Consolidated Financial Statements

MODEC, INC. and Consolidated Subsidiaries

For the years ended December 31,
2017 and 2016

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

ASSETS

	Millions of Japanese yen	
	2017	2016
CURRENT ASSETS:		
Cash and time deposits (Notes 1(t), 3 and 18)	¥31,380	¥42,807
Accounts receivable-trade (Notes 17, 18 and 21)	98,188	95,544
Inventories (Note 2)	1,096	2,360
Short-term loans receivable (Notes 18 and 21)	46,282	55,012
Deferred tax assets (Note 14)	2,403	3,263
Other current assets	19,983	21,026
Less allowance for bad debts (Note 18)	(1,297)	(1,971)
Total current assets	198,035	218,042
PROPERTY AND EQUIPMENT (Note 20):		
Buildings and structures	130	130
Machinery and equipment	32,259	43,542
Other property and equipment	3,912	4,078
Construction in progress	110	186
Less accumulated depreciation	(29,549)	(33,776)
Net property and equipment	6,863	14,161
INTANGIBLE ASSETS (Notes 5 and 13)	7,446	7,420
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Notes 4 and 18)	63,225	55,162
Long-term loans receivable from affiliates (Notes 18 and 21)	34,762	28,165
Deferred tax assets (Note 14)	1,767	2,666
Other investments (Note 1(u), 3)	9,063	7,630
Total investments and other assets	108,819	93,624
Total assets	¥321,165	¥333,249

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

LIABILITIES

	Millions of Japanese yen	
	2017	2016
CURRENT LIABILITIES:		
Accounts payable-trade (Notes 18 and 21)	¥80,335	¥96,738
Short-term loans payable (Notes 6, 8 and 18)	3,390	—
Current portion of long-term loans payable (Notes 6 and 18)	11,077	7,812
Lease obligations	6	20
Accrued expenses	13,971	14,377
Income taxes payable (Note 14)	6,717	9,713
Advances received	6,425	5,252
Accrued employees’ bonuses	43	7
Accrued directors’ bonuses	13	13
Provision for product warranty	5,495	6,860
Provision for repairs	49	43
Other provisions	5	5
Deferred tax liabilities (Note 14)	—	1
Other current liabilities	1,049	1,688
Total current liabilities	128,581	142,536
LONG-TERM LIABILITIES:		
Long-term loans payable (Notes 6 and 18)	31,586	42,478
Lease obligations	2	9
Net defined benefit liabilities (Note 11)	310	265
Liabilities from application of equity method	6,875	7,350
Other long-term liabilities	5,422	5,998
Total long-term liabilities	44,197	56,102
CONTINGENT LIABILITIES AND COMMITMENTS (Note 15)		
Total liabilities	¥172,778	¥198,639

NET ASSETS

	Millions of Japanese yen	
	2017	2016
NET ASSETS:		
SHAREHOLDERS’ EQUITY (Note 9):		
Common stock		
Authorized – 102,868,000 shares in 2017 and in 2016		
Issued – 56,408,000 shares in 2017 and in 2016	¥30,122	¥30,122
Capital surplus	30,852	30,852
Retained earnings	74,495	57,227
Treasury stock, at cost		
775 shares in 2017 and 663 shares in 2016	(2)	(1)
Total shareholders’ equity	135,468	118,200
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Unrealized holding gains (losses) on securities, net of tax	(17)	(11)
Unrealized gains (losses) on hedging derivatives, net of tax	(9,109)	(10,453)
Foreign currency translation adjustments	10,472	15,490
Retirement liability adjustments for foreign consolidated subsidiaries	(312)	(176)
Total accumulated other comprehensive income	1,032	4,849
NON-CONTROLLING INTERESTS	11,885	11,560
Total net assets	148,387	134,609
Total liabilities and net assets	¥321,165	¥333,249

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2017 and 2016

	Millions of Japanese yen	
	2017	2016
SALES (Notes 20 and 21)	¥191,182	¥229,987
COST OF SALES (Note 21)	166,377	198,443
Gross profit	24,804	31,544
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	13,356	13,526
Operating profit	11,448	18,018
OTHER INCOME (EXPENSES):		
Interest and dividend income	5,143	4,055
Foreign exchange losses, net	(1,321)	(1,807)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	9,686	9,618
Gain on revaluation of derivatives	—	397
Interest expense	(1,389)	(1,421)
Gain on sales of affiliate's stock	491	—
Gain on liquidations of subsidiaries, net	249	—
Loss on disposal of property and equipment and intangible assets	—	(107)
Impairment loss (Note 13)	—	(1,524)
Others, net	755	548
Total other income (expenses)	13,616	9,758
PROFIT BEFORE INCOME TAXES	25,064	27,776
INCOME TAXES (Note 14):		
Current	2,938	6,290
Deferred	1,976	1,873
PROFIT	20,149	19,612
PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	695	(1,400)
PROFIT ATTRIBUTABLE TO OWNERS OF PARENT	¥19,454	¥21,012

