Consolidated Financial Statements

MODEC, INC. and Consolidated Subsidiaries

For the Years ended December 31,
2013 and 2012
Together with Independent
Auditor's Report

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012

A S S E T S

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
CURRENT ASSETS:			
Cash and time deposits (Note 1(s) and 17)	¥21,786	¥33,367	$206,758
Accounts receivable – trade (Note 16, 17 and 20)	84,695	50,105	803,790
Inventories (Note 2)	3,667	6,601	34,800
Short-term loans receivable (Note 17 and 20)	—	3,740	—
Deferred tax assets (Note 13)	3,565	2,608	33,830
Other current assets	7,648	5,996	72,587
Less- Allowance for bad debts (Note 1 (j))	(472)	(414)	(4,483)
Total current assets	120,889	102,003	1,147,282
PROPERTY AND EQUIPMENT (Note 1(t) and 19):			
Buildings and structures	125	119	1,182
Machinery and equipment (Note 12)	2,436	1,690	23,122
Vessel	35,603	25,069	337,888
Construction in progress (Note 12)	525	886	4,978
Less- Accumulated depreciation	(21,087)	(15,340)	(200,119)
Net property and equipment	17,602	12,424	167,051
INTANGIBLE ASSETS (Note 4)	7,395	6,759	70,179
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3 and 17)	26,544	13,686	251,907
Long-term loans receivable from unconsolidated subsidiaries and affiliated companies (Note 17 and 20)	38,771	14,051	367,954
Deferred tax assets (Note 13)	3,522	4,396	33,423
Bankrupt and substantially bankrupt claims	1,594	—	15,130
Other investments	952	785	9,036
Less- Allowance for bad debts (Note 1 (j))	(1,594)	—	(15,130)
Total investments and other assets	69,789	32,918	662,320
Total assets	¥215,675	¥154,104	$2,046,832

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))
	2013	2012	2013
CURRENT LIABILITIES:			
Accounts payable – trade (Note 17 and 20)	¥87,782	¥56,918	$833,084
Short-term loans payable (Note 5, 7 and 17)	9,483	1,125	90,000
Current portion of long-term loans payable (Note 5, 17 and 20)	1,405	2,276	13,338
Accrued expenses	6,596	5,966	62,601
Income taxes payable (Note 13)	3,626	4,296	34,412
Provision for product warranty (Note 1 (m))	3,195	2,284	30,323
Provision for loss on construction contracts	—	192	—
Accrued employees’ bonuses	11	9	101
Accrued directors’ bonuses	12	11	113
Advances received	1,538	8,585	14,592
Deferred tax liabilities (Note 13)	12	36	110
Other provisions	5	92	52
Other current liabilities	1,386	1,450	13,145
Total current liabilities	115,051	83,240	1,091,871
LONG-TERM LIABILITIES:			
Long-term loans payable (Note 5, 17 and 20)	15,616	3,593	148,201
Severance and retirement benefits for employees (Note 10)	176	167	1,670
Deferred tax liabilities (Note 13)	483	205	4,584
Other long-term liabilities	3,905	6,510	37,060
Total long-term liabilities	20,180	10,475	191,515
CONTINGENT LIABILITIES (Note 14)			
NET ASSETS :			
SHAREHOLDERS’ EQUITY (Note 8 and 21):			
Common stock;			
Authorized – 102,868,000 shares			
Issued – 46,408,000 shares	20,186	20,186	191,569
Capital surplus	20,916	20,916	198,497
Retained earnings	30,528	26,940	289,729
Treasury stock, at cost	(2)	(2)	(17)
Total shareholders’ equity	71,628	68,040	679,778
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Net unrealized holding losses on securities	(0)	(15)	(0)
Unrealized losses on hedging derivatives, net of tax	(4,978)	(8,102)	(47,241)
Foreign currency translation adjustments	4,307	(5,680)	40,871
Retirement liability adjustments for foreign consolidated subsidiaries	(146)	(137)	(1,384)
Total accumulated other comprehensive loss	(817)	(13,934)	(7,754)
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	9,633	6,283	91,422
Total net assets	80,444	60,389	763,446
Total liabilities and net assets	¥215,675	¥154,104	$2,046,832

