Consolidated Financial Statements

MODEC, INC. and Consolidated Subsidiaries

For the Years ended December 31,
2012 and 2011
Together with Independent
Auditors' Report

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2012 and 2011

A S S E T S

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
CURRENT ASSETS:			
Cash and time deposits (Note 1(t) and 17)	¥33,367	¥17,320	$385,477
Accounts receivable – trade (Note 16, 17 and 20)	50,105	48,486	578,848
Inventories (Note 2)	6,601	2,315	76,261
Short-term loans receivable (Note 17 and 20)	3,740	6,244	43,205
Deferred tax assets (Note 13)	2,608	2,317	30,128
Other current assets	5,996	5,380	69,278
Less- Allowance for bad debts (Note 1 (j))	(414)	(345)	(4,787)
Total current assets	102,003	81,717	1,178,410
PROPERTY AND EQUIPMENT (Note 1(u) and 19):			
Buildings and structures (Note 12)	119	68	1,372
Machinery and equipment (Note 12)	1,690	1,301	19,520
Vessel	25,069	22,515	289,619
Construction in progress	886	—	10,240
Less- Accumulated depreciation	(15,340)	(11,921)	(177,224)
Net property and equipment	12,424	11,963	143,527
INTANGIBLE ASSETS (Note 4 and 12)	6,759	6,429	78,094
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3 and 17)	13,686	10,902	158,107
Long-term loans receivable from unconsolidated subsidiaries and affiliated companies (Note 17 and 20)	14,051	8,754	162,325
Deferred tax assets (Note 13)	4,396	3,435	50,784
Other investments	785	931	9,072
Total investments and other assets	32,918	24,022	380,288
Total assets	¥154,104	¥124,131	$1,780,319

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

LIABILITIES AND NET ASSETS

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
CURRENT LIABILITIES:			
Accounts payable – trade (Note 17 and 20)	¥56,918	¥46,233	$657,551
Short-term loans payable (Note 5,7 and 17)	1,125	2,000	13,000
Current portion of long-term loans payable (Note 5, 17 and 20)	2,276	3,460	26,298
Accrued expenses	5,966	3,878	68,922
Income taxes payable (Note 13)	4,296	2,746	49,634
Provision for product warranty (Note 1 (m))	2,284	1,889	26,387
Provision for loss on construction contracts (Note 1 (n))	192	—	2,217
Accrued Employees' Bonuses	9	65	103
Accrued Directors' Bonuses	11	20	133
Advances Received	8,585	1,526	99,179
Deferred tax liabilities (Note 13)	36	31	420
Other Provisions	92	74	1,060
Other current liabilities	1,450	866	16,739
Total current liabilities	83,240	62,788	961,643
LONG-TERM LIABILITIES:			
Long-term loans payable (Note 5,17 and 20)	3,593	5,256	41,508
Severance and retirement benefits for employees (Note 10)	167	168	1,926
Deferred tax liabilities (Note 13)	205	301	2,366
Other long-term liabilities	6,510	3,387	75,218
Total long-term liabilities	10,475	9,112	121,018
CONTINGENT LIABILITIES (Note 14)			
NET ASSETS :			
SHAREHOLDERS' EQUITY (Note 8):			
Common stock;			
Authorized – 102,868,000 shares			
Issued – 46,408,000 shares	20,186	20,186	233,198
Capital surplus	20,916	20,916	241,632
Retained earnings	26,940	23,027	311,233
Treasury stock, at cost	(2)	(2)	(21)
Total shareholders' equity	68,040	64,127	786,042
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Net unrealized holding losses on securities	(15)	(12)	(170)
Unrealized losses on hedging derivatives, net of tax	(8,102)	(6,579)	(93,602)
Foreign currency translation adjustments	(5,680)	(10,182)	(65,618)
Retirement liability adjustments for foreign consolidated subsidiaries	(137)	—	(1,583)
Total accumulated other comprehensive loss	(13,934)	(16,773)	(160,973)
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	6,283	4,877	72,589
Total net assets	60,389	52,231	697,658
Total liabilities and net assets	¥154,104	¥124,131	$1,780,319

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2012 and 2011

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
SALES (Note 1 (r), 19 and 20)	¥186,891	¥129,968	$2,159,093
COST OF SALES (Note 1(r) and 20)	173,265	122,352	2,001,676
Gross profit	13,626	7,616	157,417
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 1(u) and 11)	10,156	7,322	117,326
Operating profit	3,470	294	40,091
OTHER INCOME (EXPENSES):			
Interest income and dividend income	1,451	1,403	16,765
Interest expense	(497)	(613)	(5,737)
Foreign exchange gain, net	2,656	—	30,683
Foreign exchange loss, net	—	(1,001)	—
Loss on revaluation of derivatives	(453)	(387)	(5,231)
Equity in earnings of affiliates and unconsolidated subsidiaries	2,383	5,198	27,529
Impairment loss on property and equipment (Note 12)	—	(105)	—
Impairment loss on intangible assets (Note 12)	—	(173)	—
Gain on sales of subsidiaries and affiliates' stock	—	66	—
Provision of allowance for doubtful accounts	—	(305)	—
Others, net	286	160	3,297
Total other income (expenses)	5,826	4,243	67,306
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	9,296	4,537	107,397
INCOME TAXES (Note 13):			
Current	4,724	2,966	54,577
Deferred	(1,287)	(1,716)	(14,864)
INCOME BEFORE MINORITY INTERESTS	5,859	3,287	67,684
MINORITY INTERESTS	728	219	8,410
NET INCOME	¥5,131	¥3,068	$59,274

