**MODEC, INC. and Consolidated Subsidiaries**

# Consolidated Financial Statements

As of December 31, 2010 and 2009

Together with Independent Auditors’ Report

MODEC, INC. and Consolidated Subsidiaries

# CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009

## ASSETS

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| CURRENT ASSETS: | | | |
| Cash and time deposits (Note 1(s) and 14) | ¥ 12,122 | ¥ 31,505 | $ 148,703 |
| Accounts receivable – trade (Note 14 and 18) | 43,082 | 86,704 | 528,485 |
| Inventories (Note 2) | 875 | 833 | 10,737 |
| Short-term loans receivable (Note 14 and 18) | 31,291 | 2,047 | 383,848 |
| Deferred tax assets (Note 11) | 2,996 | 3,532 | 36,758 |
| Other current assets | 7,772 | 3,216 | 95,329 |
| Less- Allowance for bad debts | (3) | (104) | (40) |
| Total current assets | 98,135 | 127,733 | 1,203,820 |
| PROPERTY AND EQUIPMENT: | | | |
| Buildings and structures | 146 | 148 | 1,796 |
| Machinery and equipment | 1,673 | 1,767 | 20,523 |
| Vessel | 23,694 | 876 | 290,654 |
| Construction in progress | 6 | ― | 75 |
| Less- Accumulated depreciation | (10,486) | (1,275) | (128,634) |
| Net property and equipment | 15,033 | 1,516 | 184,414 |
| INTANGIBLE ASSETS (Note 4) | 6,821 | 7,272 | 83,665 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Note 3) | 12,356 | 14,694 | 151,574 |
| Long-term loans receivable (Note 14 and 18) | ― | 12 | ― |
| Long-term loans receivable from unconsolidated subsidiaries and affiliated companies | 11,564 | 14,281 | 141,850 |
| Deferred tax assets (Note 11) | 1,406 | 1,651 | 17,247 |
| Other investments | 1,317 | 1,209 | 16,155 |
| Less- Allowance for bad debts | (4) | (3) | (55) |
| Total investments and other assets | 26,639 | 31,844 | 326,771 |
| Total assets | ¥ 146,628 | ¥ 168,365 | $ 1,798,670 |

## LIABILITIES AND NET ASSETS

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| CURRENT LIABILITIES: | | | |
| Accounts payable – trade (Note 14 and 18) | ¥ 41,562 | ¥ 56,145 | $ 509,838 |
| Short-term loans payable (Note 5,6,14 and 18) | 17,194 | 27,180 | 210,918 |
| Current portion of long-term loans payable (Note 5 and 14) | 6,043 | 16,147 | 74,129 |
| Accrued expenses | 2,843 | 3,295 | 34,874 |
| Income taxes payable | 2,143 | 764 | 26,292 |
| Provision for product warranty | 2,565 | 2,335 | 31,459 |
| Accrued Employees' Bonuses | 43 | 73 | 522 |
| Accrued Directors' Bonuses | 14 | 14 | 166 |
| Advances Received | 767 | 2,014 | 9,409 |
| Deferred tax liabilities (Note 11) | 7 | 30 | 91 |
| Other Provisions | 706 | 28 | 8,665 |
| Other current liabilities | 3,930 | 2,511 | 48,211 |
| Total current liabilities | 77,817 | 110,536 | 954,574 |
| LONG-TERM LIABILITIES: | | | |
| Long-term loans payable (Note 5 and 14) | 8,140 | 13,473 | 99,854 |
| Severance and retirement benefits for employees (Note 9) | 159 | 147 | 1,950 |
| Deferred tax liabilities (Note 11) | 710 | 758 | 8,706 |
| Long-term accounts payable | 302 | 412 | 3,700 |
| Other long-term liabilities | 1,176 | 2,965 | 14,430 |
| Total long-term liabilities | 10,487 | 17,755 | 128,640 |
| CONTINGENT LIABILITIES (Note 12) | | | |
| NET ASSETS : | | | |
| SHAREHOLDERS' EQUITY (Note 7): | | | |
| Common stock; Authorized – 102,868,000 shares Issued – 46,408,000 shares (2010) Issued – 37,408,000 shares (2009) | 20,186 | 12,392 | 247,615 |
| Capital surplus | 20,916 | 13,122 | 256,571 |
| Retained earnings | 21,066 | 19,249 | 258,427 |
| Treasury stock, at cost | (2) | (2) | (22) |
| Total shareholders' equity | 62,166 | 44,761 | 762,591 |
| ACCUMULATED LOSSES FROM VALUATION AND TRANSLATION ADJUSTMENTS | | | |
| Net unrealized holding losses on securities | (9) | (7) | (112) |
| Unrealized losses on hedging derivatives, net of tax | (123) | (1,327) | (1,514) |
| Foreign currency translation adjustments | (8,403) | (5,191) | (103,081) |
| Total accumulated losses from valuation and translation adjustments | (8,535) | (6,525) | (104,707) |
| MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES | 4,693 | 1,838 | 57,572 |
| Total net assets | 58,324 | 40,074 | 715,456 |
| Total liabilities and net assets | ¥ 146,628 | ¥ 168,365 | $ 1,798,670 |

The accompanying notes are an integral part of these balance sheets.

MODEC, INC. and Consolidated Subsidiaries

# CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2010 and 2009

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| SALES (Note 1 (p),17 and 18) | ¥ 146,661 | ¥ 204,226 | $ 1,799,076 |
| COST OF SALES (Note 18) | 134,595 | 192,677 | 1,651,071 |
| Gross profit | 12,066 | 11,549 | 148,005 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10) | 8,502 | 7,380 | 104,292 |
| Operating profit | 3,564 | 4,169 | 43,713 |
| OTHER INCOME (EXPENSES): | | | |
| Interest income and dividend income | 1,351 | 1,406 | 16,577 |
| Interest expense | (521) | (774) | (6,397) |
| Foreign exchange loss, net | (1,467) | (68) | (17,996) |
| Gain on revaluation of derivatives | 392 | 448 | 4,808 |
| Equity in earnings of affiliates and unconsolidated subsidiaries | 2,568 | 2,362 | 31,505 |
| Maintenance cost for idle assets | — | (437) | — |
| Gain on sale of intangible assets | — | 140 | — |
| Loss on disposal of property and equipment | — | (450) | — |
| Impairment loss on property and equipment | — | (2,701) | — |
| Loss on devaluation of investment securities | — | (66) | — |
| Loss on liquidation of affiliates | (639) | (65) | (7,842) |
| Gain on disposal of property and equipment | 209 | — | 2,566 |
| Gain on step acquisitions | 34 | — | 420 |
| Gain on liquidation of subsidiaries | 71 | — | 866 |
| Other, net | 270 | 347 | 3,313 |
| Total other income (expenses) | 2,268 | 142 | 27,820 |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | 5,831 | 4,311 | 71,533 |
| INCOME TAXES (Note 11): | | | |
| Current | 2,465 | 2,236 | 30,242 |
| Deferred | (129) | (174) | (1,586) |
| INCOME BEFORE MINORITY INTERESTS | 3,495 | 2,249 | 42,877 |
| MINORITY INTERESTS | 759 | (164) | 9,315 |
| NET INCOME | ¥ 2,736 | ¥ 2,413 | $ 33,562 |

| | Japanese yen | | U.S. dollars |
|---|---|---|---|
| Net income per share (Note 8) | ¥ 62.09 | ¥64.52 | $ 0.76 |
| Dividends per share (Note 8) | ¥ 22.50 | ¥20.00 | $ 0.28 |

The accompanying notes are an integral part of these statements.

