

Consolidated Financial Statements

MODEC, INC. and Consolidated Subsidiaries

For the years ended December 31,
2018 and 2017

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

ASSETS

| | Millions of Japanese yen | |
|--|--------------------------|----------|
| | 2018 | 2017 |
| CURRENT ASSETS: | | |
| Cash and time deposits (Notes 1(t), 3 and 16) | ¥51,215 | ¥31,380 |
| Accounts receivable-trade (Notes 16 and 19) | 95,065 | 98,188 |
| Inventories (Note 2) | 5,405 | 1,096 |
| Short-term loans receivable (Notes 16 and 19) | 43,021 | 46,282 |
| Deferred tax assets (Note 13) | 149 | 2,403 |
| Other current assets | 17,614 | 19,983 |
| Less allowance for bad debts (Note 16) | (738) | (1,297) |
| Total current assets | 211,734 | 198,035 |
| PROPERTY AND EQUIPMENT (Note 18): | | |
| Buildings and structures | 130 | 130 |
| Machinery and equipment | 28,105 | 32,259 |
| Other property and equipment | 3,762 | 3,912 |
| Construction in progress | — | 110 |
| Less accumulated depreciation | (29,454) | (29,549) |
| Net property and equipment | 2,543 | 6,863 |
| INTANGIBLE ASSETS (Notes 5) | 9,260 | 7,446 |
| INVESTMENTS AND OTHER ASSETS: | | |
| Investment securities (Notes 4 and 16) | 71,458 | 63,225 |
| Long-term loans receivable from affiliates (Notes 16 and 19) | 36,947 | 34,762 |
| Deferred tax assets (Note 13) | 3,196 | 1,767 |
| Other investments (Note 3) | 8,203 | 9,063 |
| Total investments and other assets | 119,806 | 108,819 |
| Total assets | ¥343,345 | ¥321,165 |

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

LIABILITIES

| | Millions of Japanese yen | |
|---|--------------------------|----------|
| | 2018 | 2017 |
| CURRENT LIABILITIES: | | |
| Accounts payable-trade (Notes 16 and 19) | ¥97,680 | ¥80,335 |
| Short-term loans payable (Notes 6, 8 and 16) | — | 3,390 |
| Current portion of long-term loans payable (Notes 6 and 16) | 6,142 | 11,077 |
| Lease obligations | 12 | 6 |
| Accrued expenses | 15,507 | 13,971 |
| Income taxes payable (Note 13) | 7,219 | 6,717 |
| Advances received | 9,981 | 6,425 |
| Accrued employees' bonuses | 45 | 43 |
| Accrued directors' bonuses | 19 | 13 |
| Provision for product warranty | 5,937 | 5,495 |
| Provision for repairs | 5 | 49 |
| Other provisions | 46 | 5 |
| Other current liabilities | 1,462 | 1,049 |
| Total current liabilities | 144,060 | 128,581 |
| LONG-TERM LIABILITIES: | | |
| Long-term loans payable (Notes 6 and 16) | 24,889 | 31,586 |
| Lease obligations | 36 | 2 |
| Net defined benefit liabilities (Note 11) | 347 | 310 |
| Deferred tax liabilities | 320 | — |
| Liabilities from application of equity method | 2,096 | 6,875 |
| Other long-term provision | 397 | — |
| Other long-term liabilities | 6,383 | 5,422 |
| Total long-term liabilities | 34,470 | 44,197 |
| CONTINGENT LIABILITIES AND COMMITMENTS (Note 14) | | |
| Total liabilities | ¥178,531 | ¥172,778 |

NET ASSETS

| | Millions of Japanese yen | |
|--|--------------------------|-----------------|
| | 2018 | 2017 |
| NET ASSETS: | | |
| SHAREHOLDERS' EQUITY (Note 9): | | |
| Common stock | | |
| Authorized – 102,868,000 shares in 2018 and in 2017 | | |
| Issued – 56,408,000 shares in 2018 and in 2017 | ¥30,122 | ¥30,122 |
| Capital surplus | 30,851 | 30,852 |
| Retained earnings | 93,571 | 74,495 |
| Treasury stock, at cost | | |
| 31,272 shares in 2018 and 775 shares in 2017 | (99) | (2) |
| Total shareholders' equity | <u>154,446</u> | <u>135,468</u> |
| ACCUMULATED OTHER COMPREHENSIVE INCOME: | | |
| Unrealized holding gains (losses) on securities, net of tax | – | (17) |
| Unrealized gains (losses) on hedging derivatives, net of tax | (6,864) | (9,109) |
| Foreign currency translation adjustments | 5,740 | 10,472 |
| Retirement liability adjustments for foreign consolidated subsidiaries | (656) | (312) |
| Total accumulated other comprehensive income | <u>(1,781)</u> | <u>1,032</u> |
| NON-CONTROLLING INTERESTS | 12,148 | 11,885 |
| Total net assets | <u>164,814</u> | <u>148,387</u> |
| Total liabilities and net assets | <u>¥343,345</u> | <u>¥321,165</u> |