	Japanese yen		U.S. dollars
Net income per share (Note 9)	¥110.56	¥ 66.11	$1.28
Dividends per share (Note 9)	¥27.50	¥ 25.00	$0.32

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, 2012 and 2011

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012 (Note 15)	2011	2012 (Note 15)
Income before minority interests	¥5,859	¥3,287	$67,684
Other comprehensive income (loss)			
Net unrealized holding losses on securities	(3)	(2)	(37)
Unrealized gains (losses) on hedging derivatives, net of tax	216	(51)	2,494
Foreign currency translation adjustments	2,815	(249)	32,526
Share of other comprehensive income (loss) of associates accounted for using equity method	627	(8,210)	7,241
Retirement liability adjustments for foreign consolidated subsidiaries	(137)	—	(1,583)
Total	3,518	(8,512)	40,641
Comprehensive income (loss)	¥9,377	¥ (5,225)	$108,325

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
Comprehensive income (loss) attributable to owners of the parent	¥7,970	¥ (5,169)	$92,074
Comprehensive income (loss) attributable to owners of minority interests	¥1,407	¥ (56)	$16,251

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, 2012 and 2011

Millions of Japanese yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding losses on securities	Unrealized losses on hedging derivatives, net of tax	Foreign currency translation adjustments	Retirement liability adjustments for foreign consolidated subsidiaries	Minority interests in consolidated subsidiaries	Total net assets
Balance at January 1, 2011	¥20,186	¥20,916	¥21,066	¥ (2)	¥ (9)	¥ (123)	¥ (8,403)	–	¥4,693	¥58,324
Net income			3,068							3,068
Cash dividends paid			(1,102)							(1,102)
Decrease due to changes in fair market values of available-for-sale securities					(3)					(3)
Unrealized losses on hedging derivatives, net of tax						(6,461)				(6,461)
Adjustments from translation of foreign currency financial statements							(1,779)			(1,779)
Retirement liability adjustments for foreign consolidated subsidiaries										–
Increase in minority interests in consolidated subsidiaries									184	184
Others			(5)			5				0
Balance at January 1, 2012	¥20,186	¥20,916	¥23,027	¥ (2)	¥ (12)	¥ (6,579)	¥ (10,182)	–	¥4,877	¥52,231
Net income			5,131							5,131
Cash dividends paid			(1,218)							(1,218)
Decrease due to changes in fair market values of available-for-sale securities					(3)					(3)
Unrealized losses on hedging derivatives, net of tax						(1,523)				(1,523)
Adjustments from translation of foreign currency financial statements							4,502			4,502
Adjustments from retirement liability for foreign consolidated subsidiaries								(137)		(137)
Increase in minority interests in consolidated subsidiaries									1,406	1,406
Others										–
Balance at December 31, 2012	¥20,186	¥20,916	¥26,940	¥ (2)	¥(15)	¥(8,102)	¥(5,680)	¥(137)	¥6,283	¥60,389

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

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

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding losses on securities	Unrealized losses on hedging derivatives, net of tax	Foreign currency translation adjustments	Retirement liability adjustments for foreign consolidated subsidiaries	Minority interests in consolidated subsidiaries	Total net assets
Balance at January 1, 2012	$233,198	$241,632	$266,032	$ (21)	$ (133)	$ (76,009)	$ (117,630)	—	$56,337	$603,406
Net income			59,274							59,274
Cash dividends paid			(14,073)							(14,073)
Decrease due to changes in fair market values of available-for-sale securities					(37)					(37)
Unrealized losses on hedging derivatives, net of tax						(17,593)				(17,593)
Adjustments from translation of foreign currency financial statements							52,012			52,012
Adjustments from retirement liability for foreign consolidated subsidiaries								(1,583)		(1,583)
Increase in minority interests in consolidated subsidiaries									16,252	16,252
Others										—
Balance at December 31, 2012	$233,198	$241,632	$311,233	$ (21)	$(170)	$(93,602)	$(65,618)	$(1,583)	$72,589	$697,658