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2013 and 2012

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
SALES (Note 1 (q), 19 and 20)	¥254,402	¥186,891	$2,414,367
COST OF SALES (Note 1(q) and 20)	237,688	173,265	2,255,747
Gross profit	16,714	13,626	158,620
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 1(t) and 11)	13,010	10,156	123,467
Operating profit	3,704	3,470	35,153
OTHER INCOME (EXPENSES) (Note 1(u)):			
Interest income and dividend income	2,416	1,451	22,924
Foreign exchange gain, net	3,850	2,656	36,534
Equity in earnings of affiliates and unconsolidated subsidiaries	5,623	2,383	53,360
Interest expense	(697)	(497)	(6,610)
Commission fee (Note 1(u))	(121)	(53)	(1,144)
Loss on revaluation of derivatives	—	(453)	—
Gain on liquidations of an affiliated company	101	—	959
Loss on sales of property and equipment	(39)	—	(373)
Loss on disposal of property and equipment	(157)	—	(1,487)
Impairment loss on property and equipment (Note 12)	(2,311)	—	(21,933)
Provision of allowance for doubtful accounts	(1,594)	—	(15,130)
Others, net (Note 1(u))	885	339	8,404
Total other income (expenses)	7,956	5,826	75,504
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	11,660	9,296	110,657
INCOME TAXES (Note 13):			
Current	4,354	4,724	41,318
Deferred	578	(1,287)	5,485
INCOME BEFORE MINORITY INTERESTS	6,728	5,859	63,854
MINORITY INTERESTS	1,805	728	17,137
NET INCOME	¥4,923	¥5,131	$46,717
	Japanese yen		U.S. dollars
Net income per share (Note 9)	¥106.07	¥110.56	$1.01
Dividends per share (Note 9)	¥30.00	¥27.50	$0.28

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, 2013 and 2012

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013 (Note 15)	2012 (Note 15)	2013 (Note 15)
Income before minority interests	¥6,728	¥5,859	$63,854
Other comprehensive income (loss)			
Net unrealized holding gains (losses) on securities	15	(3)	139
Unrealized gains on hedging derivatives, net of tax	1	216	11
Foreign currency translation adjustments	5,945	2,815	56,418
Retirement liability adjustments for foreign consolidated subsidiaries	(37)	(137)	(350)
Share of other comprehensive income of associates accounted for using equity method	8,769	627	83,225
Total	14,693	3,518	139,443
Comprehensive income	¥21,421	¥9,377	$203,297

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
Comprehensive income attributable to owners of the parent	¥18,039	¥7,970	$171,200
Comprehensive income attributable to minority interests	¥3,382	¥1,407	$32,097

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, 2013 and 2012

Millions of Japanese yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains (losses) on securities	Unrealized gains (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	¥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)
Increase (decrease) due to changes in fair market values of available-for-sale securities					(3)					(3)
Unrealized gains (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
Balance at January 1, 2013	¥20,186	¥20,916	¥26,940	¥ (2)	¥(15)	¥(8,102)	¥(5,680)	¥(137)	¥6,283	¥60,389
Net income			4,923							4,923
Cash dividends paid			(1,335)							(1,335)
Increase (decrease) due to changes in fair market values of available-for-sale securities					15					15
Unrealized gains (losses) on hedging derivatives, net of tax						3,124				3,124
Adjustments from translation of foreign currency financial statements							9,987			9,987
Adjustments from retirement liability for foreign consolidated subsidiaries								(9)		(9)
Increase in minority interests in consolidated subsidiaries									3,350	3,350
Balance at December 31, 2013	¥20,186	¥20,916	¥30,528	¥ (2)	¥ (0)	¥(4,978)	¥4,307	¥(146)	¥9,633	¥80,444

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 gains (losses) on securities	Unrealized gains (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, 2013	$191,569	$198,497	$255,674	$(17)	$(140)	$(76,893)	$(53,904)	$(1,300)	$59,630	$573,116
Net income			46,717							46,717
Cash dividends paid			(12,662)							(12,662)
Increase (decrease) due to changes in fair market values of available-for-sale securities					140					140
Unrealized gains (losses) on hedging derivatives, net of tax						29,652				29,652
Adjustments from translation of foreign currency financial statements							94,775			94,775
Adjustments from retirement liability for foreign consolidated subsidiaries								(84)		(84)
Increase in minority interests in consolidated subsidiaries									31,792	31,792
Balance at December 31, 2013	$191,569	$198,497	$289,729	$(17)	$(0)	$(47,241)	$40,871	$(1,384)	$91,422	$763,446