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2018 and 2017

| | Millions of Japanese yen | |
|--|--------------------------|----------|
| | 2018 | 2017 |
| SALES (Notes 18 and 19) | ¥221,909 | ¥191,182 |
| COST OF SALES (Note 19) | 195,351 | 166,377 |
| Gross profit | 26,557 | 24,804 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12) | 11,628 | 13,356 |
| Operating profit | 14,928 | 11,448 |
| OTHER INCOME (EXPENSES): | | |
| Interest and dividend income | 6,107 | 5,143 |
| Foreign exchange gain (loss), net | (1,038) | (1,321) |
| Equity in earnings of unconsolidated subsidiaries and affiliates, net | 9,841 | 9,686 |
| Interest expense | (926) | (1,389) |
| Gain on sales of affiliate's stock | — | 491 |
| Gain on liquidations of subsidiaries, net | — | 249 |
| Others, net | (132) | 755 |
| Total other income (expenses) | 13,850 | 13,616 |
| PROFIT BEFORE INCOME TAXES | 28,779 | 25,064 |
| INCOME TAXES (Note 13): | | |
| Current | 5,032 | 3,028 |
| Prior | 33 | (89) |
| Deferred | 1,164 | 1,976 |
| PROFIT | 22,549 | 20,149 |
| PROFIT ATTRIBUTABLE TO NON- CONTROLLING INTERESTS | 658 | 695 |
| PROFIT ATTRIBUTABLE TO OWNERS OF PARENT | ¥21,891 | ¥19,454 |
| | Japanese yen | |
| Earnings per share (Note 10) | ¥388.23 | ¥344.89 |
| Dividends per share (Note 10) | ¥52.50 | ¥50.00 |

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, 2018 and 2017

| | Millions of Japanese yen | |
|--|--------------------------|-------------------|
| | 2018 (Note 15) | 2017 (Note 15) |
| PROFIT | ¥22,549 | ¥20,149 |
| OTHER COMPREHENSIVE INCOME: | | |
| Unrealized holding gains (losses) on securities, net of tax | 17 | (6) |
| Unrealized gains (losses) on hedging derivatives, net of tax | (240) | (1,001) |
| Foreign currency translation adjustments | (3,719) | (2,663) |
| Retirement liability adjustments for foreign consolidated subsidiaries | (453) | (166) |
| Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method | 1,202 | (300) |
| Total other comprehensive income | (3,192) | (4,138) |
| COMPREHENSIVE INCOME | ¥19,357 | ¥16,011 |
| | | |
| | Millions of Japanese yen | |
| | 2018 | 2017 |
| Comprehensive income attributable to owners of parent | ¥19,077 | ¥15,637 |
| Comprehensive income attributable to non-controlling interests | ¥279 | ¥373 |

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, 2018 and 2017

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, 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 January 1, 2018 | ¥30,122 | ¥30,852 | ¥74,495 | ¥(2) | ¥(17) | ¥(9,109) | ¥10,472 | ¥(312) | ¥11,885 | ¥148,387 |
| Cash dividends paid | | | (2,890) | | | | | | | (2,890) |
| Purchase of treasury stock | | | | (97) | | | | | | (97) |
| Profit attributable to owners of parent | | | 21,891 | | | | | | | 21,891 |
| Purchase of shares of consolidated subsidiaries | | (1) | | | | | | | | (1) |
| Change of scope of consolidation | | | 75 | | | | | | | 75 |
| Net changes of items other than those in shareholders' equity during the year | | | | | 17 | 2,244 | (4,731) | (343) | 262 | (2,550) |
| Balance at December 31, 2018 | ¥30,122 | ¥30,851 | ¥93,751 | ¥(99) | ¥— | ¥(6,864) | ¥5,740 | ¥(656) | ¥12,148 | ¥164,814 |