MODEC, INC. and Consolidated Subsidiaries

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31, 2010 and 2009

Millions of Japanese yen

| | Shareholders' equity | | | | | Accumulated losses from valuation and translation adjustments | | | | Minority interests in consolidated subsidiaries | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock at cost | Total shareholders' equity | Net unrealized holding losses on securities | Unrealized losses on hedging derivatives, net of tax | Foreign currency translation adjustments | Total accumulated losses from valuation and translation adjustments | | |
| Balance at December 31, 2008 | 12,392 | 13,122 | 17,876 | (2) | 43,388 | (28) | (213) | (5,976) | (6,217) | 3,507 | 40,678 |
| Net income | | | 2,413 | | 2,413 | | | | − | | 2,413 |
| Cash dividends paid | | | (701) | | (701) | | | | − | | (701) |
| Purchases of treasury stock | | | | (0) | (0) | | | | − | | (0) |
| Effect of changes in accounting policies applied to foreign subsidiaries | | | (659) | | (659) | | | | − | | (659) |
| Increase due to changes in fair market values of available-for-sale securities | | | | | − | 21 | | | 21 | | 21 |
| Unrealized losses on hedging derivatives, net of tax | | | | | − | | (1,114) | | (1,114) | | (1,114) |
| Adjustments from translation of foreign currency financial statements | | | | | − | | | 785 | 785 | | 785 |
| Decrease in minority interests in consolidated subsidiaries | | | | | − | | | | − | (1,669) | (1,669) |
| Others | | | 320 | | 320 | | | | − | | 320 |
| Balance at December 31, 2009 | 12,392 | 13,122 | 19,249 | (2) | 44,761 | (7) | (1,327) | (5,191) | (6,525) | 1,838 | 40,074 |
| Net income | | | 2,736 | | 2,736 | | | | — | | 2,736 |
| Cash dividends paid | | | (896) | | (896) | | | | — | | (896) |
| Issuance of new shares | 7,794 | 7,794 | | | 15,588 | | | | — | | 15,588 |
| Purchases of treasury stock | | | | 0 | 0 | | | | — | | 0 |
| Decrease due to changes in fair market values of available-for-sale securities | | | | | — | (2) | | | (2) | | (2) |
| Unrealized gains on hedging derivatives, net of tax | | | | | — | | 1,204 | | 1,204 | | 1,204 |
| Adjustments from translation of foreign currency financial statements | | | | | — | | | (3,212) | (3,212) | | (3,212) |
| Increase in minority interests in consolidated subsidiaries | | | | | — | | | | — | 2,855 | 2,855 |
| Others | | | (23) | | (23) | | | | — | | (23) |
| Balance at December 31, 2010 | 20,186 | 20,916 | 21,066 | (2) | 62,166 | (9) | (123) | (8,403) | (8,535) | 4,693 | 58,324 |

Thousands of U.S. dollars
(Note 1 (a))

| | Shareholders' equity | | | | | Accumulated losses from valuation and translation adjustments | | | | Minority interests in consolidated subsidiaries | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock at cost | Total shareholders' equity | Net unrealized holding losses on securities | Unrealized losses on hedging derivatives, net of tax | Foreign currency translation adjustments | Total accumulated losses from valuation and translation adjustments | | |
| Balance at December 31, 2009 | 152,007 | 160,963 | 236,133 | (21) | 549,082 | (81) | (16,286) | (63,680) | (80,047) | 22,547 | 491,582 |
| Net income | | | 33,562 | | 33,562 | | | | — | | 33,562 |
| Cash dividends paid | | | (10,993) | | (10,993) | | | | — | | (10,993) |
| Issuance of new shares | 95,608 | 95,608 | | | 191,216 | | | | — | | 191,216 |
| Purchases of treasury stock | | | | (1) | (1) | | | | — | | (1) |
| Decrease due to changes in fair market values of available-for-sale securities | | | | | — | (31) | | | (31) | | (31) |
| Unrealized gains on hedging derivatives, net of tax | | | | | — | | 14,772 | | 14,772 | | 14,772 |
| Adjustments from translation of foreign currency financial statements | | | | | — | | | (39,401) | (39,401) | | (39,401) |
| Increase in minority interests in consolidated subsidiaries | | | | | — | | | | — | 35,025 | 35,025 |
| Others | | | (275) | | (275) | | | | — | | (275) |
| Balance at December 31, 2010 | 247,615 | 256,571 | 258,427 | (22) | 762,591 | (112) | (1,514) | (103,081) | (104,707) | 57,572 | 715,456 |

The accompanying notes are an integral part of these statements.

MODEC, INC. and Consolidated Subsidiaries

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Income before income taxes and minority interests | ¥ 5,831 | ¥ 4,311 | $ 71,533 |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 958 | 1,380 | 11,755 |
| Amortization of goodwill | 211 | 264 | 2,593 |
| Provision for (reversal of) allowance for bad debts | (88) | 103 | (1,082) |
| Provision for (reversal of) severance and retirement benefits for employees | 12 | (4) | 149 |
| Accrued directors' bonuses | — | 14 | — |
| Provision for (reversal of) product warranty | 524 | 1,392 | 6,430 |
| Interest income and dividend income | (1,351) | (1,407) | (16,577) |
| Interest expense | 521 | 774 | 6,397 |
| Foreign exchange losses (gains) | 939 | (40) | 11,520 |
| Gain on revaluation of derivatives | (392) | (448) | (4,808) |
| Equity in earnings of affiliates and unconsolidated subsidiaries | (2,568) | (2,362) | (31,505) |
| Loss on devaluation of investment securities | — | 66 | — |
| Loss on liquidation of subsidiaries and affiliates | 569 | 65 | 6,976 |
| Gain on step acquisition | (34) | — | (420) |
| Impairment loss on property and equipment | — | 2,701 | — |
| Gain on disposal of fixed asset | (209) | — | (2,566) |
| Gain on sale of intangible assets | — | (140) | — |
| Changes in assets and liabilities: | | | |
| Decrease (Increase) in | | | |
| – Accounts receivable - trade | 8,270 | (66,123) | 101,446 |
| – Inventories | (133) | (267) | (1,633) |
| Increase (Decrease) in | | | |
| – Accounts payable - trade | (8,461) | 23,522 | (103,797) |
| – Consumption tax payable | (53) | (2) | (653) |
| – Long-term accounts payable | (111) | — | (1,356) |
| Other, net | 3,888 | 721 | 47,691 |
| | 8,323 | (35,480) | 102,093 |
| Interest and dividend received | 1,958 | 1,445 | 24,016 |
| Interest paid | (487) | (1,288) | (5,969) |
| Income taxes paid | (2,291) | (1,776) | (28,105) |
| Net cash provided by (used in) operating activities | ¥ 7,503 | ¥ (37,099) | $ 92,035 |

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchases of property and equipment and intangible assets | ¥ (624) | ¥ (992) | $ (7,654) |
| Proceeds from sale on property and equipment and intangible assets | 778 | — | 9,544 |
| Purchases of investments in affiliates | (2,168) | (2,010) | (26,593) |
| Decrease (Increase) in short-term loans receivable | (20,786) | 21,821 | (254,975) |
| Disbursement of long-term loans receivable | (2,163) | (5,176) | (26,531) |
| Collection of long-term loans receivable | 246 | 7,970 | 3,020 |
| Purchases of investment in subsidiaries | (15) | (3) | (190) |
| Proceeds from capital reduction in affiliates | 1,412 | — | 17,317 |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | 1,684 | — | 20,660 |
| Other, net | — | 365 | — |
| Net cash provided by (used in) investing activities | (21,636) | 21,975 | (265,402) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Increase (Decrease) in short-term loans payable | 2,594 | (6,013) | 31,826 |
| Proceeds from long-term loans payable | — | 15,555 | — |
| Repayment of long-term loans payable | (9,617) | (8,535) | (117,977) |
| Proceeds from issuance of common stock | 15,588 | — | 191,217 |
| Cash dividends paid | (896) | (700) | (10,996) |
| Cash dividends paid to minority interests | — | (584) | — |
| Other, net | 0 | (0) | (1) |
| Net cash provided by (used in) financing activities | 7,669 | (277) | 94,069 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (2,971) | 2,183 | (36,441) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (9,435) | (13,218) | (115,739) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 31,505 | 44,718 | 386,474 |
| DECREASE IN CASH AND CASH EQUIVALENTS DUE TO RESULTING FROM CHANGE OF SCOPE OF CONSOLIDATION | (9,948) | — | (122,032) |
| INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARY | — | 5 | — |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1 (s)) | ¥ 12,122 | ¥ 31,505 | $ 148,703 |

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Significant Accounting and Reporting Policies

### (a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of MODEC, Inc. (“the Company”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of the Company’s overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Some supplementary information reported in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are reported solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2010, which was ¥81.52 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### (b) Principles of Consolidation and Equity Method

The accompanying consolidated financial statements include the accounts of the Company and 23 of its subsidiaries for the year ended December 31, 2010 and 22 of its subsidiaries for the year ended December 31, 2009. Material inter-company balances, transactions and profits have been eliminated in consolidation.

