Consolidated Financial Statements

MODEC, INC. and Consolidated Subsidiaries

For the years ended December 31,
2016 and 2015

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015

ASSETS

	Millions of Japanese yen	
	2016	2015
CURRENT ASSETS:		
Cash and time deposits (Notes 1(t), 3 and 18)	¥42,807	¥57,956
Accounts receivable – trade (Notes 17, 18 and 21)	95,544	145,752
Inventories (Note 2)	2,360	3,814
Short-term loans receivable (Notes 18 and 21)	55,012	20,239
Deferred tax assets (Note 14)	3,263	4,214
Other current assets	21,026	11,539
Less- Allowance for bad debts (Note 18)	(1,971)	(1,395)
Total current assets	218,042	242,120
PROPERTY AND EQUIPMENT (Note 20):		
Buildings and structures	130	165
Machinery and equipment	43,542	45,166
Other property and equipment	4,078	4,302
Construction in progress	186	16
Less- Accumulated depreciation	(33,776)	(31,165)
Net property and equipment	14,161	18,485
INTANGIBLE ASSETS (Notes 5 and 13)	7,420	7,476
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Notes 4 and 18)	55,162	50,987
Long-term loans receivable from affiliates (Notes 18 and 21)	28,165	27,009
Long-term time deposits (Note 3)	3,781	—
Deferred tax assets (Note 14)	2,666	4,663
Bankrupt and substantially bankrupt claims (Note 18)	—	1,823
Other investments	3,848	3,722
Less- Allowance for bad debts (Note 18)	—	(1,823)
Total investments and other assets	93,624	86,381
Total assets	¥333,249	¥354,464

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

LIABILITIES

	Millions of Japanese yen	
	2016	2015
CURRENT LIABILITIES:		
Accounts payable – trade (Notes 18 and 21)	¥96,738	¥145,230
Current portion of long-term loans payable (Notes 6 and 18)	7,812	6,044
Lease obligations	20	30
Accrued expenses	14,377	8,822
Income taxes payable (Note 14)	9,713	4,360
Advances received	5,252	4,031
Accrued employees’ bonuses	7	12
Accrued directors’ bonuses	13	14
Provision for product warranty	6,860	6,699
Provision for repairs	43	3
Other provisions	5	5
Deferred tax liabilities (Note 14)	1	0
Foreign exchange contracts	—	87
Other current liabilities	1,688	1,910
Total current liabilities	142,536	177,251
LONG-TERM LIABILITIES:		
Long-term loans payable (Notes 6 and 18)	42,478	50,219
Lease obligations	9	29
Net defined benefit liabilities (Note 11)	265	220
Liabilities from application of equity method	7,350	4,906
Other long-term liabilities	5,998	6,855
Total long-term liabilities	56,102	62,229
CONTINGENT LIABILITIES AND COMMITMENTS (Note 15)		
Total liabilities	¥198,639	¥239,481

NET ASSETS

	Millions of Japanese yen	
	2016	2015
NET ASSETS:		
SHAREHOLDERS' EQUITY (Note 9):		
Common stock		
Authorized – 102,868,000 shares in 2016 and in 2015		
Issued – 56,408,000 shares in 2016 and in 2015	¥30,122	¥30,122
Capital surplus	30,852	30,852
Retained earnings	57,227	38,259
Treasury stock, at cost		
663 shares in 2016 and in 2015	(1)	(1)
Total shareholders' equity	118,200	99,232
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Unrealized holding gains (losses) on securities, net of tax	(11)	7
Unrealized gains (losses) on hedging derivatives, net of tax	(10,453)	(15,667)
Foreign currency translation adjustments	15,490	18,170
Retirement liability adjustments for foreign consolidated subsidiaries	(176)	(187)
Total accumulated other comprehensive income	4,849	2,322
NON-CONTROLLING INTERESTS	11,560	13,428
Total net assets	134,609	114,983
Total liabilities and net assets	¥333,249	¥354,464

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2016 and 2015

	Millions of Japanese yen	
	2016	2015
SALES (Notes 20 and 21)	¥229,987	¥295,596
COST OF SALES (Note 21)	198,443	275,517
Gross profit	31,544	20,078
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	13,526	15,003
Operating profit	18,018	5,075
OTHER INCOME (EXPENSES):		
Interest and dividend income	4,055	3,652
Foreign exchange losses, net	(1,807)	(5,306)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	9,618	8,345
Gain on revaluation of derivatives	397	2,078
Interest expense	(1,421)	(1,395)
Gain on sales of investment securities (Note 4)	—	12
Loss on liquidations of subsidiaries and affiliates, net	—	(99)
Insurance income	—	3,117
Removal expenses of property and equipment	—	(645)
Loss on disposal of property and equipment and intangible assets	(107)	(161)
Impairment loss (Note 13)	(1,524)	—
Provision of allowance for bad debts	—	(212)
Others, net (Note 1(x))	548	370
Total other income (expenses)	9,758	9,754
PROFIT BEFORE INCOME TAXES	27,776	14,829
INCOME TAXES (Note 14):		
Current	6,290	7,768
Deferred	1,873	797
PROFIT	19,612	6,263
PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(1,400)	438
PROFIT ATTRIBUTABLE TO OWNERS OF PARENT	¥21,012	¥5,824

	Japanese yen	
Earnings per share (Note 10)	¥372.52	¥103.26
Dividends per share (Note 10)	¥37.50	¥35.00