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, 2018 and 2017

| | Millions of Japanese yen | |
|---|--------------------------|----------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Profit before income taxes | ¥28,779 | ¥25,064 |
| Adjustments to reconcile profit before income taxes to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,083 | 4,673 |
| Amortization of goodwill | 161 | 164 |
| Increase (decrease) of allowance for bad debts | (601) | (343) |
| Increase (decrease) of net defined benefit liabilities | 36 | 45 |
| Increase (decrease) of accrued directors' bonuses | 5 | — |
| Increase (decrease) of provision for product warranty | 538 | (1,159) |
| Increase (decrease) of provision for repairs | (42) | 6 |
| Interest and dividend income | (6,107) | (5,143) |
| Interest expense | 926 | 1,389 |
| Foreign exchange (gains) losses, net | (329) | 448 |
| Equity in earnings of unconsolidated subsidiaries and affiliates, net | (9,841) | (9,686) |
| 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 | 6,782 | (4,662) |
| – Inventories | (4,459) | 1,187 |
| Increase (decrease) in | | |
| – Accounts payable-trade | 23,552 | (13,829) |
| – Consumption tax payable | (112) | (148) |
| Others, net | (1,767) | (7,849) |
| Total adjustments | 39,606 | (10,583) |
| Interest and dividend received | 12,422 | 13,224 |
| Interest paid | (955) | (1,403) |
| Income taxes paid | (5,880) | (4,553) |
| Net cash provided by (used in) operating activities | ¥45,193 | ¥(3,315) |

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

| | Millions of Japanese yen | |
|---|--------------------------|----------|
| | 2018 | 2017 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment and intangible assets | ¥(3,189) | ¥(4,490) |
| Purchases of investments in subsidiaries and affiliates | (4,606) | (8,219) |
| Proceeds from sales of investments in affiliates | — | 301 |
| Decrease (increase) in short-term loans receivable | 4,829 | 17,034 |
| Proceeds from sales of property and equipment and intangible assets | 3,330 | — |
| Proceeds from sales of securities | 134 | — |
| Disbursement of time deposits | (74) | — |
| Disbursements of long-term loans receivable | (4,599) | (8,214) |
| Net cash used in investing activities | (4,176) | (3,588) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase (decrease) in short-term loans payable | (3,091) | 3,380 |
| Proceeds from long-term loans payable | 194 | 1,634 |
| Repayments of long-term loans payable | (11,143) | (8,458) |
| Purchase of treasury stock | (97) | (0) |
| Cash dividends paid | (2,891) | (2,186) |
| Proceeds from share issuance to non-controlling shareholders | 4 | — |
| Cash dividends paid to non-controlling interests | (5) | (47) |
| Repayments of finance lease obligations | (12) | (20) |
| Net cash used in financing activities | (17,043) | (5,698) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | |
| | (1,855) | (1,260) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 22,116 | (13,862) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 28,331 | 42,194 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE OF SCOPE OF CONSOLIDATION | 324 | — |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | ¥50,773 | ¥28,331 |
| (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 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 20 of its subsidiaries for the year ended December 31, 2018 and 19 of its subsidiaries for the year ended December 31, 2017. 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 year ended December 31, 2018 and 17 companies for the year ended December 31, 2017 were accounted for using the equity method.

Another 4 subsidiaries for the year ended December 31, 2018 and 6 subsidiaries for the year ended December 31, 2017 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.

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, 2018 and 2017 are as follows:

| | Millions of Japanese yen | |
|--|--------------------------|---------|
| | 2018 | 2017 |
| Cash and time deposits | ¥51,215 | ¥31,380 |
| Time deposits with maturities exceeding three months | (74) | — |
| Deposit pledged as collateral | (367) | (3,048) |
| Cash and cash equivalents | ¥50,773 | ¥28,331 |

Unapplied Accounting Standards:

(u) Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No.28, February 16, 2018)

(v) Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, February 16, 2018)

1) Overview

The above guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as ‘Type1’ according to the guidance.

2) Effective date

These standards will be effective from the beginning of the year ending December 31, 2019.

3) Effect on application of the standards

The Company is currently in the process of determining the effects of these new standards on the consolidated financial statements.