Investments in significant unconsolidated subsidiaries and affiliates, which were 14 companies for the year ended December 31, 2010 and 14 companies for the year ended December 31, 2009 were accounted for by using the equity method.

Another 3 subsidiaries for the year ended December 31, 2010 and another 3 subsidiaries for the year ended December 31, 2009 were not consolidated or not applied equity method as they would not have a material effect on the accompanying consolidated financial statements.

The consolidated financial statements are required to include the accounts of the Company and significant companies that are controlled by the Company through substantial ownership of more than 50% of the voting rights or through ownership of a high percentage of the voting rights, even if it is equal to or less than 50%, and existence of certain conditions evidencing control by the Company of decision-making bodies of such companies.

Investments in significant unconsolidated subsidiaries and affiliates, of which the Company has ownership of 20% or more but less than or equal to 50%, and of 15% or more and less than 20% and can exercise significant influences over operating financial policies of investees, have been accounted for by the equity method.

All consolidated subsidiaries have the same balance sheet date, December 31, corresponding with that of the Company.

**(c) Valuation of Assets and Liabilities of Subsidiaries**

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, were evaluated by using the fair value at the time the Company acquired the control of the respective subsidiaries.

**(d) Goodwill**

The excess of cost over the underlying investments in consolidated subsidiaries is recognized as goodwill and is amortized using the straight-line method over their estimated useful lives.

The excess of cost over the underlying investments in affiliates accounted for under the equity method is treated in the same manner.

**(e) Securities**

In accordance with the Japanese accounting standard for financial instruments, all companies required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by unconsolidated subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories ("available-for-sale securities").

Based on the examination of the intent of holding, the Company classifies its securities as equity securities issued by unconsolidated subsidiaries and affiliated companies and available-for-sale securities. Available-for-sale securities maturing within one year from the balance sheet date are recorded in current assets. Other securities are recorded in investment securities. The Company does not have trading securities or held-to-maturity debt securities.

Equity securities issued by unconsolidated subsidiaries and affiliated companies that are not accounted for by equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value as of balance sheet dates. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated at moving-average cost.

**(f) Inventories**

Both raw materials and costs of uncompleted contracts are stated at cost, determined on an individual project basis (Balance sheet value reflects downturn in profitability).

(Changes of accounting policies)
Raw materials and costs of uncompleted contracts were previously accounted for using the individually identified cost method.
Effective from the year ended December 31, 2009, the Company adopted the new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No.9, issued by the Accounting Standards Board of Japan on July 5, 2006). Raw materials and costs of uncompleted contracts are accounted for using individually identified cost method (Balance sheet value reflects downturn in profitability).

This adoption had no effect on the financial statements.

**(g) Property and Equipment**

Property and equipment are stated at cost. Depreciation of Floating Production Storage & Offloading Systems ("FPSOs") and Floating Storage & Offloading Systems ("FSOs"), owned by the consolidated overseas subsidiaries are calculated using the straight-line method based on their lease term or their economic useful lives.

Depreciation of property and equipment other than FPSOs and FSOs are calculated as follows. The Company depreciates property and equipment using the declining-balance method based on their useful lives and residual values prescribed by the Japanese corporation tax laws and regulations, except for buildings acquired after March 31, 1998, which are depreciated using the straight-line method. Consolidated overseas subsidiaries depreciate property and equipment using the straight-line method based on their estimated useful lives.

**(h) Intangible Assets**

The Company amortizes software costs used internally using the straight-line method over the estimated useful life (5 years), and amortizes intangible assets using the straight-line method based on useful lives and residual values prescribed by the Japanese corporation tax laws and regulations.

Intangible assets of consolidated subsidiaries located in the U.S.A., are accounted for in accordance with U.S. GAAP.

**(i) Allowance for Bad Debts**

The Company provides for a sufficient allowance for bad debts to cover probable losses on collection by estimating uncollectable amounts individually in addition to amounts for possible losses based on actual losses on collection in the past.

**(j) Accrued Employees' Bonuses**

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

**(k) Accrued Directors' Bonuses**

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

**(l) Provision for Product Warranty**

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

**(m) Severance and Retirement Benefits for Employees**

The Company and some overseas consolidated subsidiaries have unfunded lump-sum severance and retirement payment plans for employees. Under these plans, employees whose employment is terminated or who retire are entitled to benefits which are, in general, determined on the basis of length of service and basic salary at the time of termination or retirement. If the termination is involuntary, the employees are generally entitled to larger benefits than in the case of voluntary termination or retirement.

In accordance with the Japanese accounting standard for employees' severance and pension benefits, a "simpler method" can be adopted to calculate severance and retirement benefits for employees if the number of employees is less than 300. Therefore the Company adopts the "simpler method", and records severance and retirement benefits for employees at the amounts payable if all employees voluntarily terminated their employment at the balance sheet date.

The Company and some overseas consolidated subsidiaries also adopt defined contribution pension plans.

**(n) 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 to Japanese yen at the year-end exchange rate, and the resulting gains or losses are recorded in other income (expenses) in the statement of income.

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

**(o) Derivative Transactions and Hedge Accounting**

Derivative financial instruments of the Company are stated at fair value and gains or losses are recognized for changes in the fair value unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner.

1) If a forward foreign exchange contract is executed to hedge existing foreign currency receivables or payables,

a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

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

**(p) Revenue Recognition**

For the year ended December 31, 2010, the Company applied the percentage of completion method to the construction contracts in case that the outcome of construction contracts can be reliably estimated. The percentage of completion is calculated by percentage of cost method or units of work performed method which is based on physical progress measure.

The other construction contracts are recognized by the completed contract method.

Consolidated subsidiary located in the U.S.A. recognized revenues on all contracts by the percentage of completion method.

(Changes of Accounting Policies)
For the year ended December 31, 2009, the Company recognized revenues on contracts by the completed contract method, except for those items whose contract amount was over 1 billion yen and whose term of construction was over one year in which cases the percentage of completion method was used.

Effective from January 1, 2010, the Company adopted the new accounting standard, “Accounting Standard for Construction Contracts” (Statement No.15, issued by Accounting Standards Board of Japan on December 27, 2007) and “Guidance on Accounting Standard for Construction Contracts” (Guidance No.18, issued by the Accounting Standards Board of Japan on December 27, 2007).

This adoption had no effect on the financial statements.

**(q) Income Taxes**

The Company provides income taxes at the amounts currently payable based on taxable income for tax purposes that may be different from income for the accounting purposes. The Company recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

**(r) Significant deferred assets**

Stock issuance costs are recorded at total cost when expended.

**(s) Cash Flow Statement**

1) 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, 2010 and 2009 are as follows:

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Cash and time deposits | ¥12,122 | ¥31,505 | $148,703 |
| Less : Time deposits with maturities exceeding three months | – | – | – |
| Cash and cash equivalents | ¥12,122 | ¥31,505 | $148,703 |

2) For the year ended December 31, 2010, at the time of acquiring additional shares of newly consolidated subsidiary, MODEC VENTURE 11 B.V. and RANG DONG MV17 B.V., their assets, liabilities, the cost for the share acquisition and the net proceeds from the share acquisition are as follows:

| | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|
| | 2010 | 2010 |
| Current Assets | ¥2,380 | $29,190 |
| Property and equipment | 13,817 | 169,487 |
| Goodwill | 616 | 7,561 |
| Current liabilities | (5,312) | (65,157) |
| Long-term liabilities | (5,740) | (70,416) |
| Minority interests in these consolidated subsidiaries | (2,315) | (28,399) |
| Book value of investment in these consolidated subsidiaries before the additional acquisition | (2,221) | (27,242) |
| The cost for the share acquisition | 1,225 | 15,024 |
| Outstanding amount of the cost for the share acquisition | (1,225) | (15,024) |
| Cash and cash equivalents of these consolidated subsidiaries | 1,684 | 20,660 |
| Net proceeds to acquire the share of newly consolidated subsidiaries | ¥1,684 | $20,660 |

**(Changes of Accounting Policies)**

**(t) Accounting standards for business combinations and related matters**

The Company adopted new accounting standard, “Accounting Standard for Business Combinations” (Statement No.21, issued by Accounting Standards Board of Japan on December 26, 2008) which is applied to the business combinations after April 1, 2010. Furthermore, the Company also adopt the new accounting standard, “Accounting Standard for Business Divestitures” (Statement No.7, issued by Accounting Standards Board of Japan on December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and

Accounting Standard for Business Divestitures" (Guidance No.10, issued by Accounting Standards Board of Japan on December 26, 2008).

