Consolidated Financial Statements

MODEC, INC. and Consolidated Subsidiaries

For the years ended December 31,
2020 and 2019

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2020 and 2019

ASSETS

	Millions of Japanese yen	
	2020	2019
CURRENT ASSETS:		
Cash and time deposits (Notes 1(u), 3 and 17)	¥66,117	¥52,381
Accounts receivable-trade (Notes 17 and 20)	124,741	163,364
Inventories (Note 2)	19,066	4,630
Short-term loans receivable (Notes 17 and 20)	—	8,387
Other current assets	19,082	19,198
Less allowance for bad debts	(1,061)	(450)
Total current assets	227,946	247,512
PROPERTY AND EQUIPMENT (Note 19):		
Buildings and structures	140	140
Machinery and equipment	111	90
Other property and equipment	10,068	9,120
Construction in progress	255	10
Less accumulated depreciation	(5,847)	(4,313)
Net property and equipment	4,728	5,048
INTANGIBLE ASSETS (Note 4)	10,275	9,652
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 17)	67,543	72,202
Long-term loans receivable from affiliates (Notes 17 and 20)	38,004	37,886
Deferred tax assets (Note 14)	4,832	3,922
Other investments (Note 3)	4,200	6,965
Total investments and other assets	114,581	120,976
Total assets	¥357,532	¥383,189

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

LIABILITIES

	Millions of Japanese yen	
	2020	2019
CURRENT LIABILITIES:		
Accounts payable-trade (Notes 17 and 20)	¥151,331	¥150,847
Short-term loans payable (Notes 5 and 17)	3,001	—
Current portion of long-term loans payable (Notes 5 and 17)	5,748	13,931
Lease obligations	1,393	1,544
Accrued expenses	15,653	18,110
Income taxes payable (Note 14)	5,189	5,129
Advances received	32,455	13,411
Accrued employees' bonuses	158	85
Accrued directors' bonuses	—	25
Provision for loss on construction contracts	5,579	7,146
Provision for construction warranty	7,256	6,930
Provision for repairs	3,731	10,573
Other current liabilities	6,296	4,124
Total current liabilities	237,796	231,860
LONG-TERM LIABILITIES:		
Long-term loans payable (Notes 5 and 17)	4,746	10,827
Lease obligations	1,620	2,238
Net defined benefit liabilities (Note 10)	885	366
Deferred tax liabilities	62	196
Liabilities from application of equity method	10,807	5,451
Other long-term provision	271	285
Other long-term liabilities	6,326	6,596
Total long-term liabilities	24,720	25,962
CONTINGENT LIABILITIES AND COMMITMENTS (Note 15)		
Total liabilities	¥262,517	¥257,823

NET ASSETS

	Millions of Japanese yen	
	2020	2019
NET ASSETS:		
SHAREHOLDERS' EQUITY (Note 8):		
Common stock		
Authorized – 102,868,000 shares in 2020 and in 2019		
Issued – 56,408,000 shares in 2020 and in 2019	¥30,122	¥30,122
Capital surplus	29,301	29,301
Retained earnings	56,265	71,950
Treasury stock, at cost		
54,232 shares in 2020 and 60,409 shares in 2019	(169)	(188)
Total shareholders' equity	115,519	131,185
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Unrealized gains (losses) on hedging derivatives, net of tax	(15,274)	(11,282)
Foreign currency translation adjustments	(7,610)	2,983
Retirement liability adjustments for foreign consolidated subsidiaries	(1,211)	(1,095)
Total accumulated other comprehensive income	(24,097)	(9,394)
NON-CONTROLLING INTERESTS	3,592	3,575
Total net assets	95,015	125,366
Total liabilities and net assets	¥357,532	¥383,189