	Japanese yen	
Earnings per share (Note 10)	¥334.89	¥372.52
Dividends per share (Note 10)	¥50	¥37.50

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, 2017 and 2016

	Millions of Japanese yen	
	2017 (Note 16)	2016 (Note 16)
PROFIT	¥20,149	¥19,612
OTHER COMPREHENSIVE INCOME:		
Unrealized holding gains (losses) on securities, net of tax	(6)	(19)
Unrealized gains (losses) on hedging derivatives, net of tax	(1,001)	1,740
Foreign currency translation adjustments	(2,663)	(945)
Retirement liability adjustments for foreign consolidated subsidiaries	(166)	13
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method	(300)	1,269
Total other comprehensive income	(4,138)	2,058
COMPREHENSIVE INCOME	¥16,011	¥21,671

	Millions of Japanese yen	
	2017	2016
Comprehensive income attributable to owners of parent	¥15,637	¥23,538
Comprehensive income attributable to non-controlling interests	¥373	¥(1,867)

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

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31, 2017 and 2016

Millions of Japanese yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gains (losses) on securities, net of tax	Unrealized gains (losses)on hedging derivatives, net of tax	Foreign currency translation adjustments	Retirement liability adjustments for foreign consolidated subsidiaries	Non-controlling interests	Total net assets
Balance at January 1, 2016	¥30,122	¥30,852	¥38,259	¥(1)	¥7	¥(15,667)	¥18,170	¥(187)	¥13,428	¥114,983
Cash dividends paid			(2,044)							(2,044)
Purchase of treasury stock										–
Profit attributable to owners of parent			21,012							21,012
Net changes of items other than those in shareholders’ equity during the year					(19)	5,214	(2,679)	10	(1,867)	658
Balance at January 1, 2017	¥30,122	¥30,852	¥57,227	¥(1)	¥(11)	¥(10,453)	¥15,490	¥(176)	¥11,560	¥134,609
Cash dividends paid			(2,185)							(2,185)
Purchase of treasury stock				(0)						(0)
Profit attributable to owners of parent			19,454							19,454
Net changes of items other than those in shareholders’ equity during the year					(6)	1,343	(5,018)	(135)	325	(3,491)
Balance at December 31, 2017	¥30,122	¥30,852	¥74,495	¥(2)	¥(17)	¥(9,109)	10,472	¥(312)	¥11,885	¥148,387

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, 2017 and 2016

	Millions of Japanese yen	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes	¥25,064	¥27,776
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:		
Depreciation and amortization	4,673	5,364
Impairment loss	—	1,524
Amortization of goodwill	164	369
Increase (decrease) of allowance for bad debts	(343)	(1,495)
Increase (decrease) of net defined benefit liabilities	45	45
Increase (decrease) of accrued directors' bonuses	—	(0)
Increase (decrease) of provision for product warranty	(1,159)	385
Increase (decrease) of provision for repairs	6	42
Interest and dividend income	(5,143)	(4,055)
Interest expense	1,389	1,421
Foreign exchange (gains) losses, net	448	(2,019)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	(9,686)	(9,618)
Loss on disposal of property and equipment and intangible assets	—	107
Loss (gain) on sales of affiliate's stock	(491)	—
Loss (gain) on liquidations of subsidiaries and affiliates, net	(249)	—
Changes in assets and liabilities:		
Decrease (increase) in		
– Accounts receivable-trade	(4,662)	48,618
– Inventories	1,187	1,595
– Bankrupt and substantially bankrupt claims	—	1,823
Increase (decrease) in		
– Accounts payable-trade	(13,829)	(40,107)
– Consumption tax payable	(148)	393
Others, net	(7,849)	(7,328)
Total adjustments	(10,583)	24,844
Interest and dividend received	13,224	9,804
Interest paid	(1,403)	(1,447)
Income taxes paid	(4,553)	(2,851)
Net cash provided by (used in) operating activities	¥(3,315)	¥30,350

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

	Millions of Japanese yen	
	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and intangible assets	¥(4,490)	¥(2,862)
Purchases of investments in subsidiaries and affiliates	(8,219)	(4,474)
Proceeds from sales of investments in affiliates	301	—
Decrease (increase) in short-term loans receivable	17,034	(26,605)
Disbursements of long-term loans receivable	(8,214)	(4,430)
Net cash used in investing activities	(3,588)	(38,373)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in short-term loans payable	3,380	105
Proceeds from long-term loans payable	1,634	1,182
Repayments of long-term loans payable	(8,458)	(6,067)
Purchase of treasury stock	(0)	—
Cash dividends paid	(2,186)	(2,044)
Cash dividends paid to non-controlling interests	(47)	—
Repayments of finance lease obligations	(20)	(30)
Net cash used in financing activities	(5,698)	(6,853)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,260)	(885)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,862)	(15,762)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	42,194	57,956
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1 (t))	¥28,331	¥42,194

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 foreign subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile and any significant differences between Japanese GAAP and Local GAAP are adjusted in consolidation. 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 millions.

