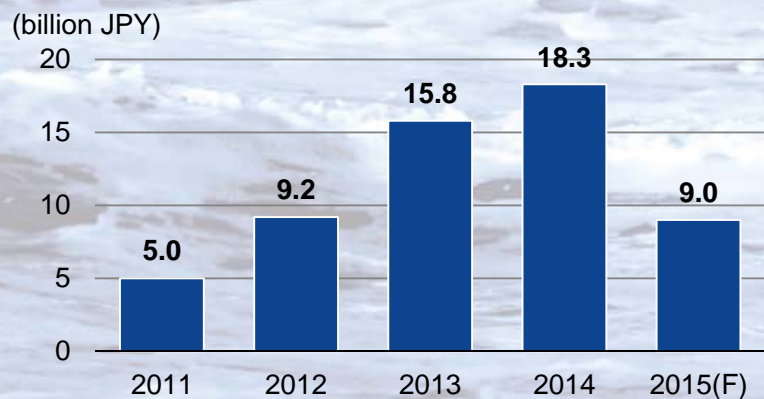
Revenue



Operating Profit



Ordinary Profit



Net Income