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2020 and 2019

	Millions of Japanese yen	
	2020	2019
SALES (Notes 19 and 20)	¥309,925	¥332,644
COST OF SALES (Note 11)	319,524	325,148
Gross profit (loss)	(9,598)	7,495
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	12,015	12,336
Operating profit (loss)	(21,614)	(4,841)
OTHER INCOME (EXPENSES):		
Interest income	4,248	5,943
Dividend received	14	—
Equity in earnings of unconsolidated subsidiaries and affiliates, net	4,467	2,382
Interest expense	(654)	(964)
Foreign exchange gain (loss), net	22	(1,375)
Gain (loss) on revaluation of derivatives	(84)	(590)
Gain on sale of non-current assets	—	327
Reversal of provision for repairs	1,552	—
Gain on liquidation of subsidiaries and affiliates	—	509
Extraordinary repair expenses (Note 13)	—	(16,690)
Retirement benefit expenses	(447)	—
Others, net	743	(259)
Total other income (expenses)	9,864	(10,717)
PROFIT (LOSS) BEFORE INCOME TAXES	(11,749)	(15,558)
INCOME TAXES (Note 14):		
Current	2,645	2,781
Deferred	(1,497)	(660)
PROFIT (LOSS)	(12,897)	(17,680)
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	178	547
PROFIT (LOSS) ATTRIBUTABLE TO OWNERS OF PARENT	¥ (13,076)	¥ (18,227)
	Japanese yen	
Earnings per share (Note 9)	¥ (232.05)	¥ (323.47)
Dividends per share (Note 9)	¥45.00	¥45.00

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, 2020 and 2019

	Millions of Japanese yen	
	2020 (Note 16)	2019 (Note 16)
PROFIT (LOSS)	¥ (12,897)	¥ (17,680)
OTHER COMPREHENSIVE INCOME:		
Unrealized gains on hedging derivatives, net of tax	2,155	399
Foreign currency translation adjustments	(5,945)	(2,106)
Retirement liability adjustments for foreign consolidated subsidiaries	(112)	(368)
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method	(10,962)	(5,809)
Total other comprehensive income	(14,864)	(7,885)
COMPREHENSIVE INCOME	¥ (27,762)	¥ (25,565)

	Millions of Japanese yen	
	2020	2019
Comprehensive income attributable to owners of parent	¥ (27,779)	¥ (25,841)
Comprehensive income attributable to non-controlling interests	¥17	¥275

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, 2020 and 2019

Millions of Japanese yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	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 on 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)
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 on January 1, 2020	¥30,122	¥29,301	¥71,950	¥ (188)	¥ (11,282)	¥2,983	¥ (1,095)	¥3,575	¥125,366
Cash dividends paid			(2,608)						(2,608)
Purchase of treasury stock				(0)					(0)
Disposal of treasury stock				19					19
Profit (loss) attributable to owners of parent			(13,076)						(13,076)
Change in ownership interest of parent due to transactions with non-controlling interests									–
Net changes of items other than those in shareholders' equity during the year					(3,992)	(10,593)	(116)	17	(14,685)
Balance on December 31, 2020	¥30,122	¥29,301	¥56,265	¥ (169)	¥ (15,274)	¥ (7,610)	¥ (1,211)	¥3,592	¥95,015

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, 2020 and 2019

	Millions of Japanese yen	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit (loss) before income taxes	¥ (11,749)	¥ (15,558)
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:		
Depreciation and amortization	3,294	3,265
Amortization of goodwill	150	159
Increase (decrease) of allowance for bad debts	612	(242)
Increase (decrease) of net defined benefit liabilities	519	19
Increase (decrease) of accrued directors’ bonuses	(25)	6
Increase (decrease) in provision for loss on construction contracts	(1,173)	7,146
Increase (decrease) of provision for construction warranty	697	1,071
Increase (decrease) of provision for repairs	(6,841)	10,568
Interest and dividend income	(4,263)	(5,943)
Interest expense	654	964
Foreign exchange (gains) losses, net	(5,767)	(760)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	(4,467)	(2,382)
Loss (gain) on revaluation of derivatives	84	590
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	54,896	(71,131)
– Inventories	(14,751)	688
Increase (decrease) in		
– Accounts payable-trade	9,153	64,684
– Consumption tax payable	(2,500)	(3,464)
Others, net	2,156	6,608
Total adjustments	20,678	(4,545)
Interest and dividend received	12,724	6,846
Interest paid	(704)	(957)
Income taxes paid	(1,694)	(4,592)
Net cash provided by (used in) operating activities	¥31,004	¥ (3,248)