(b) Principles of Consolidation and Equity Method

The accompanying consolidated financial statements include the accounts of the Company and 19 of its subsidiaries for the year ended December 31, 2017 and 20 of its subsidiaries for the year ended December 31, 2016. Material inter-company balances, transactions and profits have been eliminated in consolidation.

Investments in significant unconsolidated subsidiaries and affiliates, which were 17 companies for the year ended December 31, 2017 and 18 companies for the year ended December 31, 2016 were accounted for using the equity method.

Another 6 subsidiaries for the year ended December 31, 2017 and 5 subsidiaries for the year ended December 31, 2016 were neither consolidated nor accounted for using the equity method as they would not have had 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 non-controlling 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 using 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 affiliates, 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 affiliates 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 affiliates that are not accounted for using the 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 the balance sheet dates. Unrealized gains and losses on these securities are reported net of applicable income taxes, as a separate component of net assets. 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 foreign consolidated subsidiaries are calculated using the straight-line method based on their lease terms 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, facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated using the straight-line method.

Foreign consolidated 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 other intangible assets using the straight-line method based on the useful lives prescribed by the Japanese corporation tax laws and regulations.

(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 an allowance for bad debts to cover probable losses on estimated uncollectable portion of specifically identified receivable.

(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 equipment as of the end of the consolidated fiscal year to be paid in the subsequent period.

(o) Severance and Retirement Benefits for Employees

The Company and certain foreign 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 certain foreign 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 consolidated statements of income.

Financial statements of foreign consolidated subsidiaries are translated into Japanese yen using the exchange rates prevailing at the end of each consolidated 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 consolidated 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 and currency swap contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and currency swap contracts and hedged items are accounted for in the following manner.

1) If a forward foreign exchange contract or a currency swap 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 or a currency swap 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 contracts and currency swap contracts 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 foreign consolidated subsidiaries adopt hedge accounting in accordance with U.S.GAAP.

(r) Revenue Recognition

1) The Company applies the percentage of completion method to the construction contracts in the event where the outcome of construction contracts can be reliably estimated. The percentage of completion is calculated by units of work performed method which is based on a physical progress measurement or percentage of cost method. The other construction contracts are recognized by the completed contract method.

2) Revenues and cost of sales relating to finance lease transactions are recognized when lease payments are received.

(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 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, 2017 and 2016 are as follows:

	Millions of Japanese yen	
	2017	2016
Cash and time deposits	¥31,380	¥42,807
Deposit pledged as collateral	(3,048)	(613)
Cash and cash equivalents	¥28,331	¥42,194

Changes in Presentation:

(u) Reclassifications

The Company made certain reclassifications to the previously reported the consolidated fiscal year 2016 amounts to conform to the consolidated fiscal year 2017 presentation. These reclassifications had no effect on previously reported profit attributable to owners of parent or net assets.

Additional Information:

(v) Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance on No.26, March 28, 2016)

The company adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance on No.26, March 28, 2016) from this consolidated fiscal year.

2. Inventories

Inventories as of December 31, 2017 and 2016 consisted of the following:

	Millions of Japanese yen	
	2017	2016
Raw materials	¥47	¥72
Costs of uncompleted contracts	1,048	2,287
	¥1,096	¥2,360

3. Pledged Assets

Asset pledged as collateral as of December 31, 2017 and 2016 were as follows:

	Millions of Japanese yen	
	2017	2016
Cash and time deposits	¥3,048	¥613
Long-term time deposits	1,475	3,781
Cash and cash equivalents	¥4,524	¥4,395

(Note) Above assets were pledged to issue letters of credit. No debt corresponds to these deposits as of the end of this consolidated fiscal year.

4. 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, 2017 and 2016

	Millions of Japanese yen		
2017:	Book value	Acquisition cost	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥74	¥64	¥10
Securities with book values not exceeding acquisition costs:			
Equity securities	72	100	(27)
Total	¥147	¥164	¥(17)

	Millions of Japanese yen		
2016:	Book value	Acquisition cost	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥79	¥64	¥14
Securities with book values not exceeding acquisition costs:			
Equity securities	74	100	(25)
Total	¥153	¥164	¥(11)

5. Goodwill

Goodwill included in intangible assets as of December 31, 2017 and 2016 were ¥1,207 million and ¥1,414 million, respectively.

6. Loans Payable

Short-term loans payable represent notes payable to banks due generally in twelve months or less and bearing an average interest rate of 2.20% and 1.71% as of December 31, 2017 and 2016, respectively.

