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August 10, 2022

Consolidated Financial Results for the Six Months Ended June 30, 2022 (IFRS)

Company name: MODEC, INC.
 Listing: Tokyo Stock Exchange
 Securities code: 6269
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 Scheduled date to file quarterly securities report: August 12, 2022
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes “2Q 2022 Results Presentation”
 Holding of quarterly financial results briefing: Yes (to institutional investors and analysts)

(Yen amounts are rounded down to millions unless otherwise noted.)

1. Consolidated financial results for the six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit	
	million yen	%	million yen	%	million yen	%	million yen	%
Six months ended								
June 30, 2022	187,951	(19.5)	5,326	76.8	3,393	47.1	2,078	(66.5)
June 30, 2021	233,515	-	3,012	-	6,413	-	6,206	-

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	million yen	%	million yen	%	yen	yen
Six months ended						
June 30, 2022	2,069	(66.1)	23,311	86.4	36.71	36.69
June 30, 2021	6,101	-	12,506	-	108.27	108.22

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
	million yen	million yen	million yen	%
As of				
June 30, 2022	451,447	99,080	96,095	21.3
December 31, 2021	393,971	63,802	61,247	15.5

Note: The original condensed consolidated financial statements of MODEC, INC. and its subsidiaries (hereinafter “the Company”) for the six months ended June 30, 2022 and 2021 and for the year ended December 31, 2021 are presented in US dollars on page 4 of this material. The amount presented for consolidated operating results and consolidated financial position are converted to Japanese yen, respectively, as follows:

June 30, 2022 1 US dollar = 136.64 Japanese yen at the TTM rate of Sumitomo Mitsui Banking Corporation as of June 30, 2022.

June 30, 2021 1 US dollar = 110.61 Japanese yen at the TTM rate of Sumitomo Mitsui Banking Corporation as of June 30, 2021.

December 31, 2021 1 US dollar = 115.01 Japanese yen at the TTM rate of Sumitomo Mitsui Banking Corporation as of December 30, 2021.

The percentage indicating year-on-year changes is calculated on Japanese yen basis presented above.

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total
Year ended December 31, 2021	yen —	yen 15.00	yen —	yen 0.00	yen 15.00
Year ending December 31, 2022	—	0.00			
Year ending December 31, 2022 (Forecast)			—	0.00	0.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Earnings forecast for 2022 (from January 1, 2022 to December 31, 2022)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full Year	276,024	(38.5)	-	-	3,450	-	2,530	-	2,530	-	44.89

Note 1: Revisions to the forecast most recently announced: None

Note 2: The original consolidated earnings forecast of the Company is presented in US dollars on page 4 of this material. The amount presented for the earnings forecast for 2022 is converted to Japanese yen at 115.01 yen at the TTM rate of Sumitomo Mitsui Banking Corporation as of December 30, 2021.

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Changes in accounting policies and changes in accounting estimates
- (i) Changes in accounting policies required by IFRS: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None

(3) Number of issued shares (ordinary shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2022	56,408,000 shares
As of December 31, 2021	56,408,000 shares

(ii) Number of treasury shares at the end of the period

As of June 30, 2022	38,196 shares
As of December 31, 2021	45,100 shares

(iii) Average number of shares outstanding during the period

Six months ended June 30, 2022	56,365,663 shares
Six months ended June 30, 2021	56,356,166 shares

* Quarterly financial results are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts and other special matters

- The Company adopted International Financial Reporting Standards (hereinafter "IFRS") from the year ended December 31, 2021 for the consolidated financial statements. Therefore, the financial results for the six months ended June 30, 2021 are presented in accordance with IFRS.
- Accompanying condensed quarterly consolidated financial statements and selected notes are presented in functional currency of the Company, US dollars.
- While earnings forecast and other forward-looking statement included in this material are based on information currently available to the Company and are based on assumptions deemed reasonable, they are not a guarantee of future performance or outcomes. Actual results may differ materially subject to various factors.

[Reference] Consolidated financial results for the six months ended 2022 and earnings forecast for the year ending December 2022 presented in functional currency of the Company, US dollars

(US dollar amounts are rounded down to thousands unless otherwise noted.)