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

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2016 and 2015

	Millions of Japanese yen	
	2016 (Note 16)	2015 (Note 16)
PROFIT	¥19,612	¥6,263
OTHER COMPREHENSIVE INCOME:		
Unrealized holding gains (losses) on securities, net of tax	(19)	6
Unrealized gains (losses) on hedging derivatives, net of tax	1,740	(911)
Foreign currency translation adjustments	(945)	2,987
Retirement liability adjustments for foreign consolidated subsidiaries	13	18
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method	1,269	(737)
Total other comprehensive income	2,058	1,362
COMPREHENSIVE INCOME	¥21,671	¥7,626

	Millions of Japanese yen	
	2016	2015
Comprehensive income attributable to owners of parent	¥23,538	¥6,683
Comprehensive income attributable to non-controlling interests	¥(1,867)	¥943

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, 2016 and 2015

Millions of Japanese yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gains (losses) on securities, net of tax	Unrealized gains (losses)on hedging derivatives, net of tax	Foreign currency translation adjustments	Retirement liability adjustments for foreign consolidated subsidiaries	Non-controlling interests	Total net assets
Balance at January 1, 2015	¥30,122	¥30,852	¥34,338	¥(1)	¥1	¥(13,741)	¥15,402	¥(197)	¥12,855	¥109,631
Cash dividends paid			(1,903)							(1,903)
Profit attributable to owners of parent			5,824							5,824
Net changes of items other than those in shareholders' equity during the year					6	(1,926)	2,767	10	572	1,431
Balance at January 1, 2016	¥30,122	¥30,852	¥38,259	¥(1)	¥7	¥(15,667)	¥18,170	¥(187)	¥13,428	¥114,983
Cash dividends paid			(2,044)							(2,044)
Profit attributable to owners of parent			21,012							21,012
Net changes of items other than those in shareholders' equity during the year					(19)	5,214	(2,679)	10	(1,867)	658
Balance at December 31, 2016	¥30,122	¥30,852	¥57,227	¥(1)	¥(11)	¥(10,453)	¥15,490	¥(176)	¥11,560	¥134,609

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

	Millions of Japanese yen	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes	¥27,776	¥14,829
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:		
Depreciation and amortization	5,364	5,652
Impairment loss	1,524	—
Amortization of goodwill	369	386
Increase (decrease) of allowance for bad debts	(1,495)	913
Increase (decrease) of net defined benefit liabilities	45	27
Increase (decrease) of accrued directors' bonuses	(0)	(1)
Increase (decrease) of provision for product warranty	385	1,007
Increase (decrease) of provision for repairs	42	(1,133)
Interest and dividend income	(4,055)	(3,652)
Interest expense	1,421	1,395
Foreign exchange (gains) losses, net	(2,019)	4,099
Equity in earnings of unconsolidated subsidiaries and affiliates, net	(9,618)	(8,345)
Loss (gain) on revaluation of derivatives	(397)	(2,078)
Insurance income	—	(3,117)
Loss on disposal of property and equipment and intangible assets	107	161
Removal expenses of property and equipment	—	645
Loss (gain) on sales of investment securities	—	(12)
Loss (gain) on liquidations of subsidiaries and affiliates, net	—	99
Changes in assets and liabilities:		
Decrease (increase) in		
– Accounts receivable – trade	48,618	20,472
– Inventories	1,595	(1,628)
– Bankrupt and substantially bankrupt claims	1,823	0
Increase (decrease) in		
– Accounts payable – trade	(40,107)	(13,168)
– Consumption tax payable	393	110
Others, net	(6,931)	(4,739)
Total adjustments	24,844	11,924
Interest and dividend received	9,804	7,299
Interest paid	(1,447)	(1,079)
Income taxes paid	(2,851)	(12,799)
Proceeds from insurance income	—	3,117
Net cash provided by operating activities	¥30,350	¥8,462

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

	Millions of Japanese yen	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and intangible assets	¥(2,862)	¥(3,415)
Disbursements of removal of property and equipment	—	(645)
Purchases of investments in subsidiaries and affiliates	(4,474)	(6,425)
Proceeds from sales of investments in affiliates	—	1
Decrease (increase) in short-term loans receivable	(26,605)	(28,387)
Proceeds from sales of investment securities (Note 4)	—	161
Disbursements of long-term loans receivable	(4,430)	(6,639)
Collections of long-term loans receivable	—	32,643
Proceeds from liquidation of subsidiaries and affiliates	—	3
Net cash used in investing activities	(38,373)	(12,703)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in short-term loans payable	105	(4,064)
Proceeds from long-term loans payable	1,182	38,902
Repayments of long-term loans payable	(6,067)	(1,478)
Cash dividends paid	(2,044)	(1,902)
Repayments of finance lease obligations	(30)	(30)
Net cash provided by (used in) financing activities	(6,853)	31,426
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(885)	137
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(15,762)	27,323
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	57,956	30,632
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1 (t))	¥42,194	¥57,956

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting and Reporting Policies

(a) Basis of Presenting Consolidated Financial Statements

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

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

All of the Japanese yen and U.S. dollar amounts presented in the accompanying consolidated financial statements and notes of the Company are rounded down to millions.

(b) Principles of Consolidation and Equity Method

The accompanying consolidated financial statements include the accounts of the Company and 20 of its subsidiaries for the years ended December 31, 2016 and 2015. Material inter-company balances, transactions and profits have been eliminated in consolidation.