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2012 and 2011

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥9,296	¥4,537	$107,397
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,980	2,773	34,431
Amortization of goodwill	287	258	3,315
Increase (Decrease) of allowance for bad debts	65	32	750
Provision of (reversal of) allowance for doubtful accounts	—	305	—
Increase (Decrease) of severance and retirement benefits for employees	(1)	9	(16)
Increase (Decrease) of accrued directors' bonuses	(9)	7	(101)
Increase (Decrease) of provision for product warranty	368	(597)	4,257
Increase (Decrease) of provision for loss on construction contracts	192	—	2,217
Interest income and dividend income	(1,451)	(1,403)	(16,765)
Interest expense	497	613	5,737
Foreign exchange loss (gain)	(1,814)	717	(20,954)
Loss (gain) on revaluation of derivatives	453	387	5,231
Equity in earnings of affiliates and unconsolidated subsidiaries	(2,383)	(5,198)	(27,529)
Impairment loss on property and equipment	—	105	—
Impairment loss on intangible assets	—	173	—
Gain on sales of subsidiaries and affiliates' stock	—	(66)	—
Changes in assets and liabilities:			
Decrease (Increase) in			
– Accounts receivable - trade	6,626	(4,807)	76,550
– Inventories	(4,080)	(1,482)	(47,132)
Increase (Decrease) in			
– Accounts payable - trade	9,391	9,016	108,492
– Consumption tax payable	88	(39)	1,016
– Long-term accounts payable	—	(302)	—
Others, net	2,278	(523)	26,309
	22,783	4,515	263,205
Interest and dividend received	3,905	3,761	45,116
Interest paid	(502)	(648)	(5,800)
Income taxes paid	(3,290)	(2,836)	(38,010)
Net cash provided by (used in) operating activities	¥22,896	¥4,792	$264,511

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

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment and intangible assets	¥(2,067)	¥ (1,364)	$(23,883)
Proceeds from sale on property and equipment and intangible assets	4	0	46
Purchases of investments in affiliates	(934)	(3,347)	(10,790)
Decrease (Increase) in short-term loans receivable	3,616	30,794	41,781
Disbursement of long-term loans receivable	(4,495)	(3,344)	(51,932)
Collection of long-term loans receivable	674	—	7,784
Purchases of investment in subsidiaries	—	(1,222)	—
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	—	(64)	—
Net cash provided by (used in) investing activities	(3,202)	21,453	(36,994)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (Decrease) in short-term loans payable	(1,154)	(14,412)	(13,327)
Repayment of long-term loans payable	(3,513)	(5,150)	(40,584)
Cash dividends paid	(1,221)	(1,101)	(14,107)
Repayments of finance lease obligations	(10)	—	(117)
Net cash provided by (used in) financing activities	(5,898)	(20,663)	(68,135)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,251	(384)	26,002
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,047	5,198	185,384
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,320	12,122	200,093
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1 (t))	¥33,367	¥17,320	$385,477

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, 2012, which was ¥86.56 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, 2012 and 21 of its subsidiaries for the year ended December 31, 2011. Material inter-company balances, transactions and profits have been eliminated in consolidation.

Investments in significant unconsolidated subsidiaries and affiliates, which were 16 companies for the year ended December 31, 2012 and 15 companies for the year ended December 31, 2011 were accounted for by using the equity method.

Another 3 subsidiaries for the year ended December 31, 2012 and for the year ended December 31, 2011 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 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 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).

(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 lives mainly of 5 years, and amortizes intangible assets using the straight-line method based on the 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) 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 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.

(k) Accrued Employees' Bonuses

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

(l) Accrued Directors' Bonuses

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

(m) Provision for Product Warranty

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

(n) Provision for Loss on Construction Contracts

Provision for loss on construction contracts is provided based on an estimate of the total losses which can probably occur in the next financial year and beyond with respect to construction projects on which eventual losses are deemed inevitable and amounts thereof can be reasonably estimated.

(o) 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.

(p) Translation of Foreign Currency Accounts

Foreign currency transactions are translated into Japanese yen using the exchange rate in effect at the time of each transaction or at the applicable exchange rates under forward exchange contracts.

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at appropriate year-end current exchange rates, and the resulting gains or losses are recorded in other income (expenses) in the statements of income.

Financial statements of consolidated overseas subsidiaries are translated into 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 as a component of net assets in the balance sheets.

(q) Derivative Transactions and Hedge Accounting

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

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

However, in cases where forward foreign exchange contracts 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.

(r) Revenue Recognition

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.

(s) Income Taxes

The Company provides income taxes at the amounts currently payable based on taxable income for tax purposes that may be different from income for 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.

(t) 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, 2012 and 2011 are as follows:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
Cash and time deposits	¥33,367	¥17,320	$385,477
Less : Time deposits with maturities exceeding three months	—	—	—
Cash and cash equivalents	¥33,367	¥17,320	$385,477

(Changes of Accounting Policies)

(u) Change in Accounting Estimates in depreciation

In response to Japan's recent corporate tax law amendments and effective from the year ended December 31, 2012, the method which the Company uses for depreciation of property and equipments acquired on or after April 1, 2012 has been adjusted to reflect the revised corporate tax code. This adoption had no material effect on the consolidated financial statements.

(v) Accounting standards for Asset Retirement Obligations and its Implementation Guidance

Effective from the year ended December 31, 2011, the Company and its subsidiaries have adopted the new accounting standard, "Accounting Standard for Asset Retirement Obligations" (Statement No.18 issued by the Accounting Standards Board of Japan on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (Guidance No.21 issued by the Accounting Standards Board of Japan on March 31, 2008). As a result of adopting these standards, operating profit and income before income taxes and minority interests decreased by ¥11 million for the year ended December 31, 2011.

(w) Accounting Standard for Equity Method of Accounting for Investments and Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method

Effective from the year ended December 31, 2011, the Company and its subsidiaries have adopted the new accounting standard, "Accounting Standard for Equity Method of Accounting for Investments" (Statement No. 16 issued by the Accounting Standards Board of Japan on March 10, 2008) and "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). This adoption had no effect on the consolidated financial statements.