Long-term loans payable as of December 31, 2017 and 2016 are summarized below:

	Millions of Japanese yen	
	2017	2016
Loans from banks and others due through 2025	¥42,664	¥50,291
Less: Current portion included in current liabilities, at average rate of 1.80%	11,077	7,812
Loans from banks and others, at average rate of 1.24% due through 2025 (Excluding current portion)	¥31,586	¥42,478

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

Year ending December 31,	Millions of Japanese yen
2018	¥11,077
2019	6,607
2020	14,003
2021	5,937
2022	3,676
2023 and thereafter	1,362
	¥42,664

7. Asset Retirement Obligation

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

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

8. Unused Balance of Overdraft Facilities and Lending Commitment

The Company has a commitment line agreement with a syndicate of seven financial institutions as of 2017 and 2016 and an overdraft facility agreement with two financial institutions as of 2017 and 2016 for the purpose of providing operating funds. The commitment line amount is $160 million as of December 31, 2017 and 2016 without any drawdown. The overdraft facility line amount is ¥3,000 million and $30 million without any drawdown as of December 31, 2017 and 2016.

9. 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 24, 2017, the shareholders approved cash dividends amounting to ¥1,057 million for the year ended December 31, 2016. At the annual shareholders' meeting held on March 23, 2018, the shareholders approved cash dividends amounting to ¥1,692 million for the year ended December 31, 2017. Such appropriations have not been accrued in the consolidated financial statements. Such appropriations are recognized in the period in which they are approved by the shareholders.

10. Per Share Data

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

Diluted earnings per share reflect 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, 2017 and 2016.

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

11. Severance and Retirement Benefits for Employees

(a) Defined benefit pension plans

The net defined benefit liabilities recorded in the liability section of the consolidated balance sheets as of December 31, 2017 and 2016 consisted of the following:

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

	Millions of Japanese yen	
	2017	2016
Balance at beginning of year	¥265	¥220
Severance and retirement benefit expenses	78	61
Benefits paid	(33)	(16)
Balance at end of year	¥310	¥265

ii) Reconciliation of projected retirement benefit obligation and net defined benefit liabilities recorded in the consolidated balance sheets

	Millions of Japanese yen	
	2017	2016
Projected retirement benefit obligation (Unfunded termination and retirement allowance plan)	¥310	¥265
Net defined benefit liabilities recorded in the consolidated balance sheets	¥310	¥265

iii) Severance and retirement benefit expenses

	Millions of Japanese yen	
	2017	2016
Severance and retirement benefit expenses (simpler method)	¥78	¥61

(b) Defined contribution pension plans

Contribution to pension plans amounted to ¥60 million and ¥57 million for the years ended December 31, 2017 and 2016, respectively.

12. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses are ¥160 million and ¥315 million for the years ended December 31, 2017 and 2016, respectively.

13. Impairment Loss

Impairment loss for the year ended December 31, 2016 consisted of the following:

(a) Overview of the impairment loss

Company	Location	Use	Type of Assets
MODEC International, Inc.	U.S.A.	―	Goodwill

(b) Grouping unit

The business assets have been grouped by each company.

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

MODEC International, Inc., which is a consolidated subsidiary, recognized an impairment loss of ¥1,524 million on the remaining unamortized portion for goodwill due to the unlikelihood of an estimated profitability.

(d) The measurement of the impairment loss

The recoverable amount of the above goodwill was estimated at zero.

14. Income Taxes

The statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants' taxes is 31.0% and 33.0% for the years ended December 31, 2017 and 2016, 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, 2017 and 2016.

	2017	2016
Statutory income tax rates	31.0%	33.0%
Difference of statutory tax rate between the Company and foreign subsidiaries	(6.7)	(19.6)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	(12.0)	(11.4)
Valuation allowance	13.1	27.5
Income of foreign subsidiaries taxed at lower than Japanese statutory rate	1.6	0.1
Income taxes refunds	(8.4)	―
Income taxes for prior periods	―	0.0
Others	1.0	(0.2)
Effective tax rates	19.6%	29.4%

2) Significant components of deferred tax assets and liabilities as of December 31, 2017 and 2016 are as follows:

	Millions of Japanese yen	
	2017	2016
Deferred tax assets:		
Current assets:		
Accrued enterprise taxes	¥142	¥—
Accrued employees' bonuses	3	3
Provision for product warranty	938	1,203
Allowance for bad debts	735	978
Tax loss carry forward	617	567
Estimated costs for construction contracts, etc.	3,326	2,248
Difference on percentage-of-completion method	3,481	3,321
Others	1,159	2,336
Sub total	10,405	10,658
Valuation allowance	(5,124)	(3,439)
Offset to deferred tax liabilities (short-term)	(2,877)	(3,955)
Total	2,403	3,263
Fixed assets:		
Unrealized inter-company profit on fixed assets	2,121	3,671
Tax loss carry forward	9,657	8,610
Net defined benefit liabilities	96	82
Depreciation	18	37
Long-term foreign tax credit	1,496	1,629
Temporary difference for investment in subsidiaries	—	824
Others	2,341	3,128
Sub total	15,731	17,984
Valuation allowance	(13,353)	(13,946)
Offset to deferred tax liabilities (long-term)	(610)	(1,370)
Total	1,767	2,666
Total deferred tax assets	¥4,171	¥5,930

	Millions of Japanese yen	
	2017	2016
Deferred tax liabilities:		
Current liabilities:		
Tax effect of derivative hedge on foreign subsidiaries	¥—	¥(331)
Difference on percentage-of-completion method	(2,559)	(2,504)
Undistributed earnings of foreign subsidiaries and affiliates	(53)	—
Others	(263)	(1,120)
Sub total	(2,877)	(3,957)
Offset to deferred tax assets (short-term)	2,877	3,955
Total	—	(1)
Long-term liabilities:		
Depreciation	—	(62)
Difference on percentage-of-completion method	(182)	(509)
Undistributed earnings of foreign subsidiaries and affiliates	(213)	(334)
Others	(214)	(463)
Sub total	(610)	(1,370)
Offset to deferred tax assets (long-term)	610	1,370
Total	—	—
Total deferred tax liabilities	—	(1)
Net deferred tax assets	¥4,171	¥5,929

3) The revision of the corporate income tax rate after December 31, 2017

In the United States, the new tax reform legislation that are resolved to reduce the U.S. corporate tax rate after January 1, 2018 from 35.0% to 21.0% were passed on December 22, 2017.
In the consolidated fiscal year, owing to passing of new tax reform legislation, the deferred tax assets and liabilities of the consolidated subsidiaries in the United States were calculated by the corporate tax rate that was based on revised tax rate.
As a consequence, the net amount of deferred tax assets decreased ¥176 million and deferred income taxes increased ¥159 million.

15. Contingent Liabilities and Commitments

As of December 31, 2017 and 2016, the Company was contingently liable for the following:

	Millions of Japanese yen	
	2017	2016
Guarantees of bank loans and other indebtedness for affiliates	¥58,035	¥78,391

For the years ended December 31, 2017 and 2016, the share of the fair market values of swap contracts of affiliates accounted for using the equity method 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).

16. Comprehensive Income

The following represents each component of other comprehensive income for the years ended December 31, 2017 and 2016:

	Millions of Japanese yen	
	2017	2016
Unrealized holding gains (losses) on securities, net of tax		
Amount of generation	¥(6)	¥(22)
Amount of rearrangement adjustment	—	—
Before adjusting the tax effect	(6)	(22)
Tax effect	—	3
Unrealized holding gains (losses) on securities, net of tax	(6)	(19)
Unrealized gains (losses) on hedging derivatives, net of tax		
Amount of generation	(1,235)	2,962
Amount of rearrangement adjustment	(63)	(242)
Before adjusting the tax effect	(1,298)	2,719
Tax effect	296	(979)
Unrealized gains (losses) on hedging derivatives, net of tax	(1,001)	1,740
Foreign currency translation adjustments		
Amount of generation	(2,414)	(945)
Amount of rearrangement adjustment	(249)	—
Before adjusting the tax effect	(2,663)	(945)
Tax effect	—	—
Foreign currency translation adjustments	(2,663)	(945)
Retirement liability adjustments for foreign consolidated subsidiaries		
Amount of generation	(105)	22
Amount of rearrangement adjustment	(88)	(0)
Before adjusting the tax effect	(193)	22
Tax effect	27	(9)
Retirement liability adjustments for foreign consolidated subsidiaries	(166)	13
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method		
Amount of generation	(2,464)	(1,146)
Amount of rearrangement adjustment	2,164	2,415
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method	(300)	1,269
Total	¥(4,138)	¥2,058

17. Leases

Lessor:

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

	Millions of Japanese yen	
	2017	2016
Due within one year	—	¥1,232
Due after one year	—	—
Total	—	¥1,232

18. 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 for hedging purpose only and not for speculation.

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

Accounts receivable-trade is 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 support the affiliates are mainly established to accomplish charter projects which are exposed to credit risks of their customers. The Company reduces the share of risks by arranging project financing or through the cooperation with general trading companies and other business partners.

Majority of accounts receivable-trade and loans receivable are denominated in foreign currencies and the 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 the majority 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 managed to not exceed accounts receivable-trade in the same foreign currencies.

Short-term and long-term loans payable are primarily for raising funds for the affiliates. Majority of loans payable are exposed to currency fluctuation risks, but these loans payable are managed to 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 consist of mainly forward foreign exchange contracts and currency swap 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 department appropriately prepares and updates 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.