1. Consolidated financial results for the six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit	
	US\$ thousand	%	US\$ thousand	%	US\$ thousand	%	US\$ thousand	%
Six months ended								
June 30, 2022	1,375,521	(34.8)	38,980	43.1	24,834	(57.2)	15,213	△72.9
June 30, 2021	2,111,159	-	27,232	-	57,980	-	56,114	-

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share		Diluted earnings per share	
	US\$ thousand	%	US\$ thousand	%	US\$		US\$	
Six months ended								
June 30, 2022	15,142	(72.5)	170,606	50.9	0.27		0.27	
June 30, 2021	55,164	-	113,064	-	0.98		0.98	

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
	US\$ thousand	US\$ thousand	US\$ thousand	%
As of				
June 30, 2022	3,303,919	725,123	703,275	21.3
December 31, 2021	3,425,542	554,759	532,541	15.5

2. Earnings forecast for 2022 (from January 1, 2022 to December 31, 2022)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	US\$ thousand	%	US\$ thousand	%	US\$ thousand	%	US\$ thousand	%	US\$ thousand	%	US\$
Full Year	2,400,000	(38.5)	-	-	30,000	-	22,000	-	22,000	-	0.39

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1. Qualitative information on quarterly financial results

(1) Results of operations

During the second quarter of this year under the Japanese economy, the recovery of personal consumptions and corporate profits were observable as strict COVID-19 restrictions were eased and economic and social activities become normalized. The recovery of global economy was also observable. On the other hand, prolonging the war in Ukraine and the effect of restrained economic activities in China affected the price of materials and energy to surge. In addition, the volatility of capital markets puts downward risks to the global economy. Therefore, uncertainty of global economy persists.

Oil price rose to US\$120 a barrel when EU imposed a trade embargo of Russian oil, which was expected to result in significant oil shortage. However, oil prices were lower at around US\$110 a barrel when COVID-19 infections resurged in part of China and concerns arose that the slow down of world economy will decrease the demand of energy. In this environment, the trend toward decarbonization is unavoidable. However, from the perspective of maintaining a stable energy supply, oil companies are expected to maintain certain level of deep-sea oil development projects. The business related to floating offshore oil and gas production facilities, which is the main business of the Company, is expected to grow steadily in the future in ultra-deep water large-scale projects, where the Company has strengths.

The business environment surrounding the Company is undergoing significant changes, which include the further promotion of renewable energy and the evolution of digital technologies among others. The Company will grasp these changes in the business environment. While securing profits from existing businesses, the Company will also develop future sources of profits such as floating offshore wind turbines, underwater resource development and digital solution businesses.

Under these circumstances, for the second quarter of this year, the total orders on a consolidated basis resulted in US\$555,855 thousand (US\$2,340,446 thousand in 2Q 2021) due to the variation orders of FPSO construction projects. The consolidated revenue was US\$1,375,521 thousand (US\$2,111,159 thousand in 2Q 2021) due to progress in the construction of FPSOs.

In terms of profit, the operating profit was US\$38,980 thousand (operating profit of US\$27,232 thousand in 2Q 2021) due to the low profitability of FPSO construction project caused by COVID-19 pandemic from previous year continued to affect current period and the increased repair costs of FPSOs operating in Brazil.

In addition, foreign currency exchange loss due to higher US dollars and the recognition of loss allowance for expected credit loss for the additional loan to the related company which owns an FPSO resulted in the profit before tax for the current quarter of US\$24,834 thousand (income before tax of US\$57,980 thousand in 2Q 2021). As a result, the profit attributable to owners of the parent for the current quarter was US\$15,142 thousand (profit of US\$55,164 thousand in 2Q 2021).

(2) Financial position

The total assets at the end of second quarter of this year decreased by US\$121,622 thousand to US\$3,303,919 thousand from the end of previous year primarily due to decrease in cash and cash equivalents.

The total liabilities decreased by US\$291,986 thousand to US\$2,578,796 thousand from the end of previous year primarily due to decrease in trade and other payables. While at the end of previous year and at the end of the first quarter of this year bonds and borrowings were classified as current liabilities due to breaches of financial covenants, they are reclassified to non-current liabilities at the end of the second quarter of this year since the status of breaches were subsequently remedied.