(Additional Information)

Effective from the year ended December 31, 2012, the Company and its subsidiaries have adopted the new accounting standard, "Accounting Standard for Accounting Changes and Error Corrections" (Statement No.24 issued by the Accounting Standards Board of Japan on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections (Guidance No. 24 issued by the Accounting Standards Board of Japan on December 4, 2009)

2. <u>Inventories</u>

Inventories as of December 31, 2012 and 2011 consisted of the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
Raw materials	¥3,771	¥919	$43,562
Costs of uncompleted contracts	2,830	1,396	32,699
	¥6,601	¥2,315	$76,261

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, 2012 and 2011

	Millions of Japanese yen		
2012 :	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	¥92	¥(23)
Sub Total	115	92	(23)
Total	¥115	¥92	¥(23)

	Millions of Japanese yen		
2011 :	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	¥95	¥(20)
Sub Total	115	95	(20)
Total	¥115	¥95	¥(20)

	Thousands of U.S. dollars (Note 1 (a))		
2012 :	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	$1,326	$1,061	$(265)
Sub Total	1,326	1,061	(265)
Total	$1,326	$1,061	$(265)

4. Goodwill

Goodwill recorded in intangible assets as of December 31, 2012 and 2011 were ¥ 3,310 million ($ 38,285 thousand) and ¥ 3,230 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 0.8% and 0.7% as of December 31, 2012 and 2011, respectively.

Long-term loans payable as of December 31, 2012 and 2011 are summarized below:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
Loans from banks and others due through 2018	¥5,869	¥8,716	$67,806
Less: Current portion included in current liabilities, at average rate of 3.3%	(2,276)	(3,460)	(26,298)
Loans from banks and others, at average rate of 0.9% due through 2018 (Excluding current portion)	¥3,593	¥5,256	$41,508

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))
2013	¥2,276	$26,298
2014	593	6,850
2015	319	3,681
2016	339	3,916
2017	2,255	26,051
2018	87	1,010
	¥5,869	$67,806

6. Asset Retirement Obligation

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

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

7. Unexecuted Balance of Overdraft Facilities and Lending Commitment

The Company has a commitment line agreement with a syndicate of six financial institutions, an overdraft facility agreement with one financial institution and a notes payable agreement denominated in U.S. dollars with five financial institutions for the purpose of efficient providing operating funds. The commitment line amount is $110,000 thousand as of December 31, 2012 and 2011 without any drawdown. The overdraft facility line amount is ¥3,000 million ($34,658 thousand) without any drawdown as of December 31, 2012 and with the unexecuted balance of ¥1,000 million as of December 31, 2011. The unexecuted balance of notes payable denominated in U.S. dollars is $ 136,000 thousand as of December 31, 2012 and $ 104,000 thousand as of December 31, 2011.

8. Shareholder's 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 29, 2012, the shareholders approved cash dividends amounting to ¥580 million for the year ended December 31, 2011.

At the annual shareholders' meeting held on March 28, 2013, the shareholders approved cash dividends amounting to ¥638 million ($7,372 thousand). Such appropriations have not been accrued in the consolidated financial statements as of December 31, 2012. Such appropriations are recognized in the period in which they are approved by the shareholders.

9. 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, 2012 and 2011.

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.

10. 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, 2012 and 2011 consisted of the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
Projected benefit obligation	¥167	¥168	$1,926
Severance and retirement benefits for employees	¥167	¥168	$1,926

Severance and retirement benefit expenses recorded in the consolidated statements of income for the years ended December 31, 2012 and 2011 consisted of the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
Service costs – benefits earned during the year	¥24	¥45	$279
Others	33	25	384
Severance and retirement benefit expenses	¥57	¥70	$663

11. Research and Development Expenses

Research and development expenses recorded in selling, general and administration expenses are ¥596 million ($6,880 thousand) and ¥324 million for the years ended December 31, 2012 and 2011 respectively.

12. Impairment losses on property, equipment and intangible assets

Impairment losses on property, equipment and intangible assets for the year ended December 31, 2011 consisted of the following:

(a) Overview of the impairment losses on property, equipment and intangible assets

Location	Use	Type of assets	Millions of Japanese yen
Japan	Office	Buildings and structures Machinery and Equipments	¥105
Singapore	Inspection	Intangible asset	¥173

(b) Grouping Unit

The business assets have been grouped by each company.

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

In conjunction with the Company decision to relocate its office and to dispose the fixed assets, the Company reduced the carrying amount of the fixed assets to the recoverable amount and recognized the impairment loss ¥105 million.

The subsidiary in Singapore reduced the carrying amount of the intangible asset of inspection to its recoverable amount due to a downturn in profitability and recognized the impairment loss ¥173 million.

(d) The measurement of the impairment losses

The Company measured the recoverable amount based on a value in use which was not discounted due to the remaining useful lives of the fixed assets were less than one year.

The subsidiary in Singapore measured the recoverable amount based on a value in use and calculated by discounting future cash flow at an interest rate of 1.9%.

13. 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, 2012 and 2011.

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, 2012 and 2011.

