Consolidated Financial Statements

MODEC, INC. and Consolidated Subsidiaries

For the years ended December 31,
2019 and 2018

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2019 and 2018

ASSETS

	Millions of Japanese yen	
	2019	2018
CURRENT ASSETS:		
Cash and time deposits (Notes 1(u), 3 and 17)	¥52,381	¥51,215
Accounts receivable-trade (Notes 17 and 20)	163,364	95,065
Inventories (Note 2)	4,630	5,405
Short-term loans receivable (Notes 17 and 20)	8,387	43,021
Other current assets	19,198	17,614
Less allowance for bad debts (Note 17)	(450)	(738)
Total current assets	247,512	211,584
PROPERTY AND EQUIPMENT (Note 19):		
Buildings and structures	140	130
Machinery and equipment	90	28,105
Other property and equipment	9,120	3,762
Construction in progress	10	—
Less accumulated depreciation	(4,313)	(29,454)
Net property and equipment	5,048	2,543
INTANGIBLE ASSETS (Notes 4)	9,652	9,260
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Notes 17)	72,202	71,458
Long-term loans receivable from affiliates (Notes 17 and 20)	37,886	36,947
Deferred tax assets (Note 14)	3,922	3,229
Other investments (Note 3)	6,965	8,203
Total investments and other assets	120,976	119,840
Total assets	¥383,189	¥343,229

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

LIABILITIES

	Millions of Japanese yen	
	2019	2018
CURRENT LIABILITIES:		
Accounts payable-trade (Notes 17 and 20)	¥150,847	¥97,680
Current portion of long-term loans payable (Notes 5 and 17)	13,931	6,142
Lease obligations	1,544	12
Accrued expenses	18,110	15,507
Income taxes payable (Note 14)	5,129	7,219
Advances received	13,411	9,981
Accrued employees' bonuses	85	45
Accrued directors' bonuses	25	19
Provision for loss on construction contracts	7,146	—
Provision for product warranty	6,930	5,937
Provision for repairs	10,573	5
Other provisions	—	46
Other current liabilities	4,124	1,462
Total current liabilities	231,860	144,060
LONG-TERM LIABILITIES:		
Long-term loans payable (Notes 5 and 17)	10,827	24,889
Lease obligations	2,238	36
Net defined benefit liabilities (Note 10)	366	347
Deferred tax liabilities	196	203
Liabilities from application of equity method	5,451	2,096
Other long-term provision	285	397
Other long-term liabilities	6,596	6,383
Total long-term liabilities	25,962	34,353
CONTINGENT LIABILITIES AND COMMITMENTS (Note 15)		
Total liabilities	¥257,823	¥178,414

NET ASSETS

	Millions of Japanese yen	
	2019	2018
NET ASSETS:		
SHAREHOLDERS' EQUITY (Note 8):		
Common stock		
Authorized – 102,868,000 shares in 2019 and in 2018		
Issued – 56,408,000 shares in 2019 and in 2018	¥30,122	¥30,122
Capital surplus	29,301	30,851
Retained earnings	71,950	93,571
Treasury stock, at cost		
60,409 shares in 2019 and 31,272 shares in 2018	(188)	(99)
Total shareholders' equity	131,185	154,446
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Unrealized gains (losses) on hedging derivatives, net of tax	(11,282)	(6,864)
Foreign currency translation adjustments	2,983	5,740
Retirement liability adjustments for foreign consolidated subsidiaries	(1,095)	(656)
Total accumulated other comprehensive income	(9,394)	(1,781)
NON-CONTROLLING INTERESTS	3,575	12,148
Total net assets	125,366	164,814
Total liabilities and net assets	¥383,189	¥343,229