The total equity increased by US\$170,363 thousand to US\$725,123 thousand from the end of previous year primarily due to increase in other components of equity.

2. Condensed quarterly consolidated financial statements and selected notes

(1) Condensed quarterly consolidated statement of financial position

in thousands of US dollars

	December 31, 2021	June 30, 2022
Assets		
Current assets		
Cash and cash equivalents	810,131	573,808
Trade and other receivables	379,394	435,534
Contract assets	704,730	601,198
Loans receivable	14,176	—
Other financial assets	14,171	28,177
Other current assets	138,134	164,788
Total current assets	2,060,740	1,803,506
Non-current assets		
Property, plant and equipment	51,366	46,614
Intangible assets	80,845	75,650
Investments accounted for using equity method	739,046	874,330
Loans receivable	398,562	398,562
Other financial assets	13,278	13,964
Deferred tax assets	54,941	60,305
Other non-current assets	26,760	30,986
Total non-current assets	1,364,801	1,500,413
Total assets	3,425,542	3,303,919

in thousands of US dollars

	December 31, 2021	June 30, 2022
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	1,356,472	1,204,219
Contract liabilities	405,807	407,758
Bonds and borrowings	426,867	8,735
Income taxes payable	40,564	51,964
Provisions	237,013	208,718
Other financial liabilities	94,549	92,690
Other current liabilities	103,483	57,293
Total current liabilities	2,664,758	2,031,380
Non-current liabilities		
Bonds and borrowings	55	391,890
Deferred tax liabilities	8	30
Defined benefit liability	54,693	52,279
Provisions	80,597	66,354
Other financial liabilities	23,584	22,922
Other non-current liabilities	47,084	13,939
Total non-current liabilities	206,024	547,416
Total liabilities	2,870,782	2,578,796
Equity		
Share capital	282,292	282,292
Capital surplus	280,711	280,634
Retained earnings	85,957	101,103
Treasury shares	(1,291)	(1,092)
Other components of equity	(115,129)	40,337
Equity attributable to owners of parent	532,541	703,275
Non-controlling interests	22,218	21,847
Total equity	554,759	725,123
Total liabilities and equity	3,425,542	3,303,919

(2) Condensed quarterly consolidated statement of profit or loss and condensed quarterly consolidated statement of other comprehensive income

Condensed quarterly consolidated statement of profit or loss

For the six months ended June 30

in thousands of US dollars

	2021	2022
Revenue	2,111,159	1,375,521
Cost of sales	(2,068,111)	(1,320,477)
Gross profit	43,048	55,043
Selling, general and administrative expenses	(64,048)	(74,256)
Share of profit of investments accounted for using equity method	33,905	48,456
Other income	14,392	9,762
Other expenses	(64)	(25)
Operating profit	27,232	38,980
Finance income	35,200	37,218
Finance costs	(4,452)	(51,364)
Profit before tax	57,980	24,834
Income tax expense	(1,865)	(9,621)
Profit for the period	56,114	15,213

Profit attributable to		
Owners of parent	55,164	15,142
Non-controlling interests	950	70
Profit	56,114	15,213

in US dollars

Earnings per share		
Basic earnings per share	0.98	0.27
Diluted earnings per share	0.98	0.27

For the three months ended June 30

in thousands of US dollars

	2021	2022
Revenue	985,104	711,273
Cost of sales	(991,661)	(663,204)
Gross profit (loss)	(6,557)	48,068
Selling, general and administrative expenses	(28,450)	(30,085)
Share of profit of investments accounted for using equity method	19,262	23,705
Other income	11,700	9,647
Other expenses	(58)	370
Operating profit (loss)	(4,102)	51,706
Finance income	14,293	20,955
Finance costs	(2,701)	(27,498)
Profit before tax	7,489	45,163
Income tax expense	807	(13,262)
Profit for the period	8,297	31,901