**(u) Accounting Standard for Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements**

Effective from the year ended December 31, 2009, the Company and the consolidated subsidiaries adopted the new accounting standard, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No.18 issued by the Accounting Standards Board of Japan on May 17, 2006).
Due to this change, the Retained earnings of beginning of the year 2009 decreased by ¥659 million ($7,159 thousand) and the Minority Interests of beginning of the year 2009 decreased by ¥1,526 million ($16,571 thousand) and Operating Income and Income Before Income Taxes and Minority Interests decreased by ¥238 million ($2,582 thousand) for the year ended December 31, 2009.
The impact on segment information is described in the corresponding pages. (Note 17)

**(v) Accounting standards for lease transactions**

Finance lease transactions that do not transfer ownership rights were previously accounted for in the same way as operating lease transactions.
Effective from the year ended December 31, 2009, the Company adopted the new accounting standard, "Accounting  Standard for Lease Transactions" (Statement No. 13, issued by the Business Accounting Council on June 17, 1993, revised by the Accounting Standards Board of Japan on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (Guidance No.16 issued by JICPA Accounting System Committee on January 18, 1994, revised by the Accounting Standards Board of Japan on March 30, 2007). These transactions are accounted in a similar manner as ordinary sale and purchase transactions.
This adoption had no effect on the financial statements.

## 2. Inventories

Inventories as of December 31, 2010 and 2009 consisted of the following:

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Raw materials | ¥32 | ¥36 | $393 |
| Costs of uncompleted contracts | 843 | 797 | 10,344 |
| | ¥875 | ¥833 | $10,737 |

## 3. Marketable Securities and Investment Securities

The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of December 31, 2010 and 2009

| | Millions of Japanese yen | | |
|---|---|---|---|
| 2010 : | Acquisition cost | Book value | Differences |
| Available-for-sale securities: | | | |
| Securities with book values exceeding acquisition costs: | | | |
| Equity securities | — | — | — |
| Sub Total | — | — | — |
| Securities with book values not exceeding acquisition costs: | | | |
| Equity securities | ¥115 | ¥99 | (¥16) |
| Sub Total | 115 | 99 | (16) |
| Total | ¥115 | ¥99 | (¥16) |

| | Millions of Japanese yen | | |
|---|---|---|---|
| 2009 : | Acquisition cost | Book value | Differences |
| Available-for-sale securities: | | | |
| Securities with book values exceeding acquisition costs: | | | |
| Equity securities | — | — | — |
| Sub Total | — | — | — |
| Securities with book values not exceeding acquisition costs: | | | |
| Equity securities | ¥115 | ¥104 | ¥(11) |
| Sub Total | 115 | 104 | (11) |
| Total | ¥115 | ¥104 | ¥(11) |

| | Thousands of U.S. dollars (Note 1 (a)) | | |
|---|---|---|---|
| 2010 : | Acquisition cost | Book value | Differences |
| Available-for-sale securities: | | | |
| Securities with book values exceeding acquisition costs: | | | |
| Equity securities | — | — | — |
| Sub Total | — | — | — |
| Securities with book values not exceeding acquisition costs: | | | |
| Equity securities | $1,408 | $1,219 | ($189) |
| Sub Total | 1,408 | 1,219 | (189) |
| Total | $1,408 | $1,219 | ($189) |

(Remarks)

Acquisition cost represents after impaired amount, and valuation loss on investment securities of ¥66 million ($719 thousand) is recorded for the year ended December 31, 2009.

## 4. Goodwill

Goodwill recorded in intangible assets as of December 31, 2010 and 2009 were ¥3,657 million ($44,865 thousand) and ¥3,673 million, respectively.

## 5. Loans Payable

Short-term loans payable represent notes payable to banks due generally in twelve months and bearing an average interest rate of 1.0% and 1.0% as of December 31, 2010 and 2009, respectively.

Long-term loans payable as of December 31, 2010 and 2009 are summarized below:

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Loans from banks and others due through 2017 | ¥14,183 | ¥29,620 | $173,983 |
| Less: Current portion included in current liabilities, at average rate of 1.9% | (6,043) | (16,147) | (74,129) |
| Loans from banks and others, at average rate of 1.0% due through 2017 (Excluding current portion) | ¥8,140 | ¥13,473 | $99,854 |

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

| Year ended December 31, | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|
| 2011 | ¥ 6,043 | $ 74,129 |
| 2012 | 3,444 | 42,251 |
| 2013 | 1,171 | 14,369 |
| 2014 | 611 | 7,496 |
| 2015 | 546 | 6,699 |
| 2016 and thereafter | 2,368 | 29,039 |
| | ¥ 14,183 | $ 173,983 |

## 6. Unexecuted Balance of Overdraft Facilities and Lending Commitment

The Company has a commitment line agreement with a syndicate of six financial institutions and an overdraft facility agreement with one financial institution for the purpose of efficient providing operating funds. The commitment line amount is $110,000 thousand as of December 31, 2010 without any drawdown. The unexecuted balance of overdraft facility line is ¥ 3,000 million ($36,801 thousand) and the balance of loan as of December 31, 2010 is ¥1,000 million ($12,267 thousand).

## 7. Net Assets

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 30, 2010, the shareholders approved cash dividends amounting to ¥ 374 million ($4,062 thousand) for the year ended December 31, 2009.

At the annual shareholders' meeting held on March 30, 2011, the shareholders approved cash dividends amounting to ¥522 million ($6,404 thousand). Such appropriations have not been accrued in the consolidated financial statements as of December 31, 2010. Such appropriations are recognized in the period in which they are approved by the shareholders.

## 8. Per Share Data

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

Diluted net income per share reflects the effect of potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. There is no outstanding potential common stock for the years ended December 31, 2010 and 2009.

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

## 9. Severance and Retirement Benefits for Employees

The severance and retirement benefits for employees recorded in the liability section of the consolidated balance sheets as of December 31, 2010 and 2009 consisted of the following:

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Projected benefit obligation | ¥159 | ¥147 | $1,950 |
| Severance and retirement benefits for employees | ¥159 | ¥147 | $1,950 |

Severance and retirement benefit expenses recorded in the consolidated statements of income for the years ended December 31, 2010 and 2009 consisted of the following:

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Service costs – benefits earned during the year | ¥24 | ¥37 | $298 |
| Others | 24 | 30 | 293 |
| Severance and retirement benefit expenses | ¥48 | ¥67 | $591 |

## 10. Research and Development Expenses

Research and development expenses recorded in selling, general and administration expenses were ¥814 million ($9,991 thousand) and ¥703 million for the years ended December 31, 2010 and 2009 respectively.

## 11. Income Taxes

The normal statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes are 41% for the years ended December 31, 2010 and 2009.