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2019 and 2018

	Millions of Japanese yen	
	2019	2018
SALES (Notes 19 and 20)	¥332,644	¥221,909
COST OF SALES (Note 11)	325,148	195,351
Gross profit	7,495	26,557
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	12,336	11,628
Operating profit (loss)	(4,841)	14,928
OTHER INCOME (EXPENSES):		
Interest income	5,943	6,104
Dividend received	—	2
Equity in earnings of unconsolidated subsidiaries and affiliates, net	2,382	9,841
Interest expense	(964)	(926)
Foreign exchange gain (loss), net	(1,375)	(1,038)
Gain (loss) on revaluation of derivatives	(590)	(236)
Gain on sale of non-current assets	327	—
Gain on liquidation of subsidiaries and affiliates	509	—
Extraordinary repair expenses (Note 13)	(16,690)	—
Others, net	(259)	104
Total other income (expenses)	(10,717)	13,850
PROFIT (LOSS) BEFORE INCOME TAXES	(15,558)	28,779
INCOME TAXES (Note 14):		
Current	2,780	5,032
Prior	0	33
Deferred	(660)	1,164
PROFIT (LOSS)	(17,680)	22,549
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	547	658
PROFIT (LOSS) ATTRIBUTABLE TO OWNERS OF PARENT	¥ (18,227)	¥21,891

	Japanese yen	
Earnings per share (Note 9)	¥(323.47)	¥388.23
Dividends per share (Note 9)	¥45.00	¥52.50

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, 2019 and 2018

	Millions of Japanese yen	
	2019 (Note 16)	2018 (Note 16)
PROFIT (LOSS)	¥(17,680)	¥22,549
OTHER COMPREHENSIVE INCOME:		
Unrealized holding gains on securities, net of tax	—	17
Unrealized gains (losses) on hedging derivatives, net of tax	399	(240)
Foreign currency translation adjustments	(2,106)	(3,719)
Retirement liability adjustments for foreign consolidated subsidiaries	(368)	(453)
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method	(5,809)	1,202
Total other comprehensive income	(7,885)	(3,192)
COMPREHENSIVE INCOME	¥(25,565)	¥19,357

	Millions of Japanese yen	
	2019	2018
Comprehensive income attributable to owners of parent	¥(25,841)	¥19,077
Comprehensive income attributable to non-controlling interests	¥275	¥279

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, 2019 and 2018

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, 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 (loss) 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 January 1, 2019	¥30,122	¥30,851	¥93,571	¥ (99)	¥—	¥(6,864)	¥5,740	¥(656)	¥12,148	¥164,814
Cumulative effect of changes in accounting policies			(361)							(361)
Restated balance	30,122	30,851	93,210	(99)	—	(6,864)	5,740	(656)	12,148	164,452
Cash dividends paid			(3,031)							(3,031)
Purchase of treasury stock				(89)						(89)
Profit (loss) attributable to owners of parent			(18,227)							(18,227)
Purchase of shares of consolidated subsidiaries										—
Change of scope of consolidation										—
Change in ownership interest of parent due to transactions with non-controlling interests		(1,549)								(1,549)
Net changes of items other than those in shareholders' equity during the year					—	(4,417)	(2,756)	(439)	(8,573)	(16,186)
Balance at December 31, 2019	¥30,122	¥29,301	¥71,950	¥(188)	¥—	¥(11,282)	¥2,983	¥(1,095)	¥3,575	¥125,366

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, 2019 and 2018

	Millions of Japanese yen	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit (loss) before income taxes	¥(15,558)	¥28,779
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:		
Depreciation and amortization	3,265	2,083
Amortization of goodwill	159	161
Increase (decrease) of allowance for bad debts	(242)	(601)
Increase (decrease) of net defined benefit liabilities	19	36
Increase (decrease) of accrued directors' bonuses	6	5
Increase (decrease) in provision for loss on construction contracts	7,146	—
Increase (decrease) of provision for product warranty	1,071	538
Increase (decrease) of provision for repairs	10,568	(42)
Interest and dividend income	(5,943)	(6,107)
Interest expense	964	926
Foreign exchange (gains) losses, net	(760)	(329)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	(2,382)	(9,841)
Loss (gain) on revaluation of derivatives	590	236
Loss (gain) on liquidations of subsidiaries and affiliates, net	(509)	—
Loss (gain) on sales of non-current assets	(327)	—
Changes in assets and liabilities:		
Decrease (increase) in		
– Accounts receivable-trade	(71,131)	6,782
– Inventories	688	(4,459)
Increase (decrease) in		
– Accounts payable-trade	64,684	23,552
– Consumption tax payable	(3,464)	(112)
Others, net	6,608	(2,004)
Total adjustments	(4,545)	39,606
Interest and dividend received	6,846	12,422
Interest paid	(957)	(955)
Income taxes paid	(4,592)	(5,880)
Net cash provided by (used in) operating activities	¥(3,248)	¥45,193