Investments in significant unconsolidated subsidiaries and affiliates, which were 18 companies for the years ended December 31, 2016 and 2015 were accounted for using the equity method.

Another 5 subsidiaries for the year ended December 31, 2016 and 4 subsidiaries for the year ended December 31, 2015 were neither consolidated nor accounted for using the equity method as they would not have had a material effect on the accompanying consolidated financial statements.

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

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

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

(c) Valuation of Assets and Liabilities of Subsidiaries

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

(d) Goodwill

The excess of cost over the underlying investments in consolidated subsidiaries is recognized as goodwill and is amortized using the straight-line method over their estimated useful lives. The excess of cost over the underlying investments in affiliates accounted for using the equity method is treated in the same manner.

(e) Securities

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

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

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

(f) Inventories

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

(g) Property and Equipment

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

Depreciation of property and equipment other than FPSOs and FSOs are calculated as follows. The Company depreciates property and equipment using the declining-balance method based on their useful lives and residual values prescribed by the Japanese corporation tax laws and regulations except for buildings, facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated using the straight-line method.

Foreign consolidated subsidiaries depreciate property and equipment using the straight-line method based on their estimated useful lives.

(h) Intangible Assets

The Company amortizes software costs used internally using the straight-line method over the estimated useful lives mainly of 5 years and amortizes other intangible assets using the straight-line method based on the useful lives prescribed by the Japanese corporation tax laws and regulations.

(i) Finance Lease Transaction without Transfer of Ownership

Lessee:
The method of amortization of the lease assets related to finance lease transactions without transfer of ownership is by the straight-line method corresponding to lease period with zero residual value.

(j) Allowance for Bad Debts

The Company provides for an allowance for bad debts to cover probable losses on estimated uncollectable portion of specifically identified receivable.

(k) Accrued Employees' Bonuses

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

(l) Accrued Directors' Bonuses

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

(m) Provision for Product Warranty

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

(n) Provision for Repairs

Provision for repairs is provided based on the estimated amounts for foreseeable periodic repair expenses deemed to correspond to normal wear and tear of equipment as of the end of the consolidated fiscal year to be paid in the subsequent period.

(o) Severance and Retirement Benefits for Employees

The Company and certain foreign consolidated subsidiaries have unfunded lump-sum severance and retirement payment plans for employees. Under these plans, employees whose employment is terminated or who retire are entitled to benefits which are, in general, determined on the basis of length of service and basic salary at the time of termination or retirement. 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 certain foreign consolidated subsidiaries also adopt defined contribution pension plans.

(p) Translation of Foreign Currency Accounts

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

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

Financial statements of foreign consolidated subsidiaries are translated into Japanese yen using the exchange rates prevailing at the end of each consolidated fiscal year, except the exchange rates in effect at the date of transactions are used for shareholders' equity. The Company records foreign currency translation adjustments as a component of net assets in the consolidated balance sheets.

(q) Derivative Transactions and Hedge Accounting

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

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

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

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

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

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

Certain foreign consolidated subsidiaries adopt hedge accounting in accordance with U.S.GAAP.

(r) Revenue Recognition

The Company applies the percentage of completion method to the construction contracts in the event where the outcome of construction contracts can be reliably estimated. The percentage of completion is calculated by units of work performed method which is based on a physical progress measurement or percentage of cost method. The other construction contracts are recognized by the completed contract method.

(s) Income Taxes

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

(t) Cash Flow Statements

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2016 and 2015 are as follows:

	Millions of Japanese yen	
	2016	2015
Cash and time deposits	¥42,807	¥57,956
Deposit pledged as collateral	(613)	—
Cash and cash equivalents	¥42,194	¥57,956

Changes in Accounting Policies:

(u) Implementation of Accounting Standard for Business Combinations

The Company adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013 (hereinafter, “Statement No.21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, September 13, 2013 (hereinafter, “Statement No.22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7, September 13, 2013 (hereinafter, “Statement No7”)) (together, the “Business Combination Accounting Standards”), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interest”. Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article

44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current fiscal year prospectively.

This implementation had no effect on the consolidated financial statements of the current fiscal year.

(v) Implementation of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Following the revisions to the Corporate Tax Act, the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ Practical Issues Task Force Report No. 32, June 17 2016) is applied from this consolidated fiscal year. Accordingly, the Company's depreciation method for facilities attached to buildings and structures are currently as follows:

Acquired before April 1, 2016: Declining-balance method

Acquired on or after April 1, 2016: Straight-line method

This implementation had no material effect on the consolidated financial statements of the current fiscal year.

Unapplied Accounting Standards

(w) Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26, March 28, 2016)

1. Overview

   Following the framework in Auditing Committee Report No.66 “Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets”, which prescribes estimation of deferred tax assets according to the classification of the company by one of five types, the following treatments were changed as necessary:

   i) Treatment for a company that does not meet any of the criteria in types 1 to 5;

   ii) Criteria for type 2 and 3;

   iii) Treatment for deductible temporary differences which a company classified as type 2 is unable to schedule;

   iv) Treatment for the period which a company classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and

   v) Treatment when a company classified as type 4 also meets the criteria for type 2 or 3.

2. Effective Dates

   This standard will be effective from the beginning of the year ending December 31, 2017.

3. Effect of application of the standard

   The company is currently under assessment of the effect of this new standard on the consolidated financial statements.

Changes in Presentation:

(x) Reclassifications

The Company made certain reclassifications to the previously reported the consolidated fiscal year 2015 amounts to conform to the consolidated fiscal year 2016 presentation. These reclassifications had no effect on previously reported profit attributable to owners of parent or net assets.