MODEC, INC. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2013 and 2012

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥11,660	¥9,296	$110,657
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,223	2,980	40,080
Amortization of goodwill	349	287	3,315
Increase of allowance for bad debts	1,635	65	15,514
Increase (decrease) of severance and retirement benefits for employees	9	(1)	88
Increase (decrease) of accrued directors' bonuses	0	(9)	4
Increase of provision for product warranty	437	368	4,149
Increase (decrease) of provision for loss on construction contracts	(192)	192	(1,821)
Interest income and dividend income	(2,416)	(1,451)	(22,924)
Interest expense	697	497	6,610
Foreign exchange gain	(4,690)	(1,814)	(44,508)
Loss on revaluation of derivatives	―	453	―
Equity in earnings of affiliates and unconsolidated subsidiaries	(5,623)	(2,383)	(53,360)
Loss on sales of property and equipment	39	―	373
Loss on disposal of property and equipment	157	―	1,487
Impairment loss on property and equipment	2,311	―	21,933
Gain on liquidations of an affiliated company	(101)	―	(959)
Changes in assets and liabilities:			
Decrease (increase) in			
– Accounts receivable - trade	(38,897)	6,626	(369,149)
– Inventories	364	(4,080)	3,451
– Bankrupt and Substantially Bankrupt Claims	(1,594)	―	(15,130)
Increase (decrease) in			
– Accounts payable – trade	21,357	9,391	202,684
– Consumption tax payable	(89)	88	(847)
Others, net	(1,300)	2,278	(12,341)
	(11,664)	22,783	(110,694)
Interest and dividend received	4,632	3,905	43,962
Interest paid	(683)	(502)	(6,485)
Income taxes paid	(5,187)	(3,290)	(49,227)
Net cash provided by (used in) operating activities	¥(12,902)	¥22,896	$(122,444)

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

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment and intangible assets	¥(8,833)	¥(2,067)	$(83,829)
Proceeds from sale on property and equipment and intangible assets	29	4	272
Purchases of investments in affiliates	(5,387)	(934)	(51,125)
Decrease in short-term loans receivable	5,206	3,616	49,408
Disbursement of long-term loans receivable	(50,799)	(4,495)	(482,099)
Collection of long-term loans receivable	40,233	674	381,827
Net cash used in investing activities	(19,551)	(3,202)	(185,546)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term loans payable	4,150	(1,154)	39,382
Proceeds from long-term loans payable	10,330	—	98,036
Repayment of long-term loans payable	(1,719)	(3,513)	(16,313)
Cash dividends paid	(1,333)	(1,221)	(12,651)
Cash dividends paid to minority shareholders	(29)	—	(275)
Repayments of finance lease obligations	(25)	(10)	(235)
Net cash provided by (used in) financing activities	11,374	(5,898)	107,944
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	9,596	2,251	91,074
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,483)	16,047	(108,972)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	33,367	17,320	316,663
DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE OF SCOPE OF CONSOLIDATION	(98)	—	(933)
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1 (s))	¥21,786	¥33,367	$206,758

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, 2013, which was ¥105.37 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 22 of its subsidiaries for the year ended December 31, 2013 and 23 of its subsidiaries for the year ended December 31, 2012. 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 year ended December 31, 2013 and 16 companies for the year ended December 31, 2012 were accounted for by using the equity method.

Another 4 subsidiaries for the year ended December 31, 2013 and 3 subsidiaries for the year ended December 31, 2012 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) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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, 2013 and 2012 are as follows:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
Cash and time deposits	¥21,786	¥33,367	$206,758
Less : Time deposits with maturities exceeding three months	—	—	—
Cash and cash equivalents	¥21,786	¥33,367	$206,758

Changes of Accounting Policies:

(t) 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 equipment 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.

Changes in Presentation:

(u) Reclassifications

The Company made certain reclassifications to the previously reported fiscal year 2012 amounts to conform to fiscal year 2013 presentation. These reclassifications had no effect on previously reported net income or net assets.

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. Inventories

Inventories as of December 31, 2013 and 2012 consisted of the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
Raw materials	¥1,308	¥3,771	$12,411
Costs of uncompleted contracts	2,359	2,830	22,389
	¥3,667	¥6,601	$34,800

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, 2013 and 2012

	Millions of Japanese yen		
2013:	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥65	¥73	¥8
Securities with book values not exceeding acquisition costs:			
Equity securities	50	42	(8)
Total	¥115	¥115	¥(0)

	Millions of Japanese yen		
2012:	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	—	—	—
Securities with book values not exceeding acquisition costs:			
Equity securities	¥115	¥92	¥(23)
Total	¥115	¥92	¥(23)

	Thousands of U.S. dollars (Note 1 (a))		
2013:	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	$615	$695	$80
Securities with book values not exceeding acquisition costs:			
Equity securities	474	394	(80)
Total	$1,089	$1,089	$(0)

4. Goodwill

Goodwill recorded in intangible assets as of December 31, 2013 and 2012 were ¥ 3,679 million ($ 34,920 thousand) and ¥ 3,310 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 0.9% and 0.8% as of December 31, 2013 and 2012, respectively.