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 year ended December 31, 2009. For fiscal 2010, reconciliation is not required to be disclosed because the difference between the rates is less than 5%.

| | 2009 |
|---|---|
| Statutory income tax rate | 41.0% |
| Difference of statutory tax rate between the Company and overseas subsidiaries | (2.1) |
| Tax loss carry forward | 26.7 |
| Equity in earnings of affiliates and unconsolidated subsidiaries | (22.5) |
| Non-deductible withholding tax (foreign tax) | 2.8 |
| Others | 1.9 |
| Effective tax rate | 47.8% |

2) Significant components of deferred tax assets and liabilities as of December 31, 2010 and 2009 are as follows:

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Deferred tax assets: | | | |
| Current assets: | | | |
| Enterprise tax payable | - | ¥ 13 | - |
| Accrued employees' bonuses | 33 | 53 | 402 |
| Provision for product warranty | 431 | 454 | 5,284 |
| Other Provisions | 307 | 112 | 3,768 |
| Tax loss carry forward | 334 | 374 | 4,099 |
| Undistributed profits in a tax haven | 135 | 135 | 1,661 |
| Foreign exchange losses | 1,279 | 780 | 15,687 |
| Loss on deferred hedge | - | 404 | - |
| Tax effect to the investment for the liquidated subsidiaries | 739 | 1,453 | 9,071 |
| Others | 526 | 302 | 6,454 |
| Sub total | 3,784 | 4,080 | 46,426 |
| Valuation Allowance | (391) | (135) | (4,800) |
| Offset to deferred tax liabilities (short-term) | (397) | (413) | (4,868) |
| Total | 2,996 | 3,532 | 36,758 |
| Fixed assets: | | | |
| Unrealized inter-company profit on fixed assets | 2,832 | 1,922 | 34,734 |
| Tax loss carry forward | 1,019 | 1,390 | 12,498 |
| Loss on valuation of golf membership | 20 | 19 | 239 |
| Severance and retirement benefits for employees | 65 | 60 | 799 |
| Long term account payable | 124 | 169 | 1,517 |
| Other Provisions | 178 | 170 | 2,179 |
| Net unrealized holding losses on securities | 6 | 5 | 78 |
| Others | 66 | 73 | 826 |
| Sub total | 4,310 | 3,808 | 52,870 |
| Valuation allowance | (324) | (464) | (3,972) |
| Offset to deferred tax liabilities (long-term) | (2,580) | (1,693) | (31,651) |
| Total | 1,406 | 1,651 | 17,247 |
| Total deferred tax assets | ¥4,402 | ¥5,183 | $54,005 |

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Deferred tax liabilities: | | | |
| Current liabilities: | | | |
| Temporary difference of foreign exchange gain in overseas subsidiaries | ¥(106) | (132) | $(1,306) |
| Others | (298) | (311) | (3,653) |
| Sub total | (404) | (443) | (4,959) |
| Offset to deferred tax assets (short-term) | 397 | 413 | 4,868 |
| Total | (7) | (30) | (91) |
| Long-term liabilities: | | | |
| Depreciation | (1,337) | (1,012) | (16,398) |
| Difference on percentage-of-completion method | (375) | (294) | (4,596) |
| Undistributed earnings of overseas subsidiaries | (1,501) | (1,072) | (18,413) |
| Others | (77) | (73) | (950) |
| Sub total | (3,290) | (2,451) | (40,357) |
| Offset to deferred tax assets (long-term) | 2,580 | 1,693 | 31,651 |
| Total | (710) | (758) | (8,706) |
| Total deferred tax liabilities | (717) | (788) | (8,797) |
| Net deferred tax assets | ¥3,685 | ¥ 4,395 | $45,208 |

## 12. Contingent Liabilities and Commitments

As of December 31, 2010 and 2009, the Company was contingently liable for the following:

| | Millions of Japanese yen | | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Guarantees of bank loans and other indebtedness for unconsolidated subsidiaries and affiliates | ¥51,844 | ¥70,552 | $635,965 |
| Guarantees of interest rate swap contracts for unconsolidated subsidiaries and affiliates | (¥6,346) | ¥(9,402) | ($77,850) |

The amounts of guarantees of interest rate swap contracts for unconsolidated subsidiaries and affiliates represent fair values of the swap contracts.

## 13. Leases

(Lessor)

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

| | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|
| | 2010 | 2010 |
| Due within one year | ¥1,035 | $12,702 |
| Due after one year | 6,045 | 74,159 |
| Total | ¥7,080 | $86,861 |

## 14. Financial Instruments

### (a) Articles 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.
As to derivative financial instruments, the Company and its consolidated subsidiaries utilize them not for speculation but for hedging purpose only.

ii) Substances and risks of financial instruments and managing of financial instruments
Accounts receivable - trade are exposed to credit risks of customers. The Company and its subsidiaries research the credit standings and select credit worthy customers, and manage the balance of accounts receivable - trade at regular intervals to reduce credit risks.

Short-term and long-term loans receivable that are granted to cater the affiliated companies mainly established to accomplish charter projects are exposed to credit risks of their customers. The Company reduces the share of risks by arranging project finance or by the cooperation with general trading companies and other business partners.

Majority of accounts receivable - trade and loans receivable are denominated in foreign currencies and net of these balances with accounts payable - trade and loans payable are exposed to currency fluctuation risks. These risks are basically hedged by using forward foreign exchange contracts.

Investment securities are exposed to market fluctuation risks. The Company and its subsidiaries have the business relationships with the issuers of most of investment securities and periodically research the fair market value and financial position of the issuers.

Majority of accounts payable - trade are due within one year. Accounts payable - trade denominated in foreign currencies arising from overseas procurement of materials are exposed to currency fluctuation risks, but these accounts payable - trade are controlled not to exceed accounts receivable - trade in the same foreign currencies.

Short-term and long-term loans payable are mainly raising funds for the affiliated companies. Majority of loans payable are exposed to currency fluctuation risks, but these loans payable are not exceed loans receivable in the same foreign currencies. In addition, the Company arranges the interest rate swap transaction for some of long-term loans payable by each contract to fix the interest expense and to reduce the interest rate fluctuation risks.

Derivative transactions are consisted of mainly forward foreign exchange contracts arranged for the purpose of hedging currency fluctuation risks arising from foreign currency accounts receivable - trade and accounts payable - trade, and interest rate swap transaction for the purpose of interest rate fluctuation risks arising from loans payable.

Accounts payable – trade and loans payable are exposed to the liquidity risks. To manage the liquidity risks, our finance sections appropriately prepare and update the cash management plan.

iii) Supplementary explanation about fair value of financial instruments
The fair value is based on their fair market value quoted market price, if available, or reasonably estimated value if market price is not available. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amount is not indicative of the actual market risk involved in derivative transactions.

As to the contract amount of derivatives transactions, please see the following "(b) Articles concerning fair value of financial instruments".

## (b) Articles concerning fair value of financial instruments

Consolidated balance sheets amounts and fair market value of financial instruments, the difference between for the year ended December 31, 2010 are as follows. Financial instruments in which the fair value is considered to be extremely difficult to recognize are not included in the list below.

| | Millions of Japanese yen | | |
|---|---|---|---|
| | Book Value | Fair Value | Difference |
| (1) Cash and time deposits | ¥12,122 | ¥12,122 | — |
| (2) Accounts receivable – trade | 43,082 | 43,082 | — |
| (3) Short-term loans receivable | 31,291 | 31,291 | — |
| (4) Investment securities | 99 | 99 | — |
| (5) Long-term loans receivable | 11,564 | 11,728 | 164 |
| Assets total | ¥98,158 | ¥98,322 | ¥164 |
| (6) Accounts payable – trade | ¥41,562 | ¥41,562 | — |
| (7) Short-term loans payable | 17,194 | 17,194 | — |
| (8) Current portion of long-term loans payable | 6,043 | 6,043 | — |
| (9) Long-term loans payable | 8,140 | 8,239 | 99 |
| Liabilities total | ¥72,939 | ¥73,038 | ¥99 |
| (10) Derivative transactions * | | | |
| i) Derivative transactions for which hedge accounting has not been applied | ¥2,564 | ¥2,564 | — |
| ii) Derivative transactions for which hedge accounting has been applied | (685) | (685) | — |
| Derivative transactions total | ¥1,879 | ¥1,879 | — |

| | Thousands of U.S. dollars (Note 1 (a)) | | |
|---|---|---|---|
| | Book Value | Fair Value | Difference |
| (1) Cash and time deposits | $148,703 | $148,703 | — |
| (2) Accounts receivable – trade | 528,485 | 528,485 | — |
| (3) Short-term loans receivable | 383,848 | 383,848 | — |
| (4) Investment securities | 1,219 | 1,219 | — |
| (5) Long-term loans receivable | 141,850 | 143,863 | 2,013 |
| Assets total | $1,204,105 | $1,206,118 | $2,013 |
| (6) Accounts payable – trade | $509,838 | $509,838 | — |
| (7) Short-term loans payable | 210,918 | 210,918 | — |
| (8) Current portion of long-term loans payable | 74,129 | 74,129 | — |
| (9) Long-term loans payable | 99,854 | 101,071 | 1,217 |
| Liabilities total | $894,739 | $895,956 | $1,217 |
| (10) Derivative transactions * | | | |
| i) Derivative transactions for which hedge accounting has not been applied | $31,470 | $31,470 | — |
| ii) Derivative transactions for which hedge accounting has been applied | (8,398) | (8,398) | — |
| Derivative transactions total | $23,072 | $23,072 | — |

*Derivative transactions are presented net of receivables and payables, and figures within parenthesis indicate payables.