2. Inventories

Inventories as of December 31, 2016 and 2015 consisted of the following:

	Millions of Japanese yen	
	2016	2015
Raw materials	¥72	¥278
Costs of uncompleted contracts	2,287	3,535
	¥2,360	¥3,814

3. Pledged Assets

Asset pledged as collateral as of December31, 2016 and 2015 were as follows:

	Millions of Japanese yen	
	2016	2015
Cash and time deposits	¥613	—
Long-term time deposits	3,781	—
Cash and cash equivalents	¥4,395	—

(Note) Above assets were pledged to issue letters of credit. No debt corresponds to these deposits as of the end of this consolidated fiscal year.

4. Marketable Securities and Investment Securities

(a) The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of December 31, 2016 and 2015

	Millions of Japanese yen		
2016:	Book value	Acquisition cost	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥79	¥64	¥14
Securities with book values not exceeding acquisition costs:			
Equity securities	74	100	(25)
Total	¥153	¥164	¥(11)

	Millions of Japanese yen		
2015:	Book value	Acquisition cost	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥90	¥64	¥25
Securities with book values not exceeding acquisition costs:			
Equity securities	86	100	(13)
Total	¥176	¥164	¥11

(b) Proceeds from sales of available-for-sale securities and realized gains and losses on sales of available-for-sale securities for the years ended December 31, 2016 and 2015

	Millions of Japanese yen	
	2016	2015
Proceeds from sales of investment securities	—	¥161
Realized gains on sales of investment securities	—	¥12
Realized losses on sales of investment securities	—	—

5. Goodwill

Goodwill included in intangible assets as of December 31, 2016 and 2015 were ¥1,414 million and ¥3,423 million, respectively.

6. Loans Payable

Short-term loans payable represent notes payable to banks due generally in twelve months or less and bearing an average interest rate of 1.71% and 1.64% as of December 31, 2016 and 2015, respectively.

Long-term loans payable as of December 31, 2016 and 2015 are summarized below:

	Millions of Japanese yen	
	2016	2015
Loans from banks and others due through 2026	¥50,291	¥56,263
Less: Current portion included in current liabilities, at average rate of 1.71%	(7,812)	(6,044)
Loans from banks and others, at average rate of 1.16% due through 2026 (Excluding current portion)	¥42,478	¥50,219

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

Year ending December 31,	Millions of Japanese yen
2017	¥7,812
2018	12,084
2019	5,716
2020	13,786
2021	6,006
2022 and thereafter	4,885
	¥50,291

7. Asset Retirement Obligation

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

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

8. Unused Balance of Overdraft Facilities and Lending Commitment

The Company has a commitment line agreement with a syndicate of seven financial institutions as of 2016 and 2015 and an overdraft facility agreement with two financial institutions as of 2016 and 2015 for the purpose of providing operating funds. The commitment line amount is $160 million as of December 31, 2016 and 2015 without any drawdown. The overdraft facility line amount is ¥3,000 million and $30 million without any drawdown as of December 31, 2016 and 2015.

9. Shareholders' Equity

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

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

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

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

At the annual shareholders' meeting held on March 24, 2016, the shareholders approved cash dividends amounting to ¥987 million for the year ended December 31, 2015. At the annual shareholders' meeting held on March 24, 2017, the shareholders approved cash dividends amounting to ¥1,057 million for the year ended December 31, 2016. Such appropriations have not been accrued in the consolidated financial statements. Such appropriations are recognized in the period in which they are approved by the shareholders.

10. Per Share Data

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

Diluted earnings per share 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, 2016 and 2015.

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

11. Severance and Retirement Benefits for Employees

(a) Defined benefit pension plans

The net defined benefit liabilities recorded in the liability section of the consolidated balance sheets as of December 31, 2016 and 2015 consisted of the following:

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

	Millions of Japanese yen	
	2016	2015
Balance at beginning of year	¥220	¥192
Severance and retirement benefit expenses	61	35
Benefits paid	(16)	(7)
Balance at end of year	¥265	¥220

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

	Millions of Japanese yen	
	2016	2015
Projected retirement benefit obligation (Unfunded termination and retirement allowance plan)	¥265	¥220
Net defined benefit liabilities recorded in the consolidated balance sheets	¥265	¥220

iii) Severance and retirement benefit expenses

	Millions of Japanese yen	
	2016	2015
Severance and retirement benefit expenses (simpler method)	¥61	¥35

(b) Defined contribution pension plans

Contribution to pension plans amounted to ¥57 million and ¥54 million for the years ended December 31, 2016 and 2015, respectively.

12. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses are ¥315 million and ¥103 million for the years ended December 31, 2016 and 2015, respectively.

13. Impairment Loss

Impairment loss for the year ended December 31, 2016 consisted of the following:

(a) Overview of the impairment loss

Company	Location	Use	Type of Assets
MODEC International, Inc.	U.S.A.	—	Goodwill

(b) Grouping unit

The business assets have been grouped by each company.

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

MODEC International, Inc., which is a consolidated subsidiary, recognized an impairment loss of ¥1,524 million on the remaining unamortized portion for goodwill due to the unlikelihood of an estimated profitability.

(d) The measurement of the impairment loss

The recoverable amount of the above goodwill was estimated at zero.

14. Income Taxes

The statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes is 33.0% and 36.0% for the years ended December 31, 2016 and 2015, respectively.