Long-term loans payable as of December 31, 2013 and 2012 are summarized below:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
Loans from banks and others due through 2023	¥17,021	¥5,869	$161,539
Less: Current portion included in current liabilities, at average rate of 1.1%	(1,405)	(2,276)	(13,338)
Loans from banks and others, at average rate of 2.0% due through 2023 (Excluding current portion)	¥15,616	¥3,593	$148,201

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

Year ending December 31,	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
2014	¥1,405	$13,338
2015	1,323	12,557
2016	4,313	40,929
2017	2,122	20,141
2018	5,708	54,174
2019 and thereafter	2,150	20,400
	¥17,021	$161,539

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, 2013 and 2012 without any drawdown. The overdraft facility line amount is ¥3,150 million ($29,895 thousand) without any drawdown as of December 31, 2013 and with the unexecuted balance of ¥3,000 million as of December 31, 2012. The unexecuted balance of notes payable denominated in U.S. dollars is $ 149,000 thousand as of December 31, 2013 and $ 136,000 thousand as of December 31, 2012.

8. Shareholders' Equity

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

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

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

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

At the annual shareholders' meeting held on March 28, 2013, the shareholders approved cash dividends amounting to ¥638 million for the year ended December 31, 2012.

At the annual shareholders' meeting held on March 28, 2014, the shareholders approved cash dividends amounting to ¥697 million ($6,606 thousand). Such appropriations have not been accrued in the consolidated financial statements as of December 31, 2013. 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, 2013 and 2012.

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, 2013 and 2012 consisted of the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
Projected benefit obligation	¥176	¥167	$1,670
Severance and retirement benefits for employees	¥176	¥167	$1,670

Severance and retirement benefit expenses recorded in the consolidated statements of income for the years ended December 31, 2013 and 2012 consisted of the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
Service costs – benefits earned during the year	¥24	¥24	$231
Others	41	33	386
Severance and retirement benefit expenses	¥65	¥57	$617

11. Research and Development Expenses

Research and development expenses recorded in selling, general and administration expenses are ¥709 million ($6,727 thousand) and ¥596 million for the years ended December 31, 2013 and 2012 respectively.

12. Impairment Losses on Property and Equipment

Impairment losses on property and equipment for the year ended December 31, 2013 consisted of the following:

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

Location	Use	Type of assets	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
Japan (Saga prefecture)	Floating wind & Current Hybrid Power Generation	Construction in progress (Machinery and Equipment)	¥2,311	$21,933

(b) Grouping unit

The business assets have been grouped by each company. FPSOs, FSOs, and Floating wind & Current Hybrid Power Generation have been grouped by each cash-generating unit.

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

Floating wind & Current Hybrid Power Generation is under construction. The Company conservatively assessed the future cash flow of the asset and realized it is below the book value because forecast of purchase price of electricity is unpredictable.
As a result, the Company reduced the carrying amount of the asset to the recoverable amount and recognized the impairment loss ¥2,311 million ($21,933 thousand).

(d) The measurement of the impairment losses

The Company measured the recoverable amount based on a value in use and calculated it by discounting future cash flow at an interest rate of 2.0%.

13. Income Taxes

The normal statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes are 38% for the years ended December 31, 2013 and 41% for the years ended December 31, 2012.

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, 2013 and 2012.

	2013	2012
Statutory income tax rates	38.0%	41.0%
Difference of statutory tax rate between the Company and overseas subsidiaries	(3.9)	(1.8)
Equity in earnings of affiliates and unconsolidated subsidiaries	(18.3)	(10.5)
Valuation Allowance	29.7	5.0
Income of foreign subsidiaries taxed at lower than Japanese normal rate	1.2	1.2
Income taxes for prior periods	(0.5)	0.6
Others	(4.0)	1.5
Effective tax rates	42.2%	37.0%