The contract amounts of derivative transactions mentioned in Note 19. Derivative Transactions do not indicate the actual market risks involved in the derivative transactions.

(b) Concerning fair value of financial instruments

Consolidated balance sheets amounts, fair value of financial instruments and the difference between them for the years ended December 31, 2017 and 2016 are as follows. Financial instruments for which the fair value is considered to be extremely difficult to obtain are not included in the list below.

2017:	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥31,380	¥31,380	—
(2) Accounts receivable-trade	98,188	98,188	—
(3) Short-term loans receivable	42,867	42,867	—
(4) Investment securities	147	147	—
(5) Long-term loans receivable from affiliates (*1)	38,176	38,906	¥729
Assets total	¥210,760	¥211,489	¥729
(6) Accounts payable-trade	¥80,335	¥80,335	—
(7) Short-term loans payable	3,390	3,390	—
(8) Long-term loans payable(*1)	42,664	42,664	—
Liabilities total	¥126,389	¥126,389	—
(9) Derivative transactions (*2)			
i) Derivative transactions for which hedge accounting has not been applied	¥2,438	¥2,438	—
ii) Derivative transactions for which hedge accounting has been applied	(978)	(962)	¥16
Derivative transactions total	¥1,460	¥1,476	¥16

*1: Long-term loans receivable from affiliates and Long-term loans payable both include current portion.
*2: Derivative transactions are presented net of receivables and payables. Figures with parenthesis indicate payables.

2016:	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥42,807	¥42,807	—
(2) Accounts receivable-trade	95,544	95,544	—
(3) Short-term loans receivable	55,012		
Allowance for bad debts (*1)	(84)		
	54,928	54,928	—
(4) Investment securities	153	153	—
(5) Long-term loans receivable from affiliates	28,165	28,437	¥272
Assets total	¥221,559	¥221,871	¥272
(6) Accounts payable-trade	¥96,738	¥96,738	—
(7) Current portion of long-term loans payable	7,812	7,812	—
(8) Long-term loans payable	42,478	42,478	—
Liabilities total	¥147,030	¥147,030	—
(9) Derivative transactions (*2)			
i) Derivative transactions for which hedge accounting has not been applied	¥2,530	¥2,530	—
ii) Derivative transactions for which hedge accounting has been applied	345	284	¥(60)
Derivative transactions total	¥2,875	¥2,815	¥(60)

*1: Individual allowance for bad debts is deducted from short-term loans receivable.
*2: Derivative transactions are presented net of receivables and payables. 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 values of these accounts are 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 this account is based on available market price. Securities held by intent are described in the corresponding pages. (Please see Note 4. Marketable Securities and Investment Securities.)

(5) Long-term loans receivable from affiliates

Fair value of this account 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 Current portion of long-term loans payable

Fair values of these accounts are 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.

(8) Long-term loans payable

Fair value of long-term loans payable with fixed interest rate is calculated using the total amount of the principal and interest discounted by the interest rate on condition that the borrowing is newly executed at the date of fair value evaluation.

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

Derivative Transactions

Please see Note 19. Derivative Transactions.

(note 2) Consolidated balance sheets amounts of financial instruments for which the fair value is considered to be extremely difficult to obtain are as follows:

	Millions of Japanese yen	
	2017	2016
Privately owned equity securities	¥63,078	¥55,008

As to these financial instruments, there is no available fair market value and it is considered to cost a great deal to estimate future cash flows. Therefore, these financial instruments are not included in (4) Investment securities because it is considered to be extremely difficult to obtain fair value.

(note 3) The expected redemption amount of monetary asset and securities with maturity after December 31, 2017 and 2016 are as follows:

2017:	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	¥31,380	—	—	—
Accounts receivable-trade	98,188	—	—	—
Short-term loans receivable	42,867	—	—	—
Long-term loans receivable from affiliates	3,414	¥5,556	¥14,633	¥14,572

2016:	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	¥42,807	—	—	—
Accounts receivable-trade	95,544	—	—	—
Short-term loans receivable	55,012	—	—	—
Long-term loans receivable from affiliates	—	¥2,516	¥14,935	¥10,714

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

Year ending December 31,	Millions of Japanese yen
2019	¥6,607
2020	14,003
2021	5,937
2022	3,676
2023 and thereafter	1,362
Total	¥31,586

19. Derivative Transactions

The Company and its consolidated subsidiaries utilize forward foreign exchange contracts and currency swap 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 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:
Forward foreign exchange contracts	Foreign currency receivables, payables and future transactions
Currency swap contracts	Foreign currency receivables and payables
Interest rate swap contracts	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.