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

	Millions of Japanese yen	
	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in time deposits	¥73	¥(74)
Purchases of property and equipment and intangible assets	(2,710)	(3,189)
Purchases of investments in subsidiaries and affiliates	(4,959)	(4,606)
Decrease (increase) in short-term loans receivable	34,658	4,829
Proceeds from sales of property and equipment and intangible assets	1,381	3,330
Proceeds from sales of securities	—	134
Disbursements of long-term loans receivable	(4,981)	(4,599)
Collections of long-term loans receivable	2,796	—
Net cash provided by (used in) investing activities	26,259	(4,176)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in short-term loans payable	(26)	(3,091)
Proceeds from long-term loans payable	—	194
Repayments of long-term loans payable	(6,093)	(11,143)
Purchase of treasury stock	(89)	(97)
Cash dividends paid	(3,033)	(2,891)
Proceeds from share issuance to non-controlling shareholders	—	4
Cash dividends paid to non-controlling interests	(1,310)	(5)
Repayments of finance lease obligations	(1,318)	(12)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(8,880)	—
Net cash provided by (used in) financing activities	(20,751)	(17,043)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(889)	(1,855)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,369	22,116
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	50,773	28,331
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE OF SCOPE OF CONSOLIDATION	—	324
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1 (u))	¥52,142	¥50,773

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, 2019 and 20 of its subsidiaries for the year ended December 31, 2018. Material inter-company balances, transactions and profits have been eliminated in consolidation.

Investments in significant unconsolidated subsidiaries and affiliates, which were 20 companies for the year ended December 31, 2019 and 18 companies for the year ended December 31, 2018 were accounted for using the equity method.

Another 4 subsidiaries for the year ended December 31, 2019 and 2018 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 from 5 to 10 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) **Provision for loss on construction contracts**

Provision for loss on uncompleted construction contracts is provided at the end of this fiscal year when the losses are certainly anticipated for the next fiscal year and after, and such losses can be reasonably estimated.

(p) **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.

(q) **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 operations.

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.

(r) **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.

(s) **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.

(t) **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.

(u) **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, 2019 and 2018 are as follows:

	Millions of Japanese yen	
	2019	2018
Cash and time deposits	¥52,381	¥51,215
Time deposits with maturities exceeding three months	—	(74)
Deposit pledged as collateral	(238)	(367)
Cash and cash equivalents	¥52,142	¥50,773

Change in Accounting Policy:

(v) **Revenue from Contracts with Customers**

Overseas subsidiaries that apply generally accepted accounting principles in the United States (U.S. GAAP), applied ASC 606 “Revenue from Contracts with Customers” effective from the beginning of the consolidated fiscal year ended December 31, 2019.

In adopting the accounting standards, in accordance with the transitional treatment, the cumulative effect of adoption of the standards was recognized on the date of the start of adoption, and was added to or subtracted from retained earnings at the beginning of the fiscal year ended December 31, 2019.

As a result, the balance of retaining earnings and earnings per share at the beginning of the consolidated fiscal year ended December 31, 2019, decreased by ¥361 million and by ¥6.42 per share respectively.

Also this adoption had only minor impact on profit and loss in the consolidated fiscal year ended December 31, 2019.

Unapplied Accounting Standards:

(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.

Change in Presentation:

(y) **Partial Amendments to Accounting Standard for Tax effect Accounting (ASBJ statement No.28 February 16, 2018)**

The company applied ”Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of this consolidated fiscal year. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under non-current liabilities.

As a result, in the consolidated balance sheet for the previous fiscal year, deferred tax assets under current assets decreased by ¥149 million, while deferred tax assets under investments and other assets increased by ¥33 million. In addition, deferred tax liabilities under long term liabilities decreased by ¥116 million.

Deferred tax assets and deferred tax liabilities for the same taxable entity are shown to offset each other, therefore total assets and total liabilities and net assets have declined by ¥116 million respectively when compared before the accounting changes.

(z) **Reclassifications**

The Company made certain reclassifications to the previously reported the consolidated fiscal year 2018 amounts to conform to the consolidated fiscal year 2019 presentation. These reclassifications had no effect on previously reported profit attributable to owners of parent or net assets.