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

	Millions of Japanese yen	
	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in time deposits	¥—	¥73
Purchases of property and equipment and intangible assets	(3,942)	(2,710)
Purchases of investments in subsidiaries and affiliates	(1,878)	(4,959)
Decrease (increase) in short-term loans receivable	5,219	34,658
Proceeds from sales of property and equipment and intangible assets	2	1,381
Disbursements of long-term loans receivable	(3,405)	(4,981)
Collections of long-term loans receivable	3,261	2,796
Net cash provided by (used in) investing activities	(742)	26,259
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in short-term loans payable	3,487	(26)
Repayments of long-term loans payable	(13,815)	(6,093)
Purchase of treasury stock	(0)	(89)
Proceeds from sales of treasury stock	19	—
Cash dividends paid	(2,609)	(3,033)
Cash dividends paid to non-controlling interests	—	(1,310)
Subsidy income	591	—
Repayments of finance lease obligations	(1,562)	(1,318)
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	(13,888)	(20,751)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3,769)	(889)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,603	1,369
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	52,142	50,773
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1 (u))	¥64,746	¥52,142

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 21 of its subsidiaries for the year ended December 31, 2020 and 19 of its subsidiaries for the year ended December 31, 2019. 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, 2020 and 2019 were accounted for using the equity method.

Another 5 subsidiaries and 1 affiliate for the year ended December 31, 2020 and 4 subsidiaries for the year ended December 31, 2019 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 Construction Warranty**

Provision for construction 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.

For calculating retirement benefit obligations, the benefit formula basis is used to allocate projected retirement benefits over the period to the end of this consolidated fiscal year. Actuarial gains and losses are fully recognized in the consolidated statement of operations of the period in which they occur.

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, 2020 and 2019 are as follows:

	Millions of Japanese yen	
	2020	2019
Cash and time deposits	¥66,117	¥52,381
Deposit pledged as collateral	(1,371)	(238)
Cash and cash equivalents	¥64,746	¥52,142

Unapplied Accounting Standards:

(v) **Accounting Standard for Revenue Recognition (ASBJ Statement No.29, March 31, 2020)**

(w) **Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020)**

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

The Company has adopted the standard from the beginning of the consolidated fiscal year ended December 31, 2021.

3) Effect on application of the standards

The application of accounting standards is based on transitional provisions contained in paragraph 84 of accounting guideline for revenue.

The cumulative effect of retroactively applying the new accounting standards before the beginning of the consolidated fiscal year ended December 31, 2021 has been reflected on retained earnings at the beginning of the consolidated fiscal year ended December 31,2021.

Based on the paragraph 86 of accounting guideline for revenue, the new accounting standards have not been applied retroactively on the contract that the almost all revenue had been recognized before the beginning of the consolidated fiscal year ended December 31, 2021.

Regarding contract changed before the beginning of the consolidated fiscal year ended December 31,2021 based on the paragraph 86 (1) of accounting guideline for revenue, accounting treatment has been performed based on the changed contract, and the cumulative impact has been reflected on the retained earnings at the beginning of the consolidated fiscal year ended December 31, 2021.

As a result of the application, the balance of retained earnings at the beginning of the consolidated fiscal year ended December 31, 2021 decreased by 4,145 million yen.

Additional Information:

(x) **Impact of COVID-19**

Spread of COVID-19 infections have negatively impacted to progress of overall schedule of ongoing EPCI projects due to suspension of construction, delays in procurement of equipment and access restrictions to construction site. And it is still unclear when COVID-19 is settled.

Responding to this situation, the Company has extended the schedule of EPCI projects and reflected additional cost from extended schedule to accounting estimates based on the assumption that COVID-19 would not be settled in short time period but would not negatively impact further to the critical path of the extended schedule.

Considering that a global pandemic was declared, the Company has a view that delays of FPSO delivery caused by COVID-19 would be a Force Majeure event. Thus, the Company has not incorporated any impacts of liquidated damage due to delays caused by COVID-19 to accounting estimates.

(y) **Change in Calculation Method for Retirement Benefits and Retirement Benefit Expenses**

In accordance with the Japanese accounting standard for employees' severance and pension benefits, a "simplified method" can be adopted to calculate severance and retirement benefits for employees if the number of employees is less than 300. This method was adopted until the end of consolidated fiscal year ended December 31, 2019.

From the beginning of the consolidated fiscal year ended December 31, 2020, the Company has adopted "principle method" considering increasing of the number of employees.

As a result, the retirement benefit obligations increased by ￥447 million at the beginning of the consolidated fiscal year ended December 31, 2020 and the same amount was recorded as retirement benefit expenses in the consolidated statement of operations for the year ended December 31, 2020.