(w) Accounting Standard for Revenue Recognition (ASBJ Statement No.29, March 30, 2018)

(x) Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

Step 1: Identify contracts with customers.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.

Step 5: Recognize revenue when or as the entity satisfies a performance obligation.

2) Effective date

These standards will be effective from the beginning of the year ending December 31, 2022.

3) Effect on application of the standards

The Company is currently in the process of determining the effects of these new standards on the consolidated financial statements.

Additional information:

(y) Stock Remuneration Plan for Directors

The Company adopted a stock remuneration plan for directors (excluding outside directors, the same applies hereinafter) as the new incentive plan that uses a trust (“this plan”) from this consolidated fiscal year. The accounting treatment for this trust contract is complied with “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (PITF No.30, March 26, 2015).

1) Structure of the plan

Stock Remuneration Plan for Directors uses a trust funded by monetary contribution from the Company to purchase the common stock of the Company (“Company’s stock”) for use as this plan.

Through the trust, Directors receive the Company’s stock based on points granted in accordance with the Company’s regulations which were resolved by the Board of Directors.

2) The Company’s stock held by the trust

The Company’s stock held by the trust is included in net assets as treasury shares at book value. There were 30,400 shares with a book value of ¥ 96 million yen at the end of December 2018.

2. Inventories

Inventories as of December 31, 2018 and 2017 consisted of the following:

| | Millions of Japanese yen | |
|--------------------------------|--------------------------|---------------|
| | 2018 | 2017 |
| Raw materials | ¥3,146 | ¥47 |
| Costs of uncompleted contracts | 2,259 | 1,048 |
| | <u>¥5,405</u> | <u>¥1,096</u> |

3. Pledged Assets

Asset pledged as collateral as of December 31, 2018 and 2017 were as follows:

| | Millions of Japanese yen | |
|---------------------------|--------------------------|---------------|
| | 2018 | 2017 |
| Cash and time deposits | ¥367 | ¥3,048 |
| Long-term time deposits | 1,456 | 1,475 |
| Cash and cash equivalents | <u>¥1,824</u> | <u>¥4,524</u> |

(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

(a) The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of December 31, 2018 and 2017

| | Millions of Japanese yen | | |
|--|--------------------------|------------------|--------------|
| | Book value | Acquisition cost | Difference |
| 2018: | | | |
| Available-for-sale securities: | | | |
| Securities with book values exceeding acquisition costs: | | | |
| Equity securities | — | — | — |
| Securities with book values not exceeding acquisition costs: | | | |
| Equity securities | — | — | — |
| Total | <u>—</u> | <u>—</u> | <u>—</u> |
| | | | |
| | Millions of Japanese yen | | |
| | Book value | Acquisition cost | Difference |
| 2017: | | | |
| 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 | <u>¥147</u> | <u>¥164</u> | <u>¥(17)</u> |

(b) Proceeds from sales of available-for-sale securities and realized gains and losses on sales of available-for-sale securities for the years ended December 31, 2018 and 2017

| | Millions of Japanese yen | |
|---|--------------------------|------|
| | 2018 | 2017 |
| Proceeds from sales of investment securities | ¥134 | — |
| Realized gains on sales of investment securities | — | — |
| Realized losses on sales of investment securities | ¥30 | — |

5. Goodwill

Goodwill included in intangible assets as of December 31, 2018 and 2017 were ¥1,024 million and ¥1,207 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 1.78% and 2.20% as of December 31, 2018 and 2017, respectively.

Long-term loans payable as of December 31, 2018 and 2017 are summarized below:

| | Millions of Japanese yen | |
|---|--------------------------|---------|
| | 2018 | 2017 |
| Loans from banks and others due through 2025 | ¥31,031 | ¥42,664 |
| Less: Current portion included in current liabilities, at average rate of 1.78% | 6,142 | 11,077 |
| Loans from banks and others, at average rate of 1.48% due through 2025 (Excluding current portion) | ¥24,889 | ¥31,586 |

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

| Year ending December 31, | Millions of Japanese yen |
|--------------------------|--------------------------|
| 2019 | ¥6,142 |
| 2020 | 13,983 |
| 2021 | 5,937 |
| 2022 | 3,579 |
| 2023 | 638 |
| 2024 and thereafter | 749 |
| | ¥31,031 |

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 six as of 2018 and seven as of 2017 financial institutions, an overdraft facility agreement with two financial institutions as of 2018 and 2017 for the purpose of providing operating funds. The commitment line amount is \$160 million as of December 31, 2018 and 2017 without any drawdown. The overdraft facility line amount is ¥3,000 million and \$30 million without any drawdown as of December 31, 2018 and 2017.