Profit attributable to		
Owners of parent	8,002	31,800
Non-controlling interests	294	101
Profit	8,297	31,901

in US dollars

Earnings per share		
Basic earnings per share	0.14	0.56
Diluted earnings per share	0.14	0.56

Condensed quarterly consolidated statement of other comprehensive income

For the six months ended June 30

in thousands of US dollars

	2021	2022
Profit for the period	56,114	15,213
Other comprehensive Income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit liability	100	3
Total items that will not be reclassified subsequently to profit or loss	100	3
Items that may be reclassified subsequently to profit or loss		
Effective portion of cash flow hedges	(18,929)	(1,356)
Exchange differences on translation of foreign operations	9,495	(722)
Share of other comprehensive income of investments accounted for using equity method	66,281	157,468
Total items that may be reclassified subsequently to profit or loss	56,848	155,389
Total other comprehensive income, net of tax	56,949	155,393
Total comprehensive income for the period	113,064	170,606
Total comprehensive income attributable to		
Owners of parent	112,325	170,612
Non-controlling interests	739	(5)
Total comprehensive income	113,064	170,606

For the three months ended June 30

in thousands of US dollars

	2021	2022
Profit for the period	8,297	31,901
Other comprehensive Income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit liability	50	1
Total items that will not be reclassified subsequently to profit or loss	50	1
Items that may be reclassified subsequently to profit or loss		
Effective portion of cash flow hedges	2,593	(2,181)
Exchange differences on translation of foreign operations	12,423	2,554
Share of other comprehensive income of investments accounted for using equity method	(33,485)	65,167
Total items that may be reclassified subsequently to profit or loss	(18,468)	65,540
Total other comprehensive income, net of tax	(18,417)	65,542
Total comprehensive income for the period	(10,119)	97,443
Total comprehensive income attributable to		
Owners of parent	(10,478)	97,425
Non-controlling interests	358	18
Total comprehensive income	(10,119)	97,443

(3) Condensed quarterly consolidated statement of changes in equity

For the six months ended June 30, 2021

in thousands of US dollars

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
					Remeasurements of defined benefit liability	Effective portion of cash flow hedges
At January 1, 2021	282,292	280,742	463,852	(1,553)	—	(161,648)
Profit for the period	—	—	55,164	—	—	—
Other comprehensive income	—	—	—	—	100	47,563
Total comprehensive income for the period	—	—	55,164	—	100	47,563
Dividends to owners of parent	—	—	(11,281)	—	—	—
Dividends to non-controlling interests	—	—	—	—	—	—
Share-based payment transactions	—	(138)	—	262	—	—
Transfer from other components of equity to retained earnings	—	—	100	—	(100)	—
Total transactions with owners	—	(138)	(11,180)	262	(100)	—
At June 30, 2021	282,292	280,603	507,836	(1,291)	—	(114,084)

	Equity attributable to owners of parent			Non-controlling interests	Total equity
	Other components of equity		Total equity attributable to owners of parent		
	Exchange differences on translation of foreign operations	Total other components of equity			
At January 1, 2021	(14,745)	(176,394)	848,940	18,908	867,849
Profit for the period	—	—	55,164	950	56,114
Other comprehensive income	9,495	57,160	57,160	(211)	56,949
Total comprehensive income for the period	9,495	57,160	112,325	739	113,064
Dividends to owners of parent	—	—	(11,281)	—	(11,281)
Dividends to non-controlling interests	—	—	—	(620)	(620)
Share-based payment transactions	—	—	124	—	124
Transfer from other components of equity to retained earnings	—	(100)	—	—	—
Total transactions with owners	—	(100)	(11,157)	(620)	(11,777)
At June 30, 2021	(5,249)	(119,334)	950,108	19,027	969,135

For the six months ended June 30, 2022

in thousands of US dollars

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
					Remeasurements of defined benefit liability	Effective portion of cash flow hedges
At January 1, 2022	282,292	280,711	85,957	(1,291)	—	(90,866)
Profit for the period	—	—	15,142	—	—	—
Other comprehensive income	—	—	—	—	3	156,182
Total comprehensive income for the period	—	—	15,142	—	3	156,182
Dividends to non-controlling interests	—	—	—	—	—	—
Share-based payment transactions	—	(77)	—	198	—	—
Transfer from other components of equity to retained earnings	—	—	3	—	(3)	—
Total transactions with owners	—	(77)	3	198	(3)	—
At June 30, 2022	282,292	280,634	101,103	(1,092)	—	65,316