2) Significant components of deferred tax assets and liabilities as of December 31, 2013 and 2012 are as follows:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
Deferred tax assets:			
Current assets:			
Enterprise tax payable	¥41	¥179	$394
Accrued employees' bonuses	10	3	91
Provision for product warranty	611	470	5,800
Provision for loss on construction contracts	—	73	—
Allowance for bad debts	177	155	1,679
Other Provisions	2,353	1,233	22,333
Others	804	1,354	7,627
Sub total	3,996	3,467	37,924
Valuation Allowance	(4)	(661)	(43)
Offset to deferred tax liabilities (short-term)	(427)	(198)	(4,051)
Total	3,565	2,608	33,830
Fixed assets:			
Unrealized inter-company profit on fixed assets	3,132	3,475	29,720
Tax loss carry forward	3,527	2,378	33,471
Long-term foreign exchange losses	—	282	—
Severance and retirement benefits for employees	63	60	601
Depreciation	128	406	1,210
Long-term foreign tax credit	1,045	389	9,921
Temporary difference for investment in subsidiaries	978	978	9,284
Allowance for bad debts	574	—	5,447
Impairment loss	832	—	7,896
Others	860	402	8,162
Sub total	11,139	8,370	105,712
Valuation allowance	(4,781)	(2,370)	(45,373)
Offset to deferred tax liabilities (long-term)	(2,836)	(1,604)	(26,916)
Total	3,522	4,396	33,423
Total deferred tax assets	¥7,087	¥7,004	$67,253

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
Deferred tax liabilities:			
Current liabilities:			
Temporary difference of foreign exchange gain in overseas subsidiaries	¥(103)	¥(79)	$(972)
Others	(336)	(155)	(3,189)
Sub total	(439)	(234)	(4,161)
Offset to deferred tax assets (short-term)	427	198	4,051
Total	(12)	(36)	(110)
Long-term liabilities:			
Depreciation	(1,033)	(829)	(9,804)
Long-term foreign exchange gain	(1,634)	—	(15,509)
Difference on percentage-of-completion method	(603)	(510)	(5,719)
Undistributed earnings of overseas subsidiaries	(32)	(396)	(300)
Others	(17)	(74)	(168)
Sub total	(3,319)	(1,809)	(31,500)
Offset to deferred tax assets (long-term)	2,836	1,604	26,916
Total	(483)	(205)	(4,584)
Total deferred tax liabilities	(495)	(241)	(4,694)
Net deferred tax assets	¥6,592	¥6,763	$62,559

3) The revision of the corporate income tax rate after December 31, 2013

The "Act for Partial Revision of Income Tax Act, etc." (Act No.10 of 2014) was promulgated on March 31, 2014 and the income tax rate is to be changed accordingly with the effect on business terms beginning on January 1, 2015 onward.

In accordance with the revision, statutory effective tax rates used to calculate the amounts of deferred tax assets and liabilities have been applied as follows depending on the timing of reversal for each temporary item. This revision had no material effect on the consolidated financial statements.

Timing of reversal Tax rate	Tax rate
January 1, 2014 through December 31, 2014	38.0%
January 1, 2015 onward	36.0%

14. Contingent Liabilities and Commitments

As of December 31, 2013 and 2012, the Company was contingently liable for the following:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
Guarantees of bank loans and other indebtedness for unconsolidated subsidiaries and affiliates	¥58,444	¥50,906	$554,657

For the years ended December 31, 2013 and 2012, 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 years ended of December 31, 2013 and 2012 was the followings:

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
Net unrealized holding gains / (losses) on securities:			
Amount of generation at this fiscal term	¥23	¥(3)	$217
Amount of rearrangement adjustment	—	—	—
Before adjusting the tax effect	23	(3)	217
Tax effect	(8)	0	(78)
Net unrealized holding gains / (losses) on securities	15	(3)	139
Unrealized gains / (losses) on hedging derivatives, net of tax			
Amount of generation at this fiscal term	169	489	1,604
Amount of rearrangement adjustment	(171)	(273)	(1,624)
Before adjusting the tax effect	(2)	216	(20)
Tax effect	3	—	31
Unrealized gains on hedging derivatives, net of tax	1	216	11
Foreign currency translation adjustments			
Amount of generation at this fiscal term	5,844	2,581	55,464
Amount of rearrangement adjustment	101	—	959
Before adjusting the tax effect	5,945	2,581	56,423
Tax effect	(0)	234	(5)
Foreign currency translation adjustments	5,945	2,815	56,418
Retirement liability adjustments for foreign consolidated subsidiaries			
Amount of generation at this fiscal term	(137)	(137)	(1,302)
Amount of rearrangement adjustment	15	—	145
Before adjusting the tax effect	(122)	(137)	(1,157)
Tax effect	85	—	807
Retirement liability adjustments for foreign consolidated subsidiaries	(37)	(137)	(350)
Share of other comprehensive income / (loss) of associates accounted for using equity method			
Amount of generation at this fiscal term	7,531	1,046	71,476
Amount of rearrangement adjustment	1,238	(419)	11,749
Share of other comprehensive income of associates accounted for using equity method	8,769	627	83,225
Total	¥14,693	¥3,518	$139,443