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

Assets

(1) Cash and deposits, (2) Accounts receivable – trade and (3) Short-term loans receivable

Fair value of these accounts is stated at the balance sheet amounts because they are considered to be close to the balance sheet amounts and these accounts are settled in short-term.

(4) Investment securities

Fair value of these accounts is based on available market price. Securities held by intent are described in the corresponding pages. (Please see 3. Marketable Securities and Investment Securities.)

(5) Long-term loans receivable

Fair value of these accounts is stated at the present value calculated from the future cash flows discounted by the premium-added rate on the proper index like yield on the government bonds.

Liabilities

(6) Accounts payable – trade, (7) Short-term loans payable and (8) Current portion of long-term loans payable

Fair value of these accounts is stated at the balance sheet amounts because they are considered to be close to the balance sheet amounts and these accounts are settled in short-term.

(9) Long-term loans payable

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

The exceptional treatment for interest rate swap transaction is applied to some of long-term loans payable. These principals and interests are discounted by the practically estimated interest rates which are applied to when the Company arrange the same loans payable from the outside.

Derivative Transactions

Please see 15. Derivative Transactions of the Company and its Consolidated Subsidiaries.

(note 2) Financial instruments for which the fair value is considered to be extremely difficult to recognize are as follows:

| | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|
| Unlisted equity securities | ¥ 12,256 | $150 |

As to these financial instruments, there is no available fair market value. So these financial instruments are not included in (4) Investment securities because it is considered to be extremely difficult to recognize fair market value.

(note 3) The expected redemption amount of monetary credit and securities with maturity after consolidated fiscal year-end are as follows:

| | 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 deposits | ¥ 12,122 | — | — | — |
| Accounts receivable – trade | 43,050 | 32 | — | — |
| Short-term loans receivable | 31,291 | — | — | — |
| Long-term loans receivable | — | 6,057 | 3,327 | 2,180 |

| | Thousands of U.S. dollars (Note 1 (a)) | | | |
|---|---|---|---|---|
| | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years |
| Cash and deposits | $148,703 | — | — | — |
| Accounts receivable – trade | 528,085 | 400 | — | — |
| Short-term loans receivable | 383,848 | — | — | — |
| Long-term loans receivable | — | 74,300 | 40,815 | 26,735 |

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

| | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|
| 2012 | 3,444 | 42,251 |
| 2013 | 1,171 | 14,369 |
| 2014 | 611 | 7,496 |
| 2015 | 546 | 6,699 |
| 2016 and thereafter | 2,368 | 29,039 |
| Total | ¥ 8,140 | $99,854 |

(Additional Information)
Effective from the year ended December 31, 2010, the Company and consolidated subsidiaries adopted the revised accounting standard, "Accounting Standard for Financial Instruments" (Statement No.10, issued by ASBJ on March 10, 2008) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (Guidance No. 19, issued by ASBJ on March 10, 2008).

## 15. Derivative Transactions of the Company and its Consolidated Subsidiaries

The Company and its consolidated subsidiaries utilize forward foreign currency contracts in order to hedge currency fluctuation risks arising from export of products in addition to hedging through increases in overseas production and overseas procurement of materials.

The Company and its consolidated subsidiaries also utilize interest rate swaps as derivative transactions in order to hedge interest rate risks of bonds and loans payable.

As the derivative transactions are made solely with leading financial institutions, the Company and its consolidated subsidiaries do not expect any credit risks.

The Company follows its internal regulations for derivatives, which stipulates the policy, objective, scope, organization, procedures, and financial institutions to deal with, and has a reporting system for derivative transactions reflecting proper internal control functions.

The following summarizes hedging derivative financial instruments used and items hedged:

| Hedging instruments: | Hedged items: |
|---|---|
| Foreign exchange forward contracts | Foreign currency receivables and payables including future transactions |
| Currency swap contracts | Foreign currency receivables and payables |
| Currency option contracts | Foreign currency receivables and payables |
| Interest rate swap contracts | Foreign currency bonds and loans payable |

The Company evaluates hedge effectiveness on a quarterly basis by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items with the corresponding changes in the hedging derivative instruments.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

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

**(a) The following tables summarize market value information as of December 31, 2010 and 2009 of derivative transactions for which hedge accounting has not been applied:**

| | Millions of Japanese yen | | | |
|---|---|---|---|---|
| | Notional amount | | | |
| 2010: | Total | Due after one year | Market value | Unrealized gain (loss) |
| Currency related derivatives: | | | | |
| Foreign exchange forward contracts: | | | | |
| To buy U.S. dollars | ¥5,890 | – | ¥5,863 | (¥27) |
| To sell U.S. dollars | ¥24,612 | – | ¥22,861 | ¥1,751 |
| | | | | ¥1,724 |
| Currency swaps: | | | | |
| Receive / JPY Floating rate Pay / USD Fixed rate | ¥5,000 | ¥2,300 | ¥840 | ¥840 |
| | | | | ¥840 |

| | Millions of Japanese yen | | | |
|---|---|---|---|---|
| | Notional amount | | | |
| 2009: | Total | Due after one year | Market value | Unrealized gain (loss) |
| Currency related derivatives: | | | | |
| Foreign exchange forward contracts: | | | | |
| To buy Singapore dollars | ¥349 | – | ¥354 | ¥5 |
| To sell U.S. dollars | ¥10,648 | – | ¥10,953 | ¥(305) |
| | | | | ¥(300) |
| Currency swaps: | | | | |
| Receive/JPY and pay/USD | ¥5,700 | 5,000 | 431 | ¥431 |
| | | | | ¥431 |
| Interest related derivatives: | | | | |
| Currency and interest rate swaps: | | | | |
| Receive / JPY Floating rate Pay / USD Fixed rate | ¥1,156 | 1,156 | 17 | ¥17 |
| | | | | ¥17 |

| 2010: | Thousands of U.S. dollars (Note 1 (a)) Notional amount Total | Due after one year | Market value | Unrealized gain (loss) |
|---|---|---|---|---|
| Currency related derivatives: | | | | |
| Foreign exchange forward contracts: | | | | |
| To buy U.S. dollars | $72,247 | – | $71,925 | ($322) |
| To sell U.S. dollars | $301,915 | – | $280,429 | $21,486 |
| | | | | $21,164 |
| Currency swaps: | | | | |
| Receive/JPY and pay/USD | $61,335 | $28,214 | $10,306 | $10,306 |
| | | | | $10,306 |

## (b) The following tables summarize market value information as of December 31, 2010 of derivative transactions for which hedge accounting has been applied

| 2010<br>Currency related derivatives | Hedge Items | Millions of Japanese yen<br>Contract Amount<br>Total | Due after one year | Market Value |
|---|---|---|---|---|
| Forward contract (Principle method) | Accounts payable – trade and others | | | |
| To buy STG pounds | | ¥129 | – | ¥129 |
| To buy Euro | | 338 | – | 337 |
| | | | | ¥466 |

| 2010<br>Currency related derivatives | Hedge Items | Thousands of U.S. dollars (Note 1 (a))<br>Contract Amount<br>Total | Due after one year | Market Value |
|---|---|---|---|---|
| Forward contract (Principle method) | Accounts payable – trade and others | | | |
| To buy STG pounds | | $1,588 | – | $1,582 |
| To buy Euro | | 4,148 | – | 4,128 |
| | | | | $5,710 |

| 2010<br>Interest related derivatives | Hedge Items | Millions of Japanese yen<br>Contract Amount<br>Total | Due after one year | Market Value |
|---|---|---|---|---|
| Interest rate swap (Principle method) | Long-term loans payable | | | |
| To receive float, pay fix | | ¥5,269 | ¥4,716 | (¥682) |
| Interest rate swap (Exceptional treatment) | Short-term loans payable and Long-term loans payable | | | |
| To receive float, pay fix | | 6,184 | 2,300 | (116) |
| | | | | (¥798) |

| 2010 | | Thousands of U.S. dollars (Note 1 (a)) | | |
|---|---|---|---|---|
| Interest related derivatives | | Contract Amount | | |
| | Hedge Items | Total | Due after one year | Market Value |
| Interest rate swap (Principle method) | Long-term loans payable | | | |
| To receive float, pay fix | | $64,639 | $57,845 | ($8,372) |
| Interest rate swap (Exceptional treatment) | Short-term loans payable and Long-term loans payable | | | |
| To receive float, pay fix | | 75,855 | 28,214 | (1,427) |
| | | | | ($9,799) |

## 16. Business Combinations

Transactions applied to purchase method during the year ended December 31, 2010.