	2012	2011
Statutory income tax rate	41.0%	41.0%
Difference of statutory tax rate between the Company and overseas subsidiaries	(1.8)	(10.0)
Equity in earnings of affiliates and unconsolidated subsidiaries	(10.5)	(47.0)
Valuation Allowance	5.0	11.9
Income of foreign subsidiaries taxed at lower than Japanese normal rate	1.2	20.5
Income taxes for prior periods	0.6	5.0
Deferred tax assets resulted from the change of the effective corporate tax rate	―	2.5
Others	1.5	3.6
Effective tax rate	37.0%	27.5%

2) Significant components of deferred tax assets and liabilities as of December 31, 2012 and 2011 are as follows:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
Deferred tax assets:			
Current assets:			
Enterprise tax payable	¥179	¥42	$2,070
Accrued employees' bonuses	3	26	39
Provision for product warranty	470	230	5,428
Provision for loss on construction contracts	73	—	842
Allowance for bad debts	155	139	1,791
Impairment loss	—	48	—
Foreign tax credit	—	191	—
Other Provisions	1,233	1,553	14,246
Tax loss carry forward	—	485	—
Undistributed profits in a tax haven	—	135	—
Others	1,354	414	15,633
Sub total	3,467	3,263	40,049
Valuation Allowance	(661)	(741)	(7,632)
Offset to deferred tax liabilities (short-term)	(198)	(205)	(2,289)
Total	2,608	2,317	30,128
Fixed assets:			
Unrealized inter-company profit on fixed assets	3,475	2,917	40,146
Tax loss carry forward	2,378	533	27,468
Long-term foreign exchange losses	282	1,212	3,263
Severance and retirement benefits for employees	60	61	693
Depreciation	406	418	4,695
Long-term foreign tax credit	389	161	4,491
Temporary difference for investment in subsidiaries	978	—	11,302
Others	402	63	4,640
Sub total	8,370	5,365	96,698
Valuation allowance	(2,370)	(288)	(27,384)
Offset to deferred tax liabilities (long-term)	(1,604)	(1,642)	(18,530)
Total	4,396	3,435	50,784
Total deferred tax assets	¥7,004	¥5,752	$80,912

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
Deferred tax liabilities:			
Current liabilities:			
Temporary difference of foreign exchange gain in overseas subsidiaries	¥(79)	¥(96)	$(915)
Others	(155)	(140)	(1,794)
Sub total	(234)	(236)	(2,709)
Offset to deferred tax assets (short-term)	198	205	2,289
Total	(36)	(31)	(420)
Long-term liabilities:			
Depreciation	(829)	(755)	(9,581)
Difference on percentage-of-completion method	(510)	(241)	(5,889)
Undistributed earnings of overseas subsidiaries	(396)	(947)	(4,579)
Others	(74)	—	(847)
Sub total	(1,809)	(1,943)	(20,896)
Offset to deferred tax assets (long-term)	1,604	1,642	18,530
Total	(205)	(301)	(2,366)
Total deferred tax liabilities	(241)	(332)	(2,786)
Net deferred tax assets	¥6,763	¥5,420	$78,126

3) The revision of the corporate income tax rate after December 31, 2011

The "Reform bill for partial revision of income tax law, etc. in response to the changing economic structure" (Bill No.114, 2011) and "Special measure to secure the funds to realize the restoration of the damages following the Great East Japan Earthquake" (Bill No.117, 2011) were promulgated on December 2, 2011.

From the year beginning on or after January 1, 2013, the reduced corporate income tax rate and the special surtax for the restoration of the damages following the Great East Japan Earthquake is enacted.

38.0% is applied to the temporary differences which are expected to be eliminated from the year beginning on or after January 1, 2013 to the year beginning on or after January 1, 2015. And 36.0% is applied to the temporary differences which are expected to be eliminated on or after January 1, 2016.

Applying this revision, the deferred tax expense increased by ¥115 million and the long-term deferred tax asset decreased by ¥115 million from the year ended December 31, 2011.

14. Contingent Liabilities and Commitments

As of December 31, 2012 and 2011, the Company was contingently liable for the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2012	2011	2012
Guarantees of bank loans and other indebtedness for unconsolidated subsidiaries and affiliates	¥50,906	¥33,880	$588,103
Guarantees of interest rate swap contracts for unconsolidated subsidiaries and affiliates	—	—	—

For the years ended December 31, 2012 and 2011, the fair market values of swap contracts are included in the consolidated financial statements due to the adoption of “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (PITF No.24 issued by the Accounting Standards Board of Japan on March 10, 2008).

15. Comprehensive Income

Each component of other comprehensive income for the year ended of December 31, 2012 was the followings:-