	Equity attributable to owners of parent			Non-controlling interests	Total equity
	Other components of equity		Total equity attributable to owners of parent		
	Exchange differences on translation of foreign operations	Total other components of equity			
At January 1, 2022	(24,262)	(115,129)	532,541	22,218	554,759
Profit for the period	—	—	15,142	70	15,213
Other comprehensive income	(716)	155,469	155,469	(76)	155,393
Total comprehensive income for the period	(716)	155,469	170,612	(5)	170,606
Dividends to non-controlling interests	—	—	—	(364)	(364)
Share-based payment transactions	—	—	121	—	121
Transfer from other components of equity to retained earnings	—	(3)	—	—	—
Total transactions with owners	—	(3)	121	(364)	(243)
At June 30, 2022	(24,979)	40,337	703,275	21,847	725,123

(4) Condensed quarterly consolidated statement of cash flows

For the six months ended June 30

in thousands of US dollars

	2021	2022
Cash flows from operating activities		
Profit before tax	57,980	24,834
Depreciation and amortization	17,490	19,595
Increase (decrease) in provisions	(13,998)	(43,828)
Increase (decrease) in defined benefit liability	359	(2,414)
Finance income and finance costs	(30,747)	14,145
Share of profit of investments accounted for using equity method	(33,905)	(48,456)
Decrease (increase) in trade and other receivables	(435,437)	(63,754)
Decrease (increase) in contract assets	(29,954)	103,526
Decrease (increase) in other current assets	157,082	(18,344)
Increase (decrease) in trade and other payables	145,577	(153,769)
Increase (decrease) in contract liabilities	99,006	(1,924)
Increase (decrease) in other current liabilities	(4,238)	(48,531)
Other	14,325	(22,005)
Subtotal	(56,458)	(240,927)
Interest received	21,450	20,633
Dividends received	51,389	40,349
Interest paid	(2,802)	(6,987)
Income taxes paid	(15,688)	(5,752)
Net cash used in operating activities	(2,109)	(192,684)
Cash flows from investing activities		
Net decrease (increase) in short-term loans receivable	(60,090)	(8,295)
Payments for long-term loans receivable	(21,000)	—
Purchase of property, plant and equipment and intangible assets	(6,222)	(4,409)
Proceeds from capital reduction of investments accounted for using equity method	—	9,749
Purchase of investments accounted for using equity method	(15,330)	—
Net cash used in investing activities	(102,644)	(2,955)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	31,000	—
Repayments of long-term borrowings	(27,858)	(26,396)
Payments of lease liabilities	(11,264)	(10,301)
Net decrease (increase) in treasury shares	262	198
Dividends paid	(11,288)	(13)
Dividends paid to non-controlling interests	(620)	(364)
Receipt of government grants	1,911	552
Proceeds from settlement of derivative contracts	1,733	568
Net cash used in financing activities	(16,125)	(35,756)
Effect of changes in exchange rates on cash and cash equivalents	2,182	(4,927)
Net decrease in cash and cash equivalents	(118,696)	(236,323)
Cash and cash equivalents at beginning of period	617,149	810,131
Cash and cash equivalents at end of period	498,453	573,808

(5) Selected notes to the condensed quarterly consolidated financial statements

(Note to ability to continue as a going concern)

There were no significant events noted.

(Additional information)

Update of material uncertainties related to the Company's ability to continue as a going concern:

At the end of previous year and at the end of the first quarter of this year there were breaches of the financial covenants with regard to the Company as the borrower of loans and bonds. At the end of the second quarter of this year there are no breaches of financial covenants due to the agreement reached with financial institutions to revise the financial covenants.

Accordingly, the Company has determined that there are no material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Therefore, there are no disclosures about material uncertainties related to the Company's ability to continue as a going concern in 1. Qualitative information on quarterly financial results.