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, 2016 and 2015.

	2016	2015
Statutory income tax rates	33.0%	36.0%
Difference of statutory tax rate between the Company and foreign subsidiaries	(19.6)	(6.4)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	(11.4)	(20.3)
Valuation allowance	27.5	45.8
Income of foreign subsidiaries taxed at lower than Japanese statutory rate	0.1	0.0
Income taxes for prior periods	0.0	(0.4)
Others	(0.2)	3.0
Effective tax rates	29.4%	57.7 %

2) Significant components of deferred tax assets and liabilities as of December 31, 2016 and 2015 are as follows:

	Millions of Japanese yen	
	2016	2015
Deferred tax assets:		
Current assets:		
Accrued employees' bonuses	¥3	¥4
Provision for product warranty	1,203	1,222
Allowance for bad debts	978	345
Tax loss carry forward	567	277
Estimated costs for construction contracts, etc.	2,248	1,182
Difference on percentage-of-completion method	3,321	2,770
Others	2,336	1,757
Sub total	10,658	7,561
Valuation allowance	(3,439)	(905)
Offset to deferred tax liabilities (short-term)	(3,955)	(2,441)
Total	3,263	4,214
Fixed assets:		
Unrealized inter-company profit on fixed assets	3,671	4,499
Tax loss carry forward	8,610	6,685
Net defined benefit liabilities	82	72
Depreciation	37	56
Long-term foreign tax credit	1,629	1,535
Temporary difference for investment in subsidiaries	824	850
Allowance for bad debts	—	581
Others	3,128	2,310
Sub total	17,984	16,591
Valuation allowance	(13,946)	(9,452)
Offset to deferred tax liabilities (long-term)	(1,370)	(2,476)
Total	2,666	4,663
Total deferred tax assets	¥5,930	¥8,877

	Millions of Japanese yen	
	2016	2015
Deferred tax liabilities:		
Current liabilities:		
Tax effect of derivative hedge on foreign subsidiaries	¥(331)	—
Difference on percentage-of-completion method	(2,504)	¥(2,045)
Others	(1,120)	(396)
Sub total	(3,957)	(2,442)
Offset to deferred tax assets (short-term)	3,955	2,441
Total	(1)	(0)
Long-term liabilities:		
Depreciation	(62)	(922)
Long-term foreign exchange gain	—	(1,071)
Difference on percentage-of-completion method	(509)	(469)
Undistributed earnings of foreign subsidiaries and affiliates	(334)	—
Others	(463)	(13)
Sub total	(1,370)	(2,476)
Offset to deferred tax assets (long-term)	1,370	2,476
Total	—	—
Total deferred tax liabilities	(1)	(0)
Net deferred tax assets	¥5,929	¥8,877

3) The revision of the corporate income tax rate after December 31, 2016

Amendments to the Japanese tax regulations were established in the Diet on March 29 and November 18, 2016. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized on or after January 1, 2017 are changed from 32.0% to 31.0%.
This revision had no material effect on the consolidated financial statements.

15. Contingent Liabilities and Commitments

As of December 31, 2016 and 2015, the Company was contingently liable for the following:

	Millions of Japanese yen	
	2016	2015
Guarantees of bank loans and other indebtedness for affiliates	¥78,391	¥135,521

For the years ended December 31, 2016 and 2015, the share of the fair market values of swap contracts of affiliates accounted for using the equity method are included in the consolidated financial statements due to the adoption of "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (PITF No.24 issued by the Accounting Standards Board of Japan on March 10, 2008).

16. **Comprehensive Income**

The following represents each component of other comprehensive income for the years ended December 31, 2016 and 2015:

	Millions of Japanese yen	
	2016	2015
Unrealized holding gains (losses) on securities, net of tax		
Amount of generation	¥(22)	¥9
Amount of rearrangement adjustment	—	—
Before adjusting the tax effect	(22)	9
Tax effect	3	(3)
Unrealized holding gains (losses) on securities, net of tax	(19)	6
Unrealized gains (losses) on hedging derivatives, net of tax		
Amount of generation	2,962	(1,310)
Amount of rearrangement adjustment	(242)	(155)
Before adjusting the tax effect	2,719	(1,465)
Tax effect	(979)	553
Unrealized gains (losses) on hedging derivatives, net of tax	1,740	(911)
Foreign currency translation adjustments		
Amount of generation	(945)	2,929
Amount of rearrangement adjustment	—	94
Before adjusting the tax effect	(945)	3,023
Tax effect	—	(36)
Foreign currency translation adjustments	(945)	2,987
Retirement liability adjustments for foreign consolidated subsidiaries		
Amount of generation	22	21
Amount of rearrangement adjustment	(0)	56
Before adjusting the tax effect	22	77
Tax effect	(9)	(58)
Retirement liability adjustments for foreign consolidated subsidiaries	13	18
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method		
Amount of generation	(1,146)	(6,374)
Amount of rearrangement adjustment	2,415	5,636
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method	1,269	(737)
Total	¥2,058	¥1,362

17. Leases

Lessor:

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

	Millions of Japanese yen	
	2016	2015
Due within one year	¥1,232	¥1,535
Due after one year	—	1,275
Total	¥1,232	¥2,810

18. Financial Instruments

(a) Concerning status of financial instruments

i) Policies for financial instruments

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

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

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

As to derivative financial instruments, the Company and its consolidated subsidiaries utilize them for hedging purpose only and not for speculation.

ii) Substances and risks of financial instruments and managing of financial instruments

Accounts receivable - trade 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 support the affiliates are mainly established to accomplish charter projects which are exposed to credit risks of their customers. The Company reduces the share of risks by arranging project financing or through the cooperation with general trading companies and other business partners.