The following tables summarize market value information as of December 31, 2017 and 2016 of derivative transactions:

(a) Derivative transactions for which hedge accounting has not been applied

2017:	Millions of Japanese yen			
Currency related derivatives	Contract Amount			
Type	Total	Due after one year	Contract Amount less Market Value	Unrealized gain (loss)
Currency swap				
To receive Japanese yen, to pay U.S. dollars	¥21,024	¥17,912	¥2,438	¥2,438
Total	¥21,024	¥17,912	¥2,438	¥2,438

2016:	Millions of Japanese yen			
Currency related derivatives	Contract Amount			
Type	Total	Due after one year	Contract Amount less Market Value	Unrealized gain (loss)
Forward contract				
To sell U.S. dollars	¥2,315	–	¥(1)	¥(1)
Currency swap				
To receive Japanese yen, to pay U.S. dollars	24,050	¥21,024	2,532	2,532
Total	¥26,366	¥21,024	¥2,530	¥2,530

(b) Derivative transactions for which hedge accounting has been applied

2017:		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 Euro	Accounts payable-trade and others	¥271	–	¥13
To buy STG pounds		6	–	0
To buy Singapore dollars		568	–	21
Total		¥846	–	¥34

2016:

Currency related derivatives		Millions of Japanese yen		
		Contract Amount		
Type	Hedged Items	Total	Due after one year	Contract Amount less Market Value
Forward contract (principle method)				
To buy Euro	Accounts payable-trade and others	¥1,131	¥235	¥(55)
To buy Japanese yen		309	―	(9)
To buy Singapore dollars		961	43	(36)
To buy Brazilian Real		10,263	―	2,043
Total		¥12,665	¥278	¥1,941

2017:

Interest related derivatives		Millions of Japanese yen		
		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	¥20,250	¥17,310	¥(1,013)
Interest rate swap (exceptional method) To receive float, pay fix	Long-term loans payable	7,282	6,254	16
Total		¥27,532	¥23,564	¥(997)

2016:

Interest related derivatives		Millions of Japanese yen		
		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	¥25,302	¥20,250	¥(1,596)
Interest rate swap (exceptional method) To receive float, pay fix	Long-term loans payable	8,299	7,507	(60)
Total		¥33,602	¥27,757	¥(1,657)

20. 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

2017:

Millions of Japanese yen						
Brazil	Ghana	Europe	Oceania	Asia	Other	Total
¥90,966	¥34,105	¥23,541	¥15,160	¥5,883	¥21,524	¥191,182

2016:

Millions of Japanese yen						
Brazil	Ghana	Europe	Oceania	Asia	Other	Total
¥140,042	¥34,165	¥17,587	¥14,443	¥9,059	¥14,689	¥229,987

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

(b) Property and equipment

2017:

Millions of Japanese yen					
Australia	Vietnam	Netherlands	U.S.A.	Other	Total
¥1,735	—	¥3,271	¥1,190	¥665	¥6,863

2016:

Millions of Japanese yen					
Australia	Vietnam	Netherlands	U.S.A.	Other	Total
¥4,238	¥4,459	¥3,375	¥1,439	¥646	¥14,161

(4) Information by major customer

2017:

	Millions of Japanese yen	
Customers	Sales	Related Segment
Tartaruga MV29 B.V.	¥38,509	(note 1)
MAERSK OIL NORTH SEA UK LIMITED	¥23,418	(note 1)

2016:

	Millions of Japanese yen	
Customers	Sales	Related Segment
Tartaruga MV29 B.V.	¥71,648	(note 1)
Carioca MV27 B.V.	¥28,768	(note 1)

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

(5) Information about losses on impairment for each reportable segment

The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as singles business therefore information about losses on impairment for each reportable segment is not presented.

(6) Information about goodwill amortization amount and year-end balance for each reportable segment

The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as singles business therefore information about goodwill amortization amount and year-end balance for each reportable segment is not presented.

(7) Information about gains on negative goodwill for each reportable segment

The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as singles business therefore information about gains on negative goodwill for each reportable segment is not presented.

21. Related Party Transactions

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2017 are as follows:

2017:

Related parties	Transactions	Millions of Japanese yen
Sepia MV30 B.V.	Disbursements of loans for capital expenditure	¥5,245
T.E.N. Ghana MV25 B.V.	Construction of FPSO (Sales)	5,328
T.E.N. Ghana MV25 B.V.	Disbursements of loans for capital expenditure	7,512
T.E.N. Ghana MV25 B.V.	Collections of loans for capital expenditure	33,534
T.E.N. Ghana MV25 B.V.	Guarantees of contract fulfillment	3,574
Carioca MV27 B.V.	Disbursements of loans for capital expenditure	37,079
Carioca MV27 B.V.	Collections of loans for capital expenditure	31,088
Carioca MV27 B.V.	Guarantees of derivative transactions	3,168
Tartaruga MV29 B.V.	Construction of FPSO (Sales)	37,364
Tartaruga MV29 B.V.	Guarantees of bank loans	49,846
MODEC and TOYO Offshore Production Systems Pte. Ltd.	Construction of FPSO (Cost of sales)	2,740