2. Inventories

Inventories as of December 31, 2020 and 2019 consisted of the following:

	Millions of Japanese yen	
	2020	2019
Raw materials	¥—	¥1
Costs of uncompleted contracts	19,066	4,629
	¥19,066	¥4,630

3. Pledged Assets

Asset pledged as collateral as of December 31, 2020 and 2019 were as follows:

	Millions of Japanese yen	
	2020	2019
Cash and time deposits	¥1,371	¥238
Long-term time deposits	—	1,449
	¥1,371	¥1,687

(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, 2020 and 2019 were ¥653 million and ¥850 million, respectively.

5. Loans Payable

Short-term loans payable represents notes payable to banks due generally in twelve months or less and bearing an average interest rate of 1.3% as of December 31, 2020.

Current portion of long-term loans payable represents notes payable to banks due originally more than twelve months but generally in twelve months or less at end of current year-end and bearing an average interest of 0.96% and 0.84% as of December 31,2020 and 2019, respectively.

Long-term loans payable as of December 31, 2020 and 2019 are summarized below:

	Millions of Japanese yen	
	2020	2019
Loans from banks and others due through 2025	¥ 10,495	¥ 24,759
Less: Current portion included in current liabilities, at average rate of 0.96%	5,748	13,931
Loans from banks and others, at average rate of 1.03% due through 2025 (Excluding current portion)	¥4,746	¥10,827

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

Year ending December 31,	Millions of Japanese yen
2021	¥ 5,748
2022	3,452
2023	595
2024	465
2025	232
	¥10,495

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 2020 and 2019 financial institutions, an overdraft facility agreement with two financial institutions as of 2020 and 2019 for the purpose of providing operating funds. The commitment line amount is $160 million as of December 31, 2020 and 2019 without any drawdown. The overdraft facility line amount is ¥3,000 million and $30 million without any drawdown as of December 31, 2020 and 2019.

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 19, 2020, the shareholders approved cash dividends amounting to ¥1,269 million for the year ended December 31, 2019. At the annual shareholders' meeting held on March 23, 2021, the shareholders approved cash dividends amounting to ¥1,198 million for the year ended December 31, 2020. 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, 2020 and 2019.

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 2020, 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 55,407 shares and 56,470 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019 consisted of the following:

2020

1. Defined benefit plans

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

	Millions of Japanese yen
Balance at beginning of year	¥―
Increase resulting from changes from the simplified method to the principle method	366
Recognized as expenses resulting from changes from the simplified method to the principle method	447
Service cost	117
Interest cost	4
Actuarial loss	1
Benefits paid	(50)
Balance at end of year	¥885

ii) Retirement benefit expenses

	Millions of Japanese yen
Service cost	¥117
Interest cost	4
Actuarial loss	1
Retirement benefit expenses	¥123

iii) The assumption used for actuarial calculation

Discount rate	0.57%
Expected rate of salary increase	0.93-1.85%

2019

1. Defined benefit plans

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

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

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

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

iii) Severance and retirement benefit expenses

	Millions of Japanese yen
Severance and retirement benefit expenses (simplified method)	¥84

(b) Defined contribution pension plans

Contribution to pension plans amounted to ¥117 million and ¥107 million for the years ended December 31, 2020 and 2019, 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, 2020 and 2019 are as follows.

	Millions of Japanese yen	
	2020	2019
Provision for loss on construction contracts	¥(1,173)	¥7,146

12. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses are ¥482 million and ¥232 million for the years ended December 31, 2020 and 2019, 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, 2020 and 2019.

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, 2020 and 2019.

	2020	2019
Statutory income tax rates	31.0%	31.0%
Difference of statutory tax rate between the Company and foreign subsidiaries	(7.7)	(8.3)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	11.8	4.7
Valuation allowance	(40.8)	(40.5)
Controlled foreign company income inclusion	(2.6)	―
Others	(1.4)	(0.5)
Effective tax rates	(9.7) %	(13.6) %

2) Significant components of deferred tax assets and liabilities as of December 31, 2020 and 2019 are as follows:

	Millions of Japanese yen	
	2020	2019
Deferred tax assets:		
Accrued enterprise taxes	¥53	¥55
Accrued employees' bonuses	4	3
Unrealized gains on fixed assets	1,258	1,101
Tax loss carry forward	17,501	14,337
Retirement benefit liability	274	113
Depreciation	54	67
Foreign tax credit	263	1,326
Provision for construction loss	578	1,513
Provision for construction warranty	1,180	1,152
Provision for repairs	1,265	3,277
Allowance for bad debts	81	84
Estimated costs for construction contracts, etc.	―	47
Difference on percentage-of-completion method	1,933	821
Others	6,969	7,802
Deferred tax assets subtotal	31,420	31,707
Valuation allowance for tax loss carryforwards	(15,303)	(13,451)
Valuation allowance for the total of future deductible temporary differences, etc.	(8,590)	(12,282)
Valuation allowance subtotal	(23,894)	(25,733)
Offsetting of deferred tax liability	(2,694)	―
Total deferred tax assets	4,832	5,973
Deferred tax liability:		―
Difference on percentage-of-completion method	(1,335)	(1,317)
Pending profit of overseas subsidiaries	(456)	(363)
Others	(964)	(567)
Deferred tax liability subtotal	(2,756)	(2,247)
Offsetting of deferred tax asset	2,694	―
Total deferred tax liability	(62)	(2,247)
Net deferred tax assets (liabilities)	¥4,769	¥3,725

15. Contingent Liabilities and Commitments

1) As of December 31, 2020, and 2019, the Company was contingently liable for the following:

	Millions of Japanese yen	
	2020	2019
Guarantees of bank loans and other indebtedness for affiliates	¥ 181,963	¥ 73,200

For the years ended December 31, 2020 and 2019, 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. In year 2020, GRA has resumed tax audit again and GRA issued revised tax audit reports in November 2020. 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, 2020 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, 2020 and 2019:

	Millions of Japanese yen	
	2020	2019
Unrealized gains (losses) on hedging derivatives, net of tax		
Amount of generation	2,204	(434)
Amount of rearrangement adjustment	320	869
Before adjusting the tax effect	2,524	435
Tax effect	(369)	(36)
Unrealized gains on hedging derivatives, net of tax	2,155	399
Foreign currency translation adjustments		
Amount of generation	(5,945)	(1,674)
Amount of rearrangement adjustment	—	(432)
Before adjusting the tax effect	(5,945)	(2,106)
Tax effect	—	—
Foreign currency translation adjustments	(5,945)	(2,106)
Retirement liability adjustments for foreign consolidated subsidiaries		
Amount of generation	(678)	(103)
Amount of rearrangement adjustment	521	(170)
Before adjusting the tax effect	(157)	(273)
Tax effect	45	(94)
Retirement liability adjustments for foreign consolidated subsidiaries	(112)	(368)
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method		
Amount of generation	(13,656)	(7,092)
Amount of rearrangement adjustment	2,694	1,283
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method	(10,962)	(5,809)
Total	¥ (14,864)	¥ (7,885)

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, 2020 and 2019 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.

2020:	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥66,117	¥66,117	—
(2) Accounts receivable-trade	124,741	124,741	—
(3) Short-term loans receivable	—	—	—
(4) Long-term loans receivable from affiliates (*1)	38,004	41,948	¥3,943
Assets total	¥228,863	¥232,807	¥3,943
(5) Accounts payable-trade	¥151,331	¥151,331	—
(6) Short-term loans payable	3,001	3,001	—
(7) Long-term loans payable (*1)	10,495	10,495	—
Liabilities total	¥164,828	¥164,828	—
(8) Derivative transactions (*2)			
i) Derivative transactions for which hedge accounting has not been applied	¥518	¥518	—
ii) Derivative transactions for which hedge accounting has been applied	260	152	(107)
Derivative transactions total	¥778	¥671	¥ (107)

*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.

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) Short-term loans payable	—	—	—
(7) Long-term loans payable (*1)	24,759	24,759	—
Liabilities total	¥175,606	¥175,606	—
(8) 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.

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

<u>Assets</u>

(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	
	2020	2019
Privately owned equity securities	¥67,543	¥72,202

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, 2020 and 2019 are as follows:

2020:	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	¥66,117	—	—	—
Accounts receivable-trade	124,741	—	—	—
Long-term loans receivable from affiliates	—	¥8,763	¥8,819	¥20,420

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

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

Year ending December 31,	Millions of Japanese yen
2021	¥ 5,748
2022	3,452
2023	595
2024	465
2025	232
Total	¥10,495

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, 2020 and 2019 of derivative transactions:

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

2020: Currency related derivatives	Millions of Japanese yen			
	Contract Amount			
Type	Total	Due after one year	Contract Amount less Market Value	Unrealized gain (loss)
Forward contract (principle method)				
To buy Euro	5,751	－	(127)	(127)
To buy STG pounds	216	－	1	1
To buy Singapore dollars	96	－	(73)	(73)
To buy Brazilian real	3,348	－	21	21
To buy Mexican peso	13	－	0	0
Currency swap				
To receive Japanese yen, to pay U.S. dollars	¥4,788	¥1,676	¥696	¥696
Total	¥14,214	¥1,676	¥518	¥518