2. Inventories

Inventories as of December 31, 2019 and 2018 consisted of the following:

	Millions of Japanese yen	
	2019	2018
Raw materials	¥1	¥3,146
Costs of uncompleted contracts	4,629	2,259
	¥4,630	¥5,405

3. Pledged Assets

Asset pledged as collateral as of December 31, 2019 and 2018 were as follows:

	Millions of Japanese yen	
	2019	2018
Cash and time deposits	¥238	¥367
Long-term time deposits	1,449	1,456
	¥1,687	¥1,824

(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. Goodwill

Goodwill included in intangible assets as of December 31, 2019 and 2018 were ¥850 million and ¥1,024 million, respectively.

5. 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 0.84% and 1.78% as of December 31, 2019 and 2018, respectively.

Long-term loans payable as of December 31, 2019 and 2018 are summarized below:

	Millions of Japanese yen	
	2019	2018
Loans from banks and others due through 2025	¥ 24,759	¥31,031
Less: Current portion included in current liabilities, at average rate of 0.84%	13,931	6,142
Loans from banks and others, at average rate of 1.67% due through 2025 (Excluding current portion)	¥10,827	¥24,889

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

Year ending December 31,	Millions of Japanese yen
2020	¥ 13,931
2021	5,902
2022	3,555
2023	630
2024	492
2025	246
	¥24,759

6. 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.

7. Unused Balance of Overdraft Facilities and Lending Commitment

The Company and its subsidiary have a commitment line agreement with a syndicate of six as of 2019 and 2018 financial institutions, an overdraft facility agreement with two financial institutions as of 2019 and 2018 for the purpose of providing operating funds. The commitment line amount is $160 million as of December 31, 2019 and 2018 without any drawdown. The overdraft facility line amount is ¥3,000 million and $30 million without any drawdown as of December 31, 2019 and 2018.

8. Shareholders' Equity

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

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

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

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

At the annual shareholders' meeting held on March 20, 2019, the shareholders approved cash dividends amounting to ¥1,762 million for the year ended December 31, 2018. At the annual shareholders' meeting held on March 19, 2020, the shareholders approved cash dividends amounting to ¥1,269 million for the year ended December 31, 2019. 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.

9. 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, 2019 and 2018.

Dividends per share shown for each consolidated fiscal year in the accompanying consolidated statements of operations 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 2019, 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 56,470 shares and 19,323 for the years ended December 31, 2019 and 2018, respectively.

10. 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, 2019 and 2018 consisted of the following:

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

	Millions of Japanese yen	
	2019	2018
Balance at beginning of year	¥347	¥310
Severance and retirement benefit expenses	84	80
Benefits paid	(64)	(43)
Balance at end of year	¥366	¥347

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

	Millions of Japanese yen	
	2019	2018
Projected retirement benefit obligation (Unfunded termination and retirement allowance plan)	¥366	¥347
Net defined benefit liabilities recorded in the consolidated balance sheets	¥366	¥347

iii) Severance and retirement benefit expenses

	Millions of Japanese yen	
	2019	2018
Severance and retirement benefit expenses (simpler method)	¥84	¥80

(b) Defined contribution pension plans

Contribution to pension plans amounted to ¥107 million and ¥75 million for the years ended December 31, 2019 and 2018, respectively.

11. Provision for loss on construction contracts

Provision for loss on construction contracts included in cost of sales for the years ended December 31, 2019 and 2018 are as follows.

	Millions of Japanese yen	
	2019	2018
Provision for loss on construction contracts	¥7,146	—

12. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses are ¥232 million and ¥195 million for the years ended December 31, 2019 and 2018, respectively.

13. Extraordinary repair expense

Extraordinary repair expenses included in other income (expense) is recorded for following reason.