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 23, 2018, the shareholders approved cash dividends amounting to ¥1,692 million for the year ended December 31, 2017. At the annual shareholders' meeting held on March 20, 2019, the shareholders approved cash dividends amounting to ¥1,762 million for the year ended December 31, 2018. 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, 2018 and 2017.

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.

The Company's stock held by Trust account was included in treasury shares, which is deducted from the number of shares used to calculate the average number of shares outstanding during 2018, as trust assets of the Stock Remuneration Plan for Directors in calculating Earnings per share.

The average number of shares of the Company's stock held by the trust was 19,323 shares and zero for the years ended December 31, 2018 and 2017, respectively.

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, 2018 and 2017 consisted of the following:

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

| | Millions of Japanese yen | |
|---|--------------------------|------|
| | 2018 | 2017 |
| Balance at beginning of year | ¥310 | ¥265 |
| Severance and retirement benefit expenses | 80 | 78 |
| Benefits paid | (43) | (33) |
| Balance at end of year | ¥347 | ¥310 |

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

| | Millions of Japanese yen | |
|---|--------------------------|------|
| | 2018 | 2017 |
| Projected retirement benefit obligation (Unfunded termination and retirement allowance plan) | ¥347 | ¥310 |
| Net defined benefit liabilities recorded in the consolidated balance sheets | ¥347 | ¥310 |

iii) Severance and retirement benefit expenses

| | Millions of Japanese yen | |
|--|--------------------------|------|
| | 2018 | 2017 |
| Severance and retirement benefit expenses (simpler method) | ¥80 | ¥78 |

(b) Defined contribution pension plans

Contribution to pension plans amounted to ¥75 million and ¥60 million for the years ended December 31, 2018 and 2017, respectively.

12. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses are ¥195 million and ¥160 million for the years ended December 31, 2018 and 2017, respectively.

13. Income Taxes

The statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants' taxes is 31.0% for the years ended December 31, 2018 and 2017.

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, 2018 and 2017.

| | 2018 | 2017 |
|---|--------|--------|
| Statutory income tax rates | 31.0% | 31.0% |
| Difference of statutory tax rate between the Company and foreign subsidiaries | (4.6) | (6.7) |
| Equity in earnings of unconsolidated subsidiaries and affiliates, net | (10.6) | (12.0) |
| Valuation allowance | 5.2 | 13.1 |
| Income of foreign subsidiaries taxed at lower than Japanese statutory rate | — | 1.6 |
| Income taxes refunds | (0.1) | (8.4) |
| Others | 0.8 | 1.0 |
| Effective tax rates | 21.7% | 19.6% |

2) Significant components of deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows:

| | Millions of Japanese yen | |
|---|--------------------------|----------|
| | 2018 | 2017 |
| Deferred tax assets: | | |
| Current assets: | | |
| Accrued enterprise taxes | ¥0 | ¥142 |
| Accrued employees' bonuses | 2 | 3 |
| Provision for product warranty | — | 938 |
| Allowance for bad debts | 85 | 735 |
| Tax loss carry forward | 607 | 617 |
| Estimated costs for construction contracts, etc. | 1,180 | 3,326 |
| Difference on percentage-of-completion method | 618 | 3,481 |
| Others | 489 | 1,159 |
| Sub total | 2,983 | 10,405 |
| Valuation allowance | (2,162) | (5,124) |
| Offset to deferred tax liabilities (short-term) | (670) | (2,877) |
| Total | 149 | 2,403 |
| Fixed assets: | | |
| Unrealized inter-company profit on fixed assets | 1,201 | 2,121 |
| Tax loss carry forward | 10,921 | 9,657 |
| Net defined benefit liabilities | 107 | 96 |
| Depreciation | 38 | 18 |
| Long-term foreign tax credit | 1,565 | 1,496 |
| Provision for product warranty | 1,015 | — |
| Estimated costs for construction contracts, etc. | 22 | — |
| Difference on percentage-of-completion method | 2,870 | — |
| Others | 3,533 | 2,341 |
| Sub total | 21,275 | 15,731 |
| Valuation allowance | (15,218) | (13,353) |
| Offset to deferred tax liabilities (long-term) | (2,860) | (610) |
| Total | 3,196 | 1,767 |
| Total deferred tax assets | ¥3,346 | ¥4,171 |
| Deferred tax liabilities: | | |
| Current liabilities: | | |
| Difference on percentage-of-completion method | ¥(494) | ¥(2,559) |
| Undistributed earnings of foreign subsidiaries and affiliates | (7) | (53) |
| Others | (169) | (263) |
| Sub total | (670) | (2,877) |
| Offset to deferred tax assets (short-term) | 670 | 2,877 |
| Total | — | — |
| Long-term liabilities: | | |
| Difference on percentage-of-completion method | (2,372) | (182) |
| Undistributed earnings of foreign subsidiaries and affiliates | (313) | (213) |
| Others | (495) | (214) |
| Sub total | (3,180) | (610) |
| Offset to deferred tax assets (long-term) | 2,860 | 610 |
| Total | (320) | — |
| Total deferred tax liabilities | (320) | — |
| Net deferred tax assets | ¥3,026 | ¥4,171 |