2017:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Sepia MV30 B.V.	Short-term loans receivable	¥5,255
Opportunity MV18 B.V.	Short-term loans receivable	2,440
Gas Opportunity MV20 B.V.	Long-term loans receivable from affiliates	3,812
Tupi Pilot MV22 B.V.	Long-term loans receivable from affiliates	5,514
T.E.N. Ghana MV25 B.V.	Accounts receivable-trade	3,241
Carioca MV27 B.V.	Short-term loans receivable	37,612
Tartaruga MV29 B.V.	Accounts receivable-trade	29,155
MODEC and TOYO Offshore Production Systems Pte. Ltd.	Accounts payable-trade	3,470

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2017 are as follows:

2017:

Related parties	Transactions	Millions of Japanese yen
T.E.N. Ghana MV25 B.V.	Disbursements of loans for working capital	¥4,035
Carioca MV27 B.V.	Construction of FPSO (Sales)	1,950
Carioca MV27 B.V.	Disbursements of loans for working capital	4,179

2017:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Guara MV23 B.V.	Long-term loans receivable from affiliates	¥6,185
Cernambi Sul MV24 B.V.	Long-term loans receivable from affiliates	6,096
T.E.N. Ghana MV25 B.V.	Long-term loans receivable from affiliates	4,035
Cernambi Norte MV26 B.V.	Long-term loans receivable from affiliates	4,297
Carioca MV27 B.V.	Accounts receivable -trade	5,027
Carioca MV27 B.V.	Long-term loans receivable from affiliates	4,179

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2016 are as follows:

2016:

Related parties	Transactions	Millions of Japanese yen
T.E.N. Ghana MV25 B.V.	Construction of FPSO (Sales)	¥9,766
T.E.N. Ghana MV25 B.V.	Disbursements of loans for capital expenditure	33,708
T.E.N. Ghana MV25 B.V.	Collections of loans for capital expenditure	12,182
T.E.N. Ghana MV25 B.V.	Guarantees of contract fulfillment	5,824
T.E.N. Ghana MV25 B.V.	Guarantees of bank loans	7,129
Cernambi Norte MV26 B.V.	Disbursements of loans for capital expenditure	15,618
Cernambi Norte MV26 B.V.	Collections of loans for capital expenditure	24,033
Carioca MV27 B.V.	Disbursements of loans for capital expenditure	27,417
Carioca MV27 B.V.	Collections of loans for capital expenditure	12,827
Carioca MV27 B.V.	Guarantees of bank loans	24,211
Carioca MV27 B.V.	Guarantees of derivative transactions	3,462
Tartaruga MV29 B.V.	Construction of FPSO (Sales)	75,059
Tartaruga MV29 B.V.	Guarantees of bank loans	35,457

2016:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Song Doc MV19 B.V.	Short-term loans receivable	¥3,634
Gas Opportunity MV20 B.V.	Long-term loans receivable from affiliates	3,929
Tupi Pilot MV22 B.V.	Long-term loans receivable from affiliates	5,684
T.E.N. Ghana MV25 B.V.	Accounts receivable-trade	5,311
T.E.N. Ghana MV25 B.V.	Short-term loans receivable	27,992
Carioca MV27 B.V.	Short-term loans receivable	31,703
Tartaruga MV29 B.V.	Accounts receivable-trade	43,241

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2016 are as follows:

2016:

Related parties	Transactions	Millions of Japanese yen
Cernambi Norte MV26 B.V.	Disbursements of loans for working capital	¥4,430
Carioca MV27 B.V.	Construction of FPSO (Sales)	14,107
MODEC and TOYO Offshore Production Systems Pte. Ltd.	Construction of FPSO (Cost of sales)	26,944

2016:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Guara MV23 B.V.	Long-term loans receivable from affiliates	¥6,376
Cernambi Sul MV24 B.V.	Long-term loans receivable from affiliates	6,284
Cernambi Norte MV26 B.V.	Long-term loans receivable from affiliates	4,430
Carioca MV27 B.V.	Accounts receivable-trade	11,249
MODEC and TOYO Offshore Production Systems Pte. Ltd.	Accounts payable-trade	1,338

22. Significant Subsequent Event

Stock Remuneration Plan for Directors and Executive Officers

At the extraordinary meeting of the Board of Directors held on February 6, 2018, the Company was resolved to adopt a stock remuneration plan for directors and executive officers (excluding outside directors and directors who are members of the Supervisory Committee) as the new incentive plan that uses a trust (“this plan”). The adoption of this plan was approved at the annual shareholders’ meeting held on March 23, 2018.