Some cracks were identified on the hull of FPSO Cidade do Rio de Janeiro MV14 ("the FPSO") which has been out of the production since July 2018 and under removal operations from offshore Brazil. In accordance with a result of discussions with Brazilian Navy, Classification Society, etc., in order to tow out the FPSO to a scrap yard outside of Brazil for the final decommissioning, it has been required to repair the cracks and also to remove NORM (Naturally Occurring Radioactive Material) and coral in a shipyard in Brazil. Because sharing of repair costs with ESPADARTE MV14 B.V. which owns the FPSO and insurance payments from our insurers are yet to be determined due to unfinished root cause analysis of the incident, MODEC, INC. and its consolidated subsidiaries (MODEC International, Inc. and MODEC Serviços de Petróleo do Brasil Ltda.) will have no other choice but to record the estimated repair costs of 16,690 million yen for the year ended December 31, 2019 as Extraordinary repair expenses in the section of other income (expense).

14. 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, 2019 and 2018.

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, 2019 and 2018.

	2019	2018
Statutory income tax rates	31.0%	31.0%
Difference of statutory tax rate between the Company and foreign subsidiaries	(8.3)	(4.6)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	4.7	(10.6)
Valuation allowance	(40.5)	5.2
Income taxes refunds	—	(0.1)
Others	(0.5)	0.8
Effective tax rates	(13.6)%	21.7%

2) Significant components of deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

	Millions of Japanese yen	
	2019	2018
Deferred tax assets:		
Accrued enterprise taxes	¥55	¥0
Accrued employees' bonuses	3	2
Unrealized gains on fixed assets	1,101	1,201
Tax loss carry forward	14,337	11,528
Retirement benefit liability	113	107
Depreciation	67	38
Foreign tax credit	1,326	1,565
Provision for construction loss	1,513	—
Provision for product warranty	1,152	1,015
Provision for repairs	3,277	—
Allowance for bad debts	84	85
Estimated costs for construction contracts, etc.	47	1,202
Difference on percentage-of-completion method	821	3,489
Others	7,802	4,022
Deferred tax assets subtotal	31,707	24,258
Valuation allowance for tax loss carryforwards	(13,451)	—
Valuation allowance for the total of future deductible temporary differences, etc.	(12,282)	—
Valuation allowance subtotal	(25,733)	(17,380)
Total deferred tax assets	5,973	6,877
Deferred tax liability:		
Difference on percentage-of-completion method	(1,317)	(2,867)
Pending profit of overseas subsidiaries	(363)	(320)
Others	(567)	(664)
Total deferred tax liability	(2,247)	(3,851)
Net deferred tax assets (liabilities)	¥3,725	¥3,026

15. Contingent Liabilities and Commitments

1) As of December 31, 2019 and 2018, the Company was contingently liable for the following:

	Millions of Japanese yen	
	2019	2018
Guarantees of bank loans and other indebtedness for affiliates	¥ 73,200	¥18,888

For the years ended December 31, 2019 and 2018, 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).

2) Consolidated subsidiaries, MODEC MANAGEMENT SERVICES PTE. LTD., MODEC (GHANA) LTD. and affiliate accounted for using equity method, T.E.N. GHANA MV25 B. V. ("the companies") received tax audit reports from the Ghana Revenue Authority ("GRA") in November 2019 which assessed additional tax liability as a result of tax audit which covers fiscal year from 2012 to 2018. However, The Company views the companies

have filed their tax returns properly and the objection letter for the tax assessment was submitted to GRA. Therefore, the Company has not reflected any impact to the financial statements for the year ended December 31, 2019 and has not foreseen any material impact to the Company's financial forecast.

16. Comprehensive Income

The following represents each component of other comprehensive income for the years ended December 31, 2019 and 2018:

	Millions of Japanese yen	
	2019	2018
Unrealized holding gains (losses) on securities, net of tax		
Amount of generation	¥—	¥(12)
Amount of rearrangement adjustment	—	30
Before adjusting the tax effect	—	17
Tax effect	—	—
Unrealized holding gains (losses) on securities, net of tax	—	17
Unrealized gains (losses) on hedging derivatives, net of tax		
Amount of generation	(434)	(846)
Amount of rearrangement adjustment	869	555
Before adjusting the tax effect	435	(290)
Tax effect	(36)	50
Unrealized gains (losses) on hedging derivatives, net of tax	399	(240)
Foreign currency translation adjustments		
Amount of generation	(1,674)	(3,685)
Amount of rearrangement adjustment	(432)	(33)
Before adjusting the tax effect	(2,106)	(3,719)
Tax effect	—	—
Foreign currency translation adjustments	(2,106)	(3,719)
Retirement liability adjustments for foreign consolidated subsidiaries		
Amount of generation	(103)	241
Amount of rearrangement adjustment	(170)	(670)
Before adjusting the tax effect	(273)	(429)
Tax effect	(94)	(23)
Retirement liability adjustments for foreign consolidated subsidiaries	(368)	(453)
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method		
Amount of generation	(7,092)	(481)
Amount of rearrangement adjustment	1,283	1,684
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method	(5,809)	1,202
Total	¥(7,885)	¥(3,192)