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

Investment securities are exposed to market fluctuation risks. The Company and its subsidiaries have the business relationships with the issuers of the majority 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 managed to not exceed accounts receivable - trade in the same foreign currencies.

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

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

Accounts payable – trade and loans payable are exposed to the liquidity risks. To manage the liquidity risks, our finance 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.

The contract amounts of derivative transactions mentioned in Note 18. Derivative Transactions do not indicate the actual market risks involved in the derivative transactions.

(b) Concerning fair value of financial instruments

Consolidated balance sheets amounts, fair value of financial instruments and the difference between them for the years ended December 31, 2016 and 2015 are as follows. Financial instruments for which the fair value is considered to be extremely difficult to obtain are not included in the list below.

2016:	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥42,807	¥42,807	—
(2) Accounts receivable – trade	95,544	95,544	—
(3) Short-term loans receivable	55,012		
Allowance for bad debts (*1)	(84)		
	54,928	54,928	—
(4) Investment securities	153	153	—
(5) Long-term loans receivable from affiliates	28,165	28,437	¥272
Assets total	¥221,559	¥221,871	¥272
(7) Accounts payable – trade	¥96,738	¥96,738	—
(8) Current portion of long-term loans payable	7,812	7,812	—
(9) Long-term loans payable	42,478	42,478	—
Liabilities total	¥147,030	¥147,030	—
(10) Derivative transactions (*2)			
i) Derivative transactions for which hedge accounting has not been applied	¥2,530	¥2,530	—
ii) Derivative transactions for which hedge accounting has been applied	345	284	¥(60)
Derivative transactions total	¥2,875	¥2,815	¥(60)

*1: Individual allowance for bad debts is deducted from short-term loans receivable.

*2: Derivative transactions are presented net of receivables and payables. Figures with parenthesis indicate payables.

2015:	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥57,956	¥57,956	―
(2) Accounts receivable – trade	145,752	145,752	―
(3) Short-term loans receivable	20,239		
Allowance for bad debts (*1)	(212)		
	20,027	20,027	―
(4) Investment securities	176	176	―
(5) Long-term loans receivable from affiliates	27,009	27,566	¥557
(6) Bankrupt and substantially bankrupt claims	1,823		
Allowance for bad debts (*2)	(1,823)		
Assets total	¥250,920	¥251,477	¥557
(7) Accounts payable – trade	¥145,230	¥145,230	―
(8) Current portion of long-term loans payable	6,044	6,044	―
(9) Long-term loans payable	50,219	50,219	―
Liabilities total	¥201,493	¥201,493	―
(10) Derivative transactions (*3)			
i) Derivative transactions for which hedge accounting has not been applied	¥2,011	¥2,011	―
ii) Derivative transactions for which hedge accounting has been applied	(2,291)	(2,430)	¥(139)
Derivative transactions total	¥(279)	¥(419)	¥(139)

*1: Individual allowance for bad debts is deducted from short-term loans receivable.
*2: Individual allowance for bad debts is deducted from bankrupt and substantially bankrupt claims.
*3: Derivative transactions are presented net of receivables and payables. Figures with parenthesis indicate payables.

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

Assets

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

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

(4) Investment securities

Fair value of this account 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 from affiliates

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

Liabilities

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

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

(9) Long-term loans payable

Fair value of long-term loans payable with fixed interest rate is calculated using the total amount of the principal and interest discounted by the interest rate on condition that the borrowing is newly executed at the date of fair value evaluation.

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

Derivative Transactions

Please see Note 19. Derivative Transactions.

(note 2) Consolidated balance sheets amounts of financial instruments for which the fair value is considered to be extremely difficult to obtain are as follows:

	Millions of Japanese yen	
	2016	2015
Privately owned equity securities	¥55,008	¥50,810

As to these financial instruments, there is no available fair market value and it is considered to cost a great deal to estimate future cash flows. Therefore, these financial instruments are not included in (4) Investment securities because it is considered to be extremely difficult to obtain fair value.

(note 3) The expected redemption amount of monetary asset and securities with maturity after December 31, 2016 and 2015 are as follows:

2016:	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	¥42,807	—	—	—
Accounts receivable – trade	95,544	—	—	—
Short-term loans receivable	55,012	—	—	—
Long-term loans receivable from affiliates	—	¥2,516	¥14,935	¥10,714

2015:	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	¥57,956	—	—	—
Accounts receivable – trade	145,752	—	—	—
Short-term loans receivable	20,239	—	—	—
Long-term loans receivable from affiliates	—	¥5,806	¥10,663	¥10,539

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

Year ending December 31,	Millions of Japanese yen
2018	¥12,084
2019	5,716
2020	13,786
2021	6,006
2022 and thereafter	4,885
Total	¥42,478

19. Derivative Transactions

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

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

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

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

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

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency receivables, payables and future transactions
Currency swap contracts	Foreign currency receivables and payables
Interest rate swap contracts	Loans payable

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

The following tables summarize market value information as of December 31, 2016 and 2015 of derivative transactions:

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

2016:

Currency related derivatives	Millions of Japanese yen			
	Contract Amount			
Type	Total	Due after one year	Contract Amount less Market Value	Unrealized gain (loss)
Forward contract				
To sell U.S. dollars	¥2,315	—	¥(1)	¥(1)
Currency swap				
To receive Japanese yen, to pay U.S. dollars	24,050	¥21,024	2,532	2,532
Total	¥26,366	¥21,024	¥2,530	¥2,530

2015:

Currency related derivatives	Millions of Japanese yen			
	Contract Amount			
Type	Total	Due after one year	Contract Amount less Market Value	Unrealized gain (loss)
Forward contract				
To sell U.S. dollars	¥8,665	—	¥(79)	¥(79)
Currency swap				
To receive Japanese yen, to pay U.S. dollars	26,990	¥24,050	2,090	2,090
Total	¥35,656	¥24,050	¥2,011	¥2,011

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

2016:

Currency related derivatives		Millions of Japanese yen		
		Contract Amount		
Type	Hedged Items	Total	Due after one year	Contract Amount less Market Value
Forward contract (principle method)				
To buy Euro	Accounts payable – trade and others	¥1,131	¥235	¥(55)
To buy Japanese yen		309	—	(9)
To buy Singapore dollars		961	43	(36)
To buy Brazilian Real		10,263	—	2,043
Total		¥12,665	¥278	¥1,941

2015:

Currency related derivatives		Millions of Japanese yen		
		Contract Amount		
Type	Hedged Items	Total	Due after one year	Contract Amount less Market Value
Forward contract (principle method)				
To buy Euro	Accounts payable – trade and others	¥4,910	¥70	¥5
To buy Norwegian krone		69	—	(4)
To buy Japanese yen		112	—	3
To buy STG pounds		682	—	(12)
To buy Singapore dollars		1,147	—	(10)
To buy Brazilian Real		315	—	(5)
Total		¥7,238	¥70	¥(23)

2016:

Interest related derivatives		Millions of Japanese yen		
		Contract Amount		
Type	Hedged Items	Total	Due after one year	Contract Amount less Market Value
Interest rate swap (principle method) To receive float, pay fix	Long-term loans payable	¥25,302	¥20,250	¥(1,596)
Interest rate swap (exceptional method) To receive float, pay fix	Long-term loans payable	8,299	7,507	(60)
Total		¥33,602	¥27,757	¥(1,657)

2015:

Interest related derivatives		Millions of Japanese yen		
		Contract Amount		
Type	Hedged Items	Total	Due after one year	Contract Amount less Market Value
Interest rate swap (principle method) To receive float, pay fix	Long-term loans payable	¥29,375	¥25,376	¥(2,267)
Interest rate swap (exceptional method) To receive float, pay fix	Long-term loans payable	9,130	8,587	(139)
Total		¥38,505	¥33,963	¥(2,406)

20. Segment Information

(1) Overview of reportable segment

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

(2) Information by products and services

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

(3) Information by geographical area

(a) Sales

2016:

Millions of Japanese yen						
Brazil	Ghana	Europe	Oceania	Asia	Other	Total
¥140,042	¥34,165	¥17,587	¥14,443	¥9,059	¥14,689	¥229,987

2015:

Millions of Japanese yen					
Brazil	Ghana	Oceania	Asia	Other	Total
¥205,932	¥43,906	¥16,969	¥17,258	¥11,529	¥295,596

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

(b) Property and equipment

2016:

Millions of Japanese yen					
Australia	Vietnam	Netherlands	U.S.A.	Other	Total
¥4,238	¥4,459	¥3,375	¥1,439	¥646	¥14,161

2015:

Millions of Japanese yen					
Australia	Vietnam	Netherlands	U.S.A.	Other	Total
¥6,919	¥5,351	¥3,594	¥1,809	¥810	¥18,485

(4) Information by major customer

2016:

Customers	Millions of Japanese yen Sales	Related Segment
Tartaruga MV29 B.V.	¥71,648	(note 1)
Carioca MV27 B.V.	¥28,768	(note 1)

2015:

Customers	Millions of Japanese yen Sales	Related Segment
Tartaruga MV29 B.V.	¥66,990	(note 1)
Carioca MV27 B.V.	¥53,438	(note 1)
Cernambi Norte MV26 B.V.	¥35,896	(note 1)

(note 1) The Company and its subsidiaries construct FPSOs and FSOs and provide related services as single business therefore related segment is not presented.

(5) Information about losses on impairment for each reportable segment

The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as singles business therefore information about losses on impairment for each reportable segment is not presented.

(6) Information about goodwill amortization amount and year-end balance for each reportable segment

The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as singles business therefore information about goodwill amortization amount and year-end balance for each reportable segment is not presented.

(7) Information about gains on negative goodwill for each reportable segment

The Company and its subsidiaries construct FPSOs and FSOs and operate their related services as singles business therefore information about gains on negative goodwill for each reportable segment is not presented.