	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
	2012	2012
Net unrealized holding gains / (losses) on securities :		
Amount of generation at this fiscal term	¥(3)	$(40)
Amount of rearrangement adjustment	—	—
Before adjusting the tax effect	(3)	(40)
Tax effect	0	3
Net unrealized holding gains / (losses) on securities	(3)	(37)
Unrealized gains / (losses) on hedging derivatives, net of tax		
Amount of generation at this fiscal term	489	5,649
Amount of rearrangement adjustment	(273)	(3,155)
Before adjusting the tax effect	216	2,494
Tax effect	—	—
Unrealized gains / (losses) on hedging derivatives, net of tax	216	2,494
Foreign currency translation adjustments		
Amount of generation at this fiscal term	2,581	29,820
Amount of rearrangement adjustment	—	—
Before adjusting the tax effect	2,581	29,820
Tax effect	234	2,706
Foreign currency translation adjustments	2,815	32,526
Retirement liability adjustments for foreign consolidated subsidiaries		
Amount of generation at this fiscal term	(137)	(1,583)
Amount of rearrangement adjustment	—	—
Before adjusting the tax effect	(137)	(1,583)
Tax effect	—	—
Retirement liability adjustments for foreign consolidated subsidiaries	(137)	(1,583)
Share of other comprehensive income / (loss) of associates accounted for using equity method		
Amount of generation at this fiscal term	1,046	12,079
Amount of rearrangement adjustment	(419)	(4,838)
Share of other comprehensive income / (loss) of associates accounted for using equity method	627	7,241
Total	¥3,518	$40,641

16. 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))
	2012	2011	2012
Due within one year	¥1,099	¥990	$12,702
Due after one year	4,218	4,775	48,720
Total	¥5,317	¥5,765	$61,422

17. 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 years ended December 31, 2012 and 2011 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.

2012	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥33,367	¥33,367	—
(2) Accounts receivable – trade	50,105	50,105	—
(3) Short-term loans receivable	3,740	3,740	—
(4) Investment securities	92	92	—
(5) Long-term loans receivable	14,051	15,494	1,443
Assets total	¥101,355	¥102,798	¥1,443
(6) Accounts payable – trade	¥56,918	¥56,918	—
(7) Short-term loans payable	1,125	1,125	—
(8) Current portion of long-term loans payable	2,276	2,276	—
(9) Long-term loans payable	3,593	3,593	—
Liabilities total	¥63,912	¥63,912	—
(10) Derivative transactions *			
i) Derivative transactions for which hedge accounting has not been applied	—	—	—
ii) Derivative transactions for which hedge accounting has been applied	¥(590)	¥(590)	—
Derivative transactions total	¥(590)	¥(590)	—

2011	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥17,320	¥17,320	—
(2) Accounts receivable – trade	48,486	48,486	—
(3) Short-term loans receivable	6,244	6,244	—
(4) Investment securities	95	95	—
(5) Long-term loans receivable	8,754	10,015	1,261
Assets total	¥80,899	¥82,160	¥1,261
(6) Accounts payable – trade	¥46,233	¥46,233	—
(7) Short-term loans payable	2,000	2,000	—
(8) Current portion of long-term loans payable	3,460	3,460	—
(9) Long-term loans payable	5,256	5,231	(25)
Liabilities total	¥56,949	¥56,924	¥ (25)
(10) Derivative transactions *			
i) Derivative transactions for which hedge accounting has not been applied	¥453	¥453	—
ii) Derivative transactions for which hedge accounting has been applied	(716)	(716)	—
Derivative transactions total	¥ (263)	¥ (263)	—

2012	Thousands of U.S. dollars (Note 1 (a))		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	$385,477	$385,477	—
(2) Accounts receivable – trade	578,848	578,848	—
(3) Short-term loans receivable	43,205	43,205	—
(4) Investment securities	1,061	1,061	—
(5) Long-term loans receivable	162,325	178,995	16,670
Assets total	$ 1,170,916	$1,187,586	$16,670
(6) Accounts payable – trade	$657,551	$657,551	—
(7) Short-term loans payable	13,000	13,000	—
(8) Current portion of long-term loans payable	26,298	26,298	—
(9) Long-term loans payable	41,508	41,508	—
Liabilities total	$738,357	$738,357	—
(10) Derivative transactions *			
i) Derivative transactions for which hedge accounting has not been applied	—	—	—
ii) Derivative transactions for which hedge accounting has been applied	(6,820)	(6,820)	—
Derivative transactions total	$(6,820)	$(6,820)	—

*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 time 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 Note 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 Note 18. 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))
	2012	2011	2012
Unlisted equity securities	¥13,594	¥10,807	$157,046

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 December 31, 2012 and 2011are as follows:

2012	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	¥33,367	—	—	—
Accounts receivable – trade	50,105	—	—	—
Short-term loans receivable	3,740	—	—	—
Long-term loans receivable	—	8,561	5,490	—

2011	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	¥17,320	–	–	–
Accounts receivable – trade	48,486	–	–	–
Short-term loans receivable	6,244	–	–	–
Long-term loans receivable	–	4,221	3,173	1,360

2012	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 time deposits	$385,477	–	–	–
Accounts receivable – trade	578,848	–	–	–
Short-term loans receivable	43,205	–	–	–
Long-term loans receivable	–	98,899	63,426	–

(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))
2014	¥593	$6,850
2015	319	3,681
2016	339	3,916
2017	2,255	26,051
2018	87	1,010
Total	¥3,593	$41,508

18. 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, 2011 of derivative transactions for which hedge accounting has not been applied:

	Millions of Japanese yen			
	Notional amount			
2011:	Total	Due after one year	Market value	Unrealized gain (loss)
Currency swaps:				
Receive / JPY Floating rate	—	—	—	—
Pay / USD Fixed rate	¥2,300	—	¥453	¥453
				¥453

(b) The following tables summarize market value information as of December 31, 2012 and 2011 of derivative transactions for which hedge accounting has been applied