17. Financial Instruments

(a) **Concerning status of financial instruments**

i) Policies for financial instruments

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

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

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

As to derivative financial instruments, the Company and its consolidated subsidiaries utilize them 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 18. 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, 2019 and 2018 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.

2019:	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥52,381	¥52,381	―
(2) Accounts receivable-trade	163,364	163,364	―
(3) Short-term loans receivable	4,961	4,961	―
(4) Long-term loans receivable from affiliates (*1)	41,312	43,173	¥1,860
Assets total	¥262,020	¥263,880	¥1,860
(5) Accounts payable-trade	¥150,847	¥150,847	―
(6) Long-term loans payable (*1)	24,759	24,759	―
Liabilities total	¥175,606	¥175,606	―
(7) Derivative transactions (*2)			
i) Derivative transactions for which hedge accounting has not been applied	¥1,530	¥1,530	―
ii) Derivative transactions for which hedge accounting has been applied	(309)	(354)	(44)
Derivative transactions total	¥1,221	¥1,176	¥(44)

*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.

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.

(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 18. 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	
	2019	2018
Privately owned equity securities	¥72,202	¥71,458

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, 2019 and 2018 are as follows:

2019:	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	¥52,381	—	—	—
Accounts receivable-trade	163,364	—	—	—
Short-term loans receivable	4,961	—	—	—
Long-term loans receivable from affiliates	¥3,426	¥2,928	¥15,219	¥19,737

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

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

Year ending December 31,	Millions of Japanese yen
2021	¥5,902
2022	3,555
2023	630
2024	492
2025	246
Total	¥10,827

18. 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, 2019 and 2018 of derivative transactions:

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

2019:	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 (principle method)				
To buy Euro	6,240	−	(85)	(85)
To buy Norwegian Krone	55	−	0	0
To buy Japanese yen	283	−	(2)	(2)
To buy STG pounds	317	−	(3)	(3)
To buy Singapore dollars	753	−	(1)	(1)
To buy Schweizer Franken	2,157	−	(21)	(21)
To buy Brazilian real	1,428	−	54	54
To buy Canadian dollar	183	−	61	61
To buy Mexican peso	4,378	600	(44)	(44)
Currency swap				
To receive Japanese yen, to pay U.S. dollars	¥14,800	¥4,788	¥1,573	¥1,573
Total	¥30,597	¥5,388	¥1,530	¥1,530

2018: Currency related derivatives	Millions of Japanese yen			
	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	¥17,912	¥14,800	¥2,201	¥2,201
Total	¥17,912	¥14,800	¥2,201	¥2,201

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

2019: 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	¥8,474	¥136	¥(68)
To buy Norwegian Krone		727	—	10
To buy Japanese yen		610	—	(10)
To buy STG pounds		397	—	6
To buy Singapore dollars		1,809	—	1
To buy Schweizer Franken		2,337	—	24
To buy Brazilian real		1,845	—	(33)
To buy Canadian dollar		859	—	(54)
To buy Mexican peso		4,378	600	61
Total		¥21,440	¥736	¥(62)

2018: 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	¥2,168	¥137	¥(46)
To buy STG pounds		139	—	(1)
To buy Singapore dollars		1,854	538	(38)
Total		¥4,161	¥676	¥(86)

2019: 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	¥14,370	¥4,530	¥(247)
Interest rate swap (exceptional method) To receive float, pay fix	Long-term loans payable	5,066	2,974	(44)
Total		¥19,436	¥7,504	¥(291)

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

19. Segment Information

(1) **Overview of reportable segment**

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

(2) **Information by products and services**

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

(3) **Information by geographical area**

(a) **Sales**

2019:

Millions of Japanese yen						
Brazil	Mexico	West Africa	Oceania	Asia	Other	Total
¥215,618	¥46,014	¥43,316	¥7,014	¥5,979	¥14,700	¥332,644

2018:

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

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

(b) **Property and equipment**

2019:

Millions of Japanese yen				
Singapore	Brazil	U.S.A.	Other	Total
¥2,577	¥1,227	¥753	¥489	¥5,048

2018:

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

(4) **Information by major customer**

2019:

Customers	Millions of Japanese yen Sales	Related Segment
Libra MV31 B.V.	¥ 67,681	(note1)
Sepia MV30 B.V.	¥ 67,480	(note1)
AREA1 MEXICO MV34 B.V.	¥ 46,010	(note1)

2018:

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

(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.

20. Related Party Transactions

Significant related party transactions and corresponding balances between the Company and its parent company for the year ended December 31, 2019 is as follows:

2019:

Related party	Transaction	Millions of Japanese yen
Mitsui E&S Holdings Co., Ltd.	Disbursements of loans for working capital	¥109,626
Mitsui E&S Holdings Co., Ltd.	Collections of working capital	109,356
Mitsui E&S Holdings Co., Ltd.	Receipts of interest	591

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2019 are as follows:

2019:

Related parties	Transactions	Millions of Japanese yen
Tupi Pirot MV22 B.V.	Collections of working capital	¥388
Tupi Pirot MV22 B.V.	Receipts of interest	418
Tartaruga MV29 B.V.	Disbursements of loans for capital expenditure	40,097
Sepia MV30 B.V.	Construction of FPSO (Sales)	67,495
Sepia MV30 B.V.	Guarantees of bank loans	27,076
Libra MV31 B.V.	Construction of FPSO (Sales)	68,392
Libra MV31 B.V.	Disbursements of loans for capital expenditure	5,564
Libra MV31 B.V.	Collections of loans for capital expenditure	5,569
Libra MV31 B.V.	Guarantees of bank loans	20,634
Buzios5 MV32 B.V.	Construction of FPSO (Sales)	32,789
Buzios5 MV32 B.V.	Disbursements of loans for capital expenditure	4,213
Buzios5 MV32 B.V.	Collections of loans for capital expenditure	4,284
Area1 Mexico MV34 B.V.	Construction of FPSO (Sales)	45,393
Area1 Mexico MV34 B.V.	Guarantees of bank loans	15,280

2019:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Tupi Pirot MV22 B.V.	Long-term loans receivable from affiliates	¥4,469
Tupi Pirot MV22 B.V.	Accrued income	8
Sepia MV30 B.V.	Accounts receivable-trade	34,596
Libra MV31 B.V.	Accounts receivable-trade	44,566
Buzios5 MV32 B.V.	Accounts receivable-trade	30,814
Area1 Mexico MV34 B.V.	Accounts receivable-trade	5,660

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2019 are as follows:

2019:

Related parties	Transactions	Millions of Japanese yen
T.E.N. Ghana MV25 B.V.	Operation of FPSO	¥ 9,099

2019:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Guara MV23 B.V.	Long-term loans receivable from affiliates	¥ 5,996
T.E.N. Ghana MV25 B.V.	Accounts receivable-trade	5,080
T.E.N. Ghana MV25 B.V.	Long-term loans receivable from affiliates	4,865
Cernambi Norte MV26 B.V.	Long-term loans receivable from affiliates	6,093
Carioca MV27 B.V.	Long-term loans receivable from affiliates	4,051
Tartaruga MV29 B.V.	Long-term loans receivable from affiliates	6,638

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

2018:

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

Related parties	Transactions	Millions of Japanese yen
Tupi Pirot MV22 B.V.	Collections 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:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
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:

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

2018:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
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

21. Significant Subsequent Event

Due to the COVID-19 outbreak which has developed rapidly in 2020, the progress of ongoing EPCI (Engineering, Procurement, Construction and Installation) projects have been delayed.

Responding to this pandemic, the Company has changed the estimate of cost for those materially affected EPCI projects mainly due to the growing cost of labor for extended schedule, based on the assumption that the COVID-19 crisis continues until middle of 2020.

As a result, the impact of such change due to COVID-19 is increasing cost of sales by ¥9,709 million for the fiscal year 2020 onward.