14. Contingent Liabilities and Commitments

As of December 31, 2018 and 2017, the Company was contingently liable for the following:

| | Millions of Japanese yen | |
|--|--------------------------|---------|
| | 2018 | 2017 |
| Guarantees of bank loans and other indebtedness for affiliates | ¥18,888 | ¥58,035 |

For the years ended December 31, 2018 and 2017, 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).

15. Comprehensive Income

The following represents each component of other comprehensive income for the years ended December 31, 2018 and 2017:

| | Millions of Japanese yen | |
|--|--------------------------|----------|
| | 2018 | 2017 |
| Unrealized holding gains (losses) on securities, net of tax | | |
| Amount of generation | ¥(12) | ¥(6) |
| Amount of rearrangement adjustment | 30 | — |
| Before adjusting the tax effect | 17 | (6) |
| Tax effect | — | — |
| Unrealized holding gains (losses) on securities, net of tax | 17 | (6) |
| Unrealized gains (losses) on hedging derivatives, net of tax | | |
| Amount of generation | (846) | (1,235) |
| Amount of rearrangement adjustment | 555 | (63) |
| Before adjusting the tax effect | (290) | (1,298) |
| Tax effect | 50 | 296 |
| Unrealized gains (losses) on hedging derivatives, net of tax | (240) | (1,001) |
| Foreign currency translation adjustments | | |
| Amount of generation | (3,685) | (2,414) |
| Amount of rearrangement adjustment | (33) | (249) |
| Before adjusting the tax effect | (3,719) | (2,663) |
| Tax effect | — | — |
| Foreign currency translation adjustments | (3,719) | (2,663) |
| Retirement liability adjustments for foreign consolidated subsidiaries | | |
| Amount of generation | 241 | (105) |
| Amount of rearrangement adjustment | (670) | (88) |
| Before adjusting the tax effect | (429) | (193) |
| Tax effect | (23) | 27 |
| Retirement liability adjustments for foreign consolidated subsidiaries | (453) | (166) |
| Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method | | |
| Amount of generation | (481) | (2,464) |
| Amount of rearrangement adjustment | 1,684 | 2,164 |
| Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method | 1,202 | (300) |
| Total | ¥(3,192) | ¥(4,138) |

16. 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.

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 17. 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, 2018 and 2017 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.

| 2018: | Millions of Japanese yen | | |
|--|--------------------------|------------|------------|
| | Book Value | Fair Value | Difference |
| (1) Cash and time deposits | ¥51,215 | ¥51,215 | — |
| (2) Accounts receivable-trade | 95,065 | 95,065 | — |
| (3) Short-term loans receivable | 40,586 | 40,586 | — |
| (4) Long-term loans receivable from affiliates (*1) | 39,382 | 39,140 | ¥(242) |
| Assets total | ¥226,250 | ¥226,007 | ¥(242) |
| (5) Accounts payable-trade | ¥97,680 | ¥97,680 | — |
| (6) Long-term loans payable (*1) | 31,031 | 31,031 | — |
| Liabilities total | ¥128,711 | ¥128,711 | — |
| (7) Derivative transactions (*2) | | | |
| i) Derivative transactions for which hedge accounting has not been applied | ¥2,201 | ¥2,201 | — |
| ii) Derivative transactions for which hedge accounting has been applied | (685) | (600) | ¥84 |
| Derivative transactions total | ¥1,516 | ¥1,601 | ¥84 |

*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.

| 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.