### (1) Outline of the business combination

(a) Name of company acquired and its businesses
Name of company :MODEC VENTURE 11 B.V.
Line of Business :Charter of FPSO

(b) Main reason for the business combination
It is expected that steady production from the charter project contribute to the mid-and-long term expansion of profit of MODEC Group

(c) Date of business combination
December 31, 2010

(d) Legal form of business combination
Acquisition of shares for cash consideration

(e) Name of entity after business combination
MODEC VENTURE 11 B.V.

(f) Percentage share of voting rights acquired

| | |
|---|---|
| Before business combination | 40% |
| Additional share acquired at the date of business combination | 20% |
| Total | 60% |

(g) Main reason for deciding acquired company
It is because the Company acquired the share for cash consideration

### (2) Period of business results of the acquired company included in the financial statements

Since the company was regarded as being acquired on December 31, 2010, none of its business results is included in the financial statements of the Company and its subsidiaries. However, the Company includes their profits as Equity in earnings.

### (3) The measurement of acquisition cost

(a) Acquisition Cost of the Company and Breakdown of the Cost

| | | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| | | 2010 | 2010 |
| Acquisition cost of shares | Common stock of MODEC VENTURE 11 B.V. | ¥1,174 | $14,407 |
| Expenses directly incurred for acquisition | | – | – |
| Acquisition Cost - Net | | ¥1,174 | $14,407 |

(b) Gain of step acquisition is ¥ 34 million ($ 417 thousand)

### (4) Goodwill, reason for recognizing goodwill, amortization method and amortization period

(a) Amounts of goodwill
¥51 million ($624 thousand)
(b) Reason for recognizing goodwill
The acquisition cost exceeded the fair value of the company at the time of business combination and the variance between these amounts is recognized as goodwill.
(c) Method and period to amortize goodwill
Straight-line method over effective period

### (5) Amounts of assets and liabilities acquired on the day of the business combination

| | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|
| Current assets | ¥ 2,021 | $24,797 |
| Property and equipment | 8,006 | 98,214 |
| Total assets | 10,027 | 123,011 |
| Current liabilities | 3,726 | 45,702 |
| Long-term liabilities | 514 | 6,311 |
| Total liabilities | ¥ 4,240 | $ 52,013 |

## 17. Segment Information

Industry segment information for the years ended December 31, 2010 and 2009 is not disclosed because the Company and its consolidated subsidiaries operate a single business relevant to floating production facilities.

Geographical segment information by area for the years ended December 31, 2010 and 2009 is as follows:

| | Millions of Japanese yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2010: | Japan | Asia | Central and South America | North America | Others | Total | Corporate and Elimination | Consolidated |
| Sales: | | | | | | | | |
| Outside customers | ¥38,589 | ¥10,896 | ¥859 | ¥96,317 | ¥0 | ¥146,661 | – | ¥146,661 |
| Inter segment | 3,689 | 961 | — | 23,072 | 942 | 28,664 | (28,664) | — |
| Total | 42,278 | 11,857 | 859 | 119,389 | 942 | 175,325 | (28,664) | 146,661 |
| Operating expenses | 42,391 | 11,578 | 1,044 | 115,682 | 917 | 171,612 | (28,515) | 143,097 |
| Operating profit (losses) | (113) | 279 | (185) | 3,707 | 25 | 3,713 | (149) | 3,564 |
| Assets | 106,026 | 5,102 | 747 | 63,779 | 21,311 | 196,965 | (50,337) | 146,628 |

| | Millions of Japanese yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2009: | Japan | Asia | Central and South America | North America | Others | Total | Corporate and Elimination | Consolidated |
| Sales: | | | | | | | | |
| Outside customers | ¥11,832 | ¥8,773 | ¥1,001 | ¥125,405 | ¥57,215 | ¥204,226 | – | 204,226 |
| Inter segment | 5,375 | 2,694 | — | 53,188 | — | 61,257 | ¥ (61,257) | — |
| Total | 17,207 | 11,467 | 1,001 | 178,593 | 57,215 | 265,483 | (61,257) | 204,226 |
| Operating expenses | 16,206 | 11,816 | 1,163 | 176,074 | 57,087 | 262,346 | (62,289) | 200,057 |
| Operating profit (losses) | 1,001 | (349) | (162) | 2,519 | 128 | 3,137 | 1,032 | 4,169 |
| Assets | 81,972 | 5,844 | 1,061 | 81,302 | 43,584 | 213,763 | (45,398) | 168,365 |

| 2010: | Thousands of U.S. dollars (Note 1 (a)) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Japan | Asia | Central and South America | North America | Others | Total | Corporate and Elimination | Consolidated |
| Sales: | | | | | | | | |
| Outside customers | $473,363 | $133,664 | $10,532 | $1,181,515 | $2 | $1,799,076 | - | $1,799,076 |
| Inter segment | 45,255 | 11,788 | - | 283,025 | 11,551 | 351,619 | (351,619) | - |
| Total | 518,618 | 145,452 | 10,532 | 1,464,540 | 11,553 | 2,150,695 | (351,619) | $1,799,076 |
| Operating expenses | 520,012 | 142,025 | 12,811 | 1,419,059 | 11,249 | 2,105,156 | (349,793) | $1,755,363 |
| Operating profit (losses) | (1,394) | 3,427 | (2,279) | 45,481 | 304 | 45,539 | (1,826) | $43,713 |
| Assets | 1,300,621 | 62,587 | 9,165 | 782,368 | 261,416 | 2,416,157 | (617,487) | $1,798,670 |

(Remarks)

Effective from the year ended December 31, 2009, the Company adopted the new accounting standard, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Note 1 (u)). According to the new accounting policy, Operating Income decreased by ¥238 million ($2,582 thousand) and Assets decreased by ¥2,626 million ($28,517 thousand) on the North America segment.

The overseas sales of the Company and its consolidated subsidiaries for the years ended December 31, 2010 and 2009 consisted of the following:

| 2010: | Millions of Japanese yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Asia | Africa | Oceania | Central and South America | North America | Other | Total |
| Overseas sales | ¥6,901 | ¥48,292 | ¥10,316 | ¥80,137 | ¥427 | ¥225 | ¥146,298 |
| Consolidated sales | — | — | — | — | — | — | ¥146,661 |
| The ratio of consolidated sales | 4.7% | 32.9% | 7.0% | 54.6% | 0.3% | 0.2% | 99.7% |

| 2009: | Millions of Japanese yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Asia | Africa | Oceania | Central and South America | North America | Other | Total |
| Overseas sales | ¥3,764 | ¥102,027 | ¥15,054 | ¥82,136 | ¥515 | ¥290 | ¥203,786 |
| Consolidated sales | — | — | — | — | — | — | ¥204,226 |
| The ratio of consolidated sales | 1.8% | 50.0% | 7.4% | 40.2% | 0.3% | 0.1% | 99.8% |

| 2010: | Thousands of U.S. dollars (Note 1 (a)) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Asia | Africa | Oceania | Central and South America | North America | Other | Total |
| Overseas sales | $84,658 | $592,393 | $126,548 | $983,032 | $5,237 | $2,756 | $1,794,623 |
| Consolidated sales | — | — | — | — | — | — | $1,799,076 |
| The ratio of consolidated sales | 4.7% | 32.9% | 7.0% | 54.6% | 0.3% | 0.2% | 99.7% |

## 18. Related Party Transactions

Effective from the fiscal year ended December 31, 2009, the Company and the consolidated subsidiaries adopted the “Accounting Standard for Related Party Disclosures” (Statement No.11 issued by the Accounting Standards Board of Japan on October 17, 2006) and “Guidance on Accounting Standard for Related Party Disclosures” (Guidance No. 13 issued by the Accounting Standards Board of Japan on October 17, 2006).