2012		Millions of Japanese yen		
Currency related derivatives		Contract Amount		
Type	Hedged Items	Total	Due after one year	Market Value
Forward contract (Principle method)	Accounts payable – trade and others			
To buy STG pounds		¥11	–	¥0
To buy Euro		340	¥ 44	10
To buy Norwegian krone		815	–	35
				¥45

2011		Millions of Japanese yen		
Currency related derivatives		Contract Amount		
Type	Hedged Items	Total	Due after one year	Market Value
Forward contract (Principle method)	Accounts payable – trade and others			
To buy STG pounds		¥80	–	¥ (3)
To buy Euro		539	–	(18)
To buy Norwegian krone		1,522	–	(18)
				¥ (39)

2012		Thousands of U.S. dollars (Note 1 (a))		
Currency related derivatives		Contract Amount		
Type	Hedged Items	Total	Due after one year	Market Value
Forward contract (Principle method)	Accounts payable – trade and others			
To buy STG pounds		$122	–	$3
To buy Euro		3,933	$ 507	114
To buy Norwegian krone		9,420	–	402
				$519

2012

Interest related derivatives

Type	Hedged Items	Millions of Japanese yen		
		Contract Amount		
		Total	Due after one year	Market Value
Interest rate swap (Principle method)	Long-term loans payable			
To receive float, pay fix		¥4,389	¥3,738	¥(635)
				¥(635)

2011

Interest related derivatives

Type	Hedged Items	Millions of Japanese yen		
		Contract Amount		
		Total	Due after one year	Market Value
Interest rate swap (Principle method)	Long-term loans payable			
To receive float, pay fix		¥4,497	¥3,942	¥ (677)
Interest rate swap (Exceptional treatment)	Short-term loans payable and Long-term loans payable			
To receive float, pay fix		2,300	−	(note 1)
				¥ (677)

2012

Interest related derivatives

Type	Hedged Items	Thousands of U.S. dollars (Note 1 (a))		
		Contract Amount		
		Total	Due after one year	Market Value
Interest rate swap (Principle method)	Long-term loans payable			
To receive float, pay fix		$50,702	$43,185	$(7,339)
				$(7,339)

(note 1) Effective from January 1, 2011, interest rate swap evaluated by exceptional treatment is treated as a single item and market value evaluated by exceptional treatment is included in the market value of the current portion of long-term loans payable.

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 and overview of reportable segment is omitted.

(2) Information by products and services

The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as single business and information by products and services is omitted.

(3) Information by geographical area

(a) Sales

2012:

Millions of Japanese yen

Brazil	Angola	Oceania	Asia	Other	Total
¥129,035	¥19,960	¥13,095	¥13,506	¥11,295	¥186,891

2011:

Millions of Japanese yen					
Brazil	Angola	Oceania	Asia	Other	Total
¥76,050	¥24,464	¥11,197	¥8,959	¥9,298	¥129,968

2012:

Thousands of U.S. dollars (Note 1 (a))					
Brazil	Angola	Oceania	Asia	Other	Total
$1,490,698	$230,589	$151,286	$156,028	$130,492	$2,159,093

(Note) Sales amount is based on the place of customer and classified by country or geographical area.

(b) Property and equipment

2012:

Millions of Japanese yen			
Australia	Vietnam	Other	Total
¥6,059	¥5,426	¥939	¥12,424

2011:

Millions of Japanese yen			
Australia	Vietnam	Other	Total
¥5,985	¥5,349	¥629	¥11,963

2012:

Thousands of U.S. dollars (Note 1 (a))			
Australia	Vietnam	Other	Total
$69,999	$62,690	$10,838	$143,527

(4) Information by major customer

2012:

	Millions of Japanese yen	
Customer	Sales	Related Segment
CERNAMBI SUL MV24 B.V.	¥45,282	(note 1)
OSX 3 LEASING B.V.	40,640	(note 1)
GUARA MV23 B.V.	25,775	(note 1)
BP EXPLORATION (ANGOLA) LTD.	19,960	(note 1)

2011:

	Millions of Japanese yen	
Customer	Sales	Related Segment
GUARA MV23 B.V.	¥33,817	(note 1)
BP EXPLORATION (ANGOLA) LTD.	24,464	(note 1)
OSX 3 LEASING B.V.	16,044	(note 1)

2012:

Customer	Sales	Related Segment
	Thousands of U.S. dollars (Note 1 (a))	
CERNAMBI SUL MV24 B.V.	$523,133	(note 1)
OSX 3 LEASING B.V.	469,507	(note 1)
GUARA MV23 B.V.	297,769	(note 1)
BP EXPLORATION (ANGOLA) LTD.	230,589	(note 1)

(note 1) The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as single business and related segment is omitted.

[Information about losses on impairment of property and equipment for each Reportable Segment]

Not applicable.

[Information about goodwill amortization amount and year-end balance for each Reportable Segment]

Not applicable.

[Information about gains on negative goodwill for each Reportable Segment]

Not applicable.