(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) 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

(5) Accounts payable – trade, (6) 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.

(7) 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 17. 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 | |
|-----------------------------------|--------------------------|---------|
| | 2018 | 2017 |
| Privately owned equity securities | ¥71,458 | ¥63,078 |

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 (b) Concerning fair value of financial instruments 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, 2018 and 2017 are as follows:

| 2018: | 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 | ¥51,215 | — | — | — |
| Accounts receivable-trade | 95,065 | — | — | — |
| Short-term loans receivable | 40,586 | — | — | — |
| Long-term loans receivable from affiliates | ¥2,434 | ¥3,446 | ¥14,584 | ¥18,917 |

| 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 |

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

| Year ending December 31, | Millions of Japanese yen |
|--------------------------|--------------------------|
| 2020 | ¥13,983 |
| 2021 | 5,937 |
| 2022 | 3,579 |
| 2023 | 638 |
| 2024 and thereafter | 749 |
| Total | ¥24,889 |

17. 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:

| <u>Hedging instruments:</u> | <u>Hedged items:</u> |
|------------------------------------|--|
| 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, 2018 and 2017 of derivative transactions:

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

| 2018: | | Millions of Japanese yen | | | |
|------------------------------|--|--------------------------|-----------------------|--------------------------------------|---------------------------|
| Currency related derivatives | | Contract Amount | | Contract Amount less Market Value | Unrealized gain (loss) |
| Type | | Total | Due after one year | | |
| Currency swap | | | | | |
| | To receive Japanese yen, to pay U.S. dollars | ¥17,912 | ¥14,800 | ¥2,201 | ¥2,201 |
| | Total | ¥17,912 | ¥14,800 | ¥2,201 | ¥2,201 |

| 2017: | | Millions of Japanese yen | | | |
|------------------------------|--|--------------------------|-----------------------|--------------------------------------|---------------------------|
| Currency related derivatives | | Contract Amount | | Contract Amount less Market Value | Unrealized gain (loss) |
| Type | | Total | Due after one year | | |
| 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 |

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

| 2018: | | Millions of Japanese yen | | | |
|-------------------------------------|--------------------------|--------------------------|-----------------------|--------------------------------------|-------|
| Currency related derivatives | | Contract Amount | | Contract Amount less Market Value | |
| Type | Hedged Items | Total | Due after one year | | |
| Forward contract (principle method) | | | | | |
| | To buy Euro | Accounts payable- | ¥2,168 | ¥137 | ¥(46) |
| | To buy STG pounds | trade and others | 139 | — | (1) |
| | To buy Singapore dollars | | 1,854 | 538 | (38) |
| | Total | | ¥4,161 | ¥676 | ¥(86) |

| 2017: | | Millions of Japanese yen | | | |
|-------------------------------------|--------------------------|--------------------------|-----------------------|--------------------------------------|-----|
| Currency related derivatives | | Contract Amount | | Contract Amount less Market Value | |
| Type | Hedged Items | Total | Due after one year | | |
| Forward contract (principle method) | | | | | |
| | To buy Euro | Accounts payable- | ¥271 | — | ¥13 |
| | To buy STG pounds | trade and others | 6 | — | 0 |
| | To buy Singapore dollars | | 568 | — | 21 |
| | Total | | ¥846 | — | ¥34 |

| 2018: | | 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) | Long-term loans payable | ¥17,310 | ¥14,370 | ¥(598) |
| Interest rate swap (exceptional method) | Long-term loans payable | 6,144 | 5,134 | 84 |
| | To receive float, pay fix | | | |
| | Total | ¥23,454 | ¥19,504 | ¥(513) |

| 2017: | | 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) | Long-term loans payable | ¥20,250 | ¥17,310 | ¥(1,013) |
| Interest rate swap (exceptional method) | Long-term loans payable | 7,282 | 6,254 | 16 |
| | To receive float, pay fix | | | |
| | Total | ¥27,532 | ¥23,564 | ¥(997) |