2019: Currency related derivatives	Millions of Japanese yen			
	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

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

2020: 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	¥8,093	¥585	¥654
To buy STG pounds		363	－	17
To buy Singapore dollars		520	12	17
To buy Brazilian real		3,348	－	(354)
To buy Mexican peso		13	－	(0)
Total		¥12,338	¥598	¥334

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)

2020:

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	¥4,530	¥1,590	¥ (74)
Interest rate swap (exceptional method) To receive float, pay fix	Long-term loans payable	2,810	1,868	(107)
Total		¥7,340	¥3,458	¥ (181)

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)

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

2020:

Millions of Japanese yen						
Brazil	West Africa	Mexico	Oceania	Asia	Other	Total
¥184,804	¥58,713	¥40,274	¥11,232	¥4,289	¥10,610	¥309,925

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

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

(b) **Property and equipment**

2020:

Millions of Japanese yen					
Singapore	Brazil	Ghana	U.S.A.	Other	Total
¥2,129	¥1,185	¥676	¥567	¥169	¥4,728

2019:

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

(4) **Information by major customer**

2020:

	Millions of Japanese yen	
Customers	Sales	Related Segment
Buzios5 MV32 B.V.	¥ 58,847	(note1)
Marlim1 MV33 B.V.	¥ 53,482	(note1)
Area1 Mexico MV34 B.V.	¥ 40,274	(note1)

2019:

	Millions of Japanese yen	
Customers	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)

(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 unconsolidated subsidiaries or affiliates for the year ended December 31, 2020 are as follows:

2020:

Related parties	Transactions	Millions of Japanese yen
Sepia MV30 B.V.	Construction of FPSO (Sales)	11,075
Sepia MV30 B.V.	Guarantees of bank loans	34,637
Libra MV31 B.V.	Construction of FPSO (Sales)	25,057
Libra MV31 B.V.	Guarantees of bank loans	30,184
Buzios5 MV32 B.V.	Construction of FPSO (Sales)	59,926
Buzios5 MV32 B.V.	Guarantees of bank loans	51,750
Marlim1 MV33 B.V.	Construction of FPSO (Sales)	54,085
Marlim1 MV33 B.V.	Guarantees of bank loans	26,910
Area1 Mexico MV34 B.V.	Construction of FPSO (Sales)	38,631
Area1 Mexico MV34 B.V.	Guarantees of bank loans	30,594

2020:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Tupi Pirot MV22 B.V.	Long-term loans receivable from affiliates	¥4,222
Sepia MV30 B.V.	Accounts receivable-trade	15,488
Libra MV31 B.V.	Accounts receivable-trade	32,397
Buzios5 MV32 B.V.	Accounts receivable-trade	22,568
Marlim1 MV33 B.V.	Accounts receivable-trade	15,674
Area1 Mexico MV34 B.V.	Advances received	307

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2020 are as follows:

2020:

Related parties	Transactions	Millions of Japanese yen
T.E.N. Ghana MV25 B.V.	Operation of FPSO	¥ 8,641
Carioca MV27 B.V.	Disbursements of loans for working capital	1,771
Buzios5 MV32 B.V.	Disbursements of loans for capital expenditure	9,414
Buzios5 MV32 B.V.	Collections of loans for capital expenditure	11,125
Marlim1 MV33 B.V.	Disbursements of loans for capital expenditure	6,358
Marlim1 MV33 B.V.	Collections of loans for capital expenditure	9,605

2020:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Guara MV23 B.V.	Long-term loans receivable from affiliates	¥5,665
T.E.N. Ghana MV25 B.V.	Accounts receivable-trade	6,116
T.E.N. Ghana MV25 B.V.	Long-term loans receivable from affiliates	4,597
Cernambi Norte MV26 B.V.	Long-term loans receivable from affiliates	5,757
Carioca MV27 B.V.	Long-term loans receivable from affiliates	5,598
Tartaruga MV29 B.V.	Long-term loans receivable from affiliates	6,272
Buzios5 MV32 B.V.	Short-term loans receivable	365
Marlim1 MV33 B.V.	Short-term loans receivable	71

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