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, 2012 are as follows:

2012 Related party	Transactions	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
ESPADARTE MV14 B.V.	Collection of loans for working capital	¥424	$4,900
PRA-1 MV15 B.V.	Collection of loans for working capital	250	2,884
GUARA MV23 B.V.	Construction of FPSO (Sales)	22,935	264,964
GUARA MV23 B.V.	Disbursement of loans for capital expenditure	17,383	200,823
GUARA MV23 B.V.	Collection of loans for capital expenditure	18,392	212,473
GUARA MV23 B.V.	Guarantees of bank Loans	33,923	391,905
CERNAMBI SUL MV24 B.V.	Construction of FPSO (Sales)	9,223	106,555
CERNAMBI SUL MV24 B.V.	Disbursement of loans for capital expenditure	10,462	120,859
CERNAMBI SUL MV24 B.V.	Collection of loans for capital expenditure	10,299	118,979
CERNAMBI SUL MV24 B.V.	Guarantees of bank Loans	12,495	144,354
CERNAMBI NORTE MV26 B.V.	Disbursement of loans for capital expenditure	3,098	35,787
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Construction of FPSO (Cost of sales)	16,653	192,391

2012:

Related party	Balances	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
ESPADARTE MV14 B.V.	Long-term loans receivable	¥1,741	$20,109
PRA-1 MV15 B.V.	Long-term loans receivable	1,864	21,531
OPPORTUNITY MV18 B.V.	Long-term loans receivable	1,870	21,600
SONG DOC MV19 B.V.	Long-term loans receivable	2,701	31,200
GAS OPPORTUNITY MV20 B.V.	Long-term loans receivable	2,314	26,735
TUPI PILOT MV22 B.V.	Long-term loans receivable	3,532	40,800
GUARA MV23 B.V.	Accounts receivable - trade	13,080	151,108
CERNAMBI SUL MV24 B.V.	Accounts receivable - trade	4,598	53,120
CERNAMBI SUL MV24 B.V.	Long-term loans receivable	5,500	63,534
CERNAMBI NORTE MV26 B.V.	Short-term loans receivable	3,307	38,205
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Accounts payable - trade	5,554	64,164

Significant related party balances between the consolidated subsidiaries and the parent company or major shareholders (corporation only) for the year ended December 31, 2012 are as follows:

2012:

Related party	Balances	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
MITSUI & CO., LTD.	Current portion of long-term loans payable	¥758	$8,760
MITSUI & CO., LTD.	Long-term loans payable	1,409	16,275

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2012 are as follows:

2012:

Related party	Transactions	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
CERNAMBI SUL MV24 B.V.	Construction of FPSO (Sales)	¥38,422	$443,882

2012:

Related party	Balances	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
CERNAMBI SUL MV24 B.V.	Accounts receivable - trade	¥5,620	$64,929

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2011 are as follows:

2011 :

Related party	Transactions	Millions of Japanese yen
JUBILEE GHANA MV21 B.V.	Disbursement of loans for capital expenditure	¥2,182
JUBILEE GHANA MV21 B.V.	Collection of loans for capital expenditure	17,511
TUPI PILOT MV22 B.V.	Disbursement of loans for working capital	7,908
TUPI PILOT MV22 B.V.	Collection of loans for capital expenditure	9,810
GUARA MV23 B.V.	Construction of FPSO (Sales)	34,426
GUARA MV23 B.V.	Disbursement of loans for capital expenditure	24,363
GUARA MV23 B.V.	Collection of loans for capital expenditure	39,339
GUARA MV23 B.V.	Guarantees of bank loans	29,302
CERNAMBI SUL MV24 B.V.	Construction of FPSO (Sales)	1,371
CERNAMBI SUL MV24 B.V.	Disbursement of loans for capital expenditure	4,766
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Construction of FPSO (Cost of sales)	21,333

2011 :

Related party	Balances	Millions of Japanese yen
MODEC VENTURE 10 B.V.	Short-term loans receivable	¥1,555
ESPADARTE MV14 B.V.	Long-term loans receivable	1,796
OPPORTUNITY MV18 B.V.	Long-term loans receivable	1,679
SONG DOC MV19 B.V.	Long-term loans receivable	2,425
GAS OPPORTUNITY MV20 B.V.	Long-term loans receivable	2,078
JUBILEE GHANA MV21 B.V.	Short-term loans receivable	155
TUPI PILOT MV22 B.V.	Long-term loans receivable	3,172
GUARA MV23 B.V.	Short-term loans receivable	861
GUARA MV23 B.V.	Accounts receivable - trade	9,684
CERNAMBI SUL MV24 B.V.	Short-term loans receivable	4,668
CERNAMBI SUL MV24 B.V.	Accounts receivable - trade	1,367
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Accounts payable - trade	5,490

Significant related party balances between the consolidated subsidiaries and the parent company or major shareholders (corporation only) for the year ended December 31, 2011 are as follows:

2011:

Related party	Balances	Millions of Japanese yen
MITSUI & CO., LTD.	Long-term loans payable	¥1,931

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2011 are as follows:

2011 :

Related party	Transactions	Millions of Japanese yen
JUBILEE GHANA MV21 B.V.	Construction of FPSO (Sales)	¥2,901
CERNAMBI SUL MV24 B.V.	Construction of FPSO (Sales)	7,271

2011 :

Related party	Balances	Millions of Japanese yen
JUBILEE GHANA MV21 B.V.	Accounts receivable - trade	¥1,556
CERNAMBI SUL MV24 B.V.	Accounts receivable - trade	7,228