18. 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

| 2018: | | | | | | Millions of Japanese yen |
|----------|---------|---------|--------|---------|----------|--------------------------|
| Brazil | Ghana | Oceania | Asia | Other | Total | |
| ¥143,723 | ¥33,501 | ¥15,448 | ¥6,933 | ¥22,303 | ¥221,909 | |

| 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 |

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

(b) Property and equipment

2018:

| Millions of Japanese yen | | | | | |
|--------------------------|--------|--------|-------|--------|--|
| Malaysia | Brazil | U.S.A. | Other | Total | |
| ¥988 | ¥268 | ¥962 | ¥323 | ¥2,543 | |

2017:

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

(4) Information by major customer

2018:

| Customers | Millions of Japanese yen | | Related Segment |
|-------------------|--------------------------|--|-----------------|
| | Sales | | |
| Sepia MV30 B.V. | ¥46,411 | | (note1) |
| Libra MV31 B.V. | ¥37,044 | | (note1) |
| Tullow Ghana Ltd. | ¥25,222 | | (note1) |

2017:

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

19. Related Party Transactions

Significant related party transactions and corresponding balances between the Company and its parent company for the year ended December 31, 2018 is as follows:

| 2018: | | Millions of Japanese yen | |
|-------|-------------------------------|--|--------|
| | Related party | Transaction | |
| | Mitsui E&S Holdings Co., Ltd. | Disbursements of loans for working capital | ¥9,483 |
| | Mitsui E&S Holdings Co., Ltd. | Colloection of working capital | 9,826 |

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2018 are as follows:

| 2018: | | Millions of Japanese yen | |
|-------|------------------------|--|--------|
| | Related parties | Transactions | |
| | Tupi Pirot MV22 B.V. | Colloection of working capital | ¥510 |
| | T.E.N. Ghana MV25 B.V. | Guarantees of contract fulfillment | 3,503 |
| | Carioca MV27 B.V. | Collections of loans for capital expenditure | 36,204 |
| | Tartaruga MV29 B.V. | Disbursements of loans for capital expenditure | 71,453 |
| | Tartaruga MV29 B.V. | Collections of loans for capital expenditure | 31,869 |
| | Sepia MV30 B.V. | Construction of FPSO (Sales) | 47,129 |
| | Sepia MV30 B.V. | Disbursements of loans for capital expenditure | 1,183 |
| | Sepia MV30 B.V. | Collections of loans for capital expenditure | 6,280 |
| | Sepia MV30 B.V. | Guarantees of bank loans | 7,016 |
| | Libra MV31 B.V. | Construction of FPSO (Sales) | 37,557 |
| | Libra MV31 B.V. | Disbursements of loans for capital expenditure | 6,278 |
| | Libra MV31 B.V. | Collections of loans for capital expenditure | 6,246 |
| | Libra MV31 B.V. | Guarantees of bank loans | 3,805 |

| 2018: | | Millions of Japanese yen | |
|-------|----------------------|--|--------|
| | Related parties | Consolidated balance sheets accounts | |
| | Tupi Pirot MV22 B.V. | Long-term loans receivable from affiliates | ¥4,918 |
| | Tartaruga MV29 B.V. | Short-term loans receivable | 40,097 |
| | Sepia MV30 B.V. | Accounts receivable-trade | 22,381 |
| | Libra MV31 B.V. | Accounts receivable-trade | 25,482 |

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2018 are as follows:

| 2018: | | Millions of Japanese yen | |
|-------|---------------------|--|--------|
| | Related parties | Transactions | |
| | Tartaruga MV29 B.V. | Disbursements of loans for working capital | ¥4,599 |

| 2018: | | Millions of Japanese yen | |
|-------|--------------------------|--|--------|
| | Related parties | Consolidated balance sheets accounts | |
| | Guara MV23 B.V. | Long-term loans receivable from affiliates | ¥6,077 |
| | Cernambi Sul MV24 B.V. | Long-term loans receivable from affiliates | 5,989 |
| | T.E.N. Ghana MV25 B.V. | Long-term loans receivable from affiliates | 3,964 |
| | Cernambi Norte MV26 B.V. | Long-term loans receivable from affiliates | 4,222 |
| | Carioca MV27 B.V. | Long-term loans receivable from affiliates | 4,105 |
| | Tartaruga MV29 B.V. | Long-term loans receivable from affiliates | 4,599 |

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 |