There were no additional transactions to be disclosed in accordance with the application of this standard.

Significant related party transactions and corresponding balance between the Company and the parent company or major shareholders (corporation only) for the year ended December 31, 2010 are as follows:

| 2010 :<br>Related party | Transactions | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| MITSUI ENGINEERING & SHIPBUILDING CO., LTD. | Underwrite an issue | ¥7,809 | $95,972 |

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2010 are as follows:

| 2010 :<br>Related party | Transactions | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| RONG DOI MV12 PTE. LTD. | Guarantees of bank Loans | ¥1,335 | $16,375 |
| GAS OPPORTUNITY MV20 B.V. | Disbursement of loans for working capital | 17,536 | 215,117 |
| GAS OPPORTUNITY MV20 B.V. | Collection of loans for capital expenditure | 16,043 | 196,802 |
| JUBILEE GHANA MV21 B.V. | Guarantees of bank Loans | 16,376 | 200,885 |
| TUPI PILOT MV22 B.V. | Disbursement of loans for capital expenditure | 5,352 | 65,654 |
| TUPI PILOT MV22 B.V. | Guarantees of bank Loans | 26,165 | 320,963 |
| GUARA MV23 B.V. | Disbursement of loans for capital expenditure | 16,352 | 200,592 |
| GUARA MV23 B.V. | Guarantees of bank Loans | 5,722 | 70,191 |
| GUARA MV23 B.V. | Construction of FPSO (Sales) | 33,389 | 409,584 |
| MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD. | Construction of FPSO (Cost of sales) | 15,138 | 185,694 |

| 2010 :<br>Related party | Balances | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| MODEC VENTURE 10 B.V. | Long-term loans receivable | ¥1,630 | $20,000 |
| Espadarte MV14 B.V. | Long-term loans receivable | 1,883 | 23,100 |
| Opportunity MV18 B.V. | Long-term loans receivable | 1,761 | 21,600 |
| Song Doc MV19 B.V. | Long-term loans receivable | 2,543 | 31,200 |
| GAS OPPORTUNITY MV20 B.V. | Long-term loans receivable | 2,179 | 26,735 |
| JUBILEE GHANA MV21 B.V. | Short-term loans receivable | 16,194 | 198,651 |
| GUARA MV23 B.V. | Short-term loans receivable | 15,637 | 191,816 |
| GUARA MV23 B.V. | Accounts receivable - trade | 15,297 | 187,642 |
| MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD. | Accounts payable - trade | 4,538 | 55,669 |

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2010 are as follows:

| 2010 :<br>Related party | Transactions | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| JUBILEE GHANA MV21 B.V. | Construction of FPSO (sales) | ¥10,495 | $128,737 |
| Tupi Pilot MV22 B.V. | Construction of FPSO (sales) | 25,547 | 313,382 |

| 2010 :<br>Related party | Balances | Millions of Japanese yen | Thousands of U.S. dollars (Note 1 (a)) |
|---|---|---|---|
| JUBILEE GHANA MV21 B.V. | Accounts receivable - trade | ¥2,918 | $35,801 |
| Tupi Pilot MV22 B.V. | Accounts receivable - trade | 3,525 | 43,238 |

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2009 are as follows:

| 2009 :<br>Related party | Transactions | Millions of Japanese yen |
|---|---|---|
| Rong Doi MV12 PTE LTD. | Guarantees of bank Loans | ¥1,817 |
| Rang Dong MV17 B.V. | Collection of loans for working capital | 423 |
| Opportunity MV18 B.V. | Disbursement of loans for working capital | 2,261 |
| Opportunity MV18 B.V. | Collection of loans for capital expenditure | 20,228 |
| Song Doc MV19 B.V. | Disbursement of loans for working capital | 3,042 |
| Song Doc MV19 B.V. | Collection of loans for capital expenditure | 7,630 |
| Gas Opportunity MV20 B.V. | Guarantees of bank loans | 20,681 |
| Tupi Pilot MV22 B.V. | Guarantees of bank loans | 45,304 |
| Tupi Pilot MV22 B.V. | Disbursement of loans for capital expenditure | 19,593 |
| Tupi Pilot MV22 B.V. | Collection of loans for capital expenditure | 22,661 |

| 2009 :<br>Related party | Balances | Millions of Japanese yen |
|---|---|---|
| MODEC VENTURE 10 B.V. | Long-term loans receivable | ¥1,842 |
| Espadarte MV14 B.V. | Long-term loans receivable | 2,128 |
| Rang Dong MV17 B.V. | Long-term loans receivable | 3,679 |
| Opportunity MV18 B.V. | Long-term loans receivable | 1,989 |
| Song Doc MV19 B.V. | Long-term loans receivable | 2,874 |

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2009 are as follows:

| 2009 :<br>Related party | Transactions | Millions of Japanese yen |
|---|---|---|
| Gas Opportunity MV20 B.V. | Construction of FPSO (Cost of sales) | ¥25,905 |
| Tupi Pilot MV22 B.V. | Construction of FPOS (Cost of sales) | 42,948 |

| 2009 :<br>Related party | Balances | Millions of Japanese yen |
|---|---|---|
| Gas Opportunity MV20 B.V. | Accounts receivable - trade | ¥1,891 |
| Tupi Pilot MV22 B.V. | Accounts receivable - trade | 12,048 |

## 19. Subsequent events

Issuance of new shares through third-party allotment, business alliance with MITSUI & CO., LTD.

The Board of Directors of the Company at its meeting held on February 26, 2010, resolved to issue new shares through a third-party allotment to Mitsui Engineering & Shipbuilding Co., Ltd. (MES) and MITSUI & CO., LTD. (MITSUI), and form a business alliance with MITSUI.

1. Issuance of new shares through third-party allotment

Outline of offering

| | | |
|---|---|---|
| (1) | Number of shares to be newly issued | 9,000,000 shares of common stock |
| (2) | Issue price | 1,732 yen per share ($18.80) |
| (3) | Amount of proceeds to be raised | 15,588 million yen ($169,250 thousand) |
| (4) | Amount per share to Capital and Capital surplus | Capitalized amount to Capital : 866 yen ($9.40)<br>Capitalized amount to Capital surplus : 866 yen ($9.40) |
| (5) | Issue date | April 6, 2010 |
| (6) | Method of offering or allotment<br>(Parties to Which Shares Will Be Allotted) | Third-party allotment<br>(MES : 4,509,000 shares MITSUI : 4,491,000 shares) |
| (7) | Start date of dividend | January 1, 2010 |
| (8) | Purpose of increased capitalization | Investment for the charter project of FPSO, etc. |

2. Business alliance with MITSUI

(1) Details of the Business Alliance

With respect to the details of the business alliance, the Company and MITSUI will position themselves as each other's strategic partner and by mutually utilizing the management resources, know-how, brand and customer base, etc., will jointly promote the FPSO, etc. related business.

It will become possible for the Company to enhance its presence and competitiveness, and strength the creditworthiness.

Either of the Company and MITSUI may terminate the Business Alliance if MITSUI fails to conduct the payment for the capital Increase through the third-party allotment, by April 6, 2010.

(2) Number of shares to be newly acquired by MITSUI, and ratio to number of issued shares

MITSUI will subscribe for 4,491,000 shares of the common stock to be issued by the Company, by way of the capital increase through the third-party allotment. MITSUI is expected, as a result of such subscription, to hold common stocks accounting for 14.99% of the total number of issued shares, after the capital increase through the third-party allotment, of the Company.