21. Related Party Transactions

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2016 are as follows:

2016:

Related parties	Transactions	Millions of Japanese yen
T.E.N. Ghana MV25 B.V.	Construction of FPSO (Sales)	¥9,766
T.E.N. Ghana MV25 B.V.	Disbursements of loans for capital expenditure	33,708
T.E.N. Ghana MV25 B.V.	Collections of loans for capital expenditure	12,182
T.E.N. Ghana MV25 B.V.	Guarantees of contract fulfillment	5,824
T.E.N. Ghana MV25 B.V.	Guarantees of bank loans	7,129
Cernambi Norte MV26 B.V.	Disbursements of loans for capital expenditure	15,618
Cernambi Norte MV26 B.V.	Collections of loans for capital expenditure	24,033
Carioca MV27 B.V.	Disbursements of loans for capital expenditure	27,417
Carioca MV27 B.V.	Collections of loans for capital expenditure	12,827
Carioca MV27 B.V.	Guarantees of bank loans	24,211
Carioca MV27 B.V.	Guarantees of derivative transactions	3,462
Tartaruga MV29 B.V.	Construction of FPSO (Sales)	75,059
Tartaruga MV29 B.V.	Guarantees of bank loans	35,457

2016:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Song Doc MV19 B.V.	Short-term loans receivable	¥3,634
Gas Opportunity MV20 B.V.	Long-term loans receivable from affiliates	3,929
Tupi Pilot MV22 B.V.	Long-term loans receivable from affiliates	5,684
T.E.N. Ghana MV25 B.V.	Accounts receivable - trade	5,311
T.E.N. Ghana MV25 B.V.	Short-term loans receivable	27,992
Carioca MV27 B.V.	Short-term loans receivable	31,703
Tartaruga MV29 B.V.	Accounts receivable - trade	43,241

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2016 are as follows:

2016:

Related parties	Transactions	Millions of Japanese yen
Cernambi Norte MV26 B.V.	Disbursements of loans for working capital	¥4,430
Carioca MV27 B.V.	Construction of FPSO (Sales)	14,107
MODEC and TOYO Offshore Production Systems Pte. Ltd.	Construction of FPSO (Cost of sales)	26,944

2016:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Guara MV23 B.V.	Long-term loans receivable from affiliates	¥6,376
Cernambi Sul MV24 B.V.	Long-term loans receivable from affiliates	6,284
Cernambi Norte MV26 B.V.	Long-term loans receivable from affiliates	4,430
Carioca MV27 B.V.	Accounts receivable - trade	11,249
MODEC and TOYO Offshore Production Systems Pte. Ltd.	Accounts payable - trade	1,338

Significant related party transactions and corresponding balances between the Company and unconsolidated subsidiaries or affiliates for the year ended December 31, 2015 are as follows:

2015:

Related parties	Transactions	Millions of Japanese yen
Cernambi Sul MV24 B.V.	Disbursements of loans for capital expenditure	¥104
Cernambi Sul MV24 B.V.	Collections of loans for capital expenditure	31,424
T.E.N. Ghana MV25 B.V.	Construction of FPSO (Sales)	28,566
T.E.N. Ghana MV25 B.V.	Disbursements of loans for capital expenditure	12,245
T.E.N. Ghana MV25 B.V.	Collections of loans for capital expenditure	6,095
T.E.N. Ghana MV25 B.V.	Guarantees of contract fulfillment	6,026
T.E.N. Ghana MV25 B.V.	Guarantees of bank loans	24,118
Cernambi Norte MV26 B.V.	Disbursements of loans for capital expenditure	22,355
Cernambi Norte MV26 B.V.	Collections of loans for capital expenditure	13,509
Cernambi Norte MV26 B.V.	Guarantees of bank loans	46,796
Cernambi Norte MV26 B.V.	Guarantees of derivative transactions	3,581
Carioca MV27 B.V.	Construction of FPSO (Sales)	2,704
Carioca MV27 B.V.	Disbursements of loans for capital expenditure	28,253
Carioca MV27 B.V.	Collections of loans for capital expenditure	10,300
Carioca MV27 B.V.	Guarantees of bank loans	40,208
Carioca MV27 B.V.	Guarantees of derivative transactions	5,010
Tartaruga MV29 B.V.	Construction of FPSO (Sales)	69,798
Tartaruga MV29 B.V.	Disbursements of loans for capital expenditure	7,396
Tartaruga MV29 B.V.	Collections of loans for capital expenditure	11,958
Tartaruga MV29 B.V.	Guarantees of bank loans	12,846

2015:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Song Doc MV19 B.V.	Short-term loans receivable	¥3,760
Gas Opportunity MV20 B.V.	Long-term loans receivable from affiliates	4,066
Tupi Pilot MV22 B.V.	Long-term loans receivable from affiliates	5,881
T.E.N. Ghana MV25 B.V.	Accounts receivable - trade	18,924
T.E.N. Ghana MV25 B.V.	Short-term loans receivable	6,038
Cernambi Norte MV26 B.V.	Short-term loans receivable	8,694
Carioca MV27 B.V.	Accounts receivable - trade	16,093
Carioca MV27 B.V.	Short-term loans receivable	17,645
Tartaruga MV29 B.V.	Accounts receivable - trade	39,914

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2015 are as follows:

2015:

Related parties	Transactions	Millions of Japanese yen
Cernambi Sul MV24 B.V.	Disbursements of loans for working capital	¥6,502
Carioca MV27 B.V.	Construction of FPSO (Sales)	45,702
MODEC and TOYO Offshore Production Systems Pte. Ltd.	Construction of FPSO (Cost of sales)	52,299

2015:

Related parties	Consolidated balance sheets accounts	Millions of Japanese yen
Guara MV23 B.V.	Long-term loans receivable from affiliates	¥6,597
Cernambi Sul MV24 B.V.	Long-term loans receivable from affiliates	6,502
Carioca MV27 B.V.	Accounts receivable - trade	3,133
MODEC and TOYO Offshore Production Systems Pte. Ltd.	Accounts payable - trade	1,354