16. Leases

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

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1 (a))
	2013	2012	2013
Due within one year	¥1,339	¥1,099	$12,702
Due after one year	3,795	4,218	36,018
Total	¥5,134	¥5,317	$48,720

17. Financial Instruments

(a) Concerning status of financial instruments

i) Policies for financial instruments

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

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

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) 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, 2013 and 2012 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.

2013:	Millions of Japanese yen		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	¥21,786	¥21,786	—
(2) Accounts receivable – trade	84,695	84,695	—
(3) Investment securities	115	115	—
(4) Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	38,771	39,359	¥588
(5) Bankrupt and Substantially Bankrupt Claims	1,594		
Allowance for bad debts (*1)	(1,594)		
	—	—	—
Assets total	¥145,367	¥145,955	¥588
(6) Accounts payable – trade	¥87,782	¥87,782	—
(7) Short-term loans payable	9,483	9,483	—
(8) Current portion of long-term loans payable	1,405	1,405	—
(9) Long-term loans payable	15,616	15,616	—
Liabilities total	¥114,286	¥114,286	—
(10) Derivative transactions (*2)			
i) Derivative transactions for which hedge accounting has not been applied	—	—	—
ii) Derivative transactions for which hedge accounting has been applied	¥(519)	¥(519)	—
Derivative transactions total	¥(519)	¥(519)	—

*1: Bankrupt and Substantially Bankrupt Claims are presented net of allowance for bad debts.

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

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 from unconsolidated subsidiaries and affiliated companies	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)	—

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

2013:	Thousands of U.S. dollars (Note 1 (a))		
	Book Value	Fair Value	Difference
(1) Cash and time deposits	$206,758	$206,758	—
(2) Accounts receivable – trade	803,790	803,790	—
(3) Investment securities	1,089	1,089	—
(4) Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	367,954	373,531	$5,577
(5) Bankrupt and Substantially Bankrupt Claims	15,130		
Allowance for bad debts (*1)	(15,130)		
	—	—	—
Assets total	$1,379,591	$1,385,168	$5,577
(6) Accounts payable – trade	$833,084	$833,084	—
(7) Short-term loans payable	90,000	90,000	—
(8) Current portion of long-term loans payable	13,338	13,338	—
(9) Long-term loans payable	148,201	148,201	—
Liabilities total	$1,084,623	$1,084,623	—
(10) Derivative transactions (*2)			
i) Derivative transactions for which hedge accounting has not been applied	—	—	—
ii) Derivative transactions for which hedge accounting has been applied	$(4,923)	$(4,923)	—
Derivative transactions total	$(4,923)	$(4,923)	—

*1: Bankrupt and Substantially Bankrupt Claims are presented net of allowance for bad debts.

*2: 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 transaction

Assets

(1) Cash and time deposits and (2) Accounts receivable – trade

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.

(3) 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.)

(4) Long-term loans receivable from unconsolidated subsidiaries and affiliated companies

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.

(5) Bankrupt and Substantially Bankrupt Claims

Fair value of these accounts is stated at the balance sheet amounts because the estimated amounts of bad debts are calculated based on the collectible amounts and fair value of the amounts are considered to be close to the balance sheet amounts.

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))
	2013	2012	2013
Unlisted equity securities	¥26,429	¥13,594	$250,818

As to these financial instruments, there is no available fair market value. So these financial instruments are not included in (3) 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, 2013 and 2012 are as follows:

2013:	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	¥21,786	─	─	─
Accounts receivable – trade	84,695	─	─	─
Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	─	26,537	3,555	8,679

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 from unconsolidated subsidiaries and affiliated companies	─	8,561	5,490	─

2013:	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	$206,758	─	─	─
Accounts receivable – trade	803,790	─	─	─
Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	─	251,849	33,735	82,370

(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))
2015	¥1,323	$12,557
2016	4,313	40,929
2017	2,122	20,141
2018	5,708	54,174
2019 and thereafter	2,150	20,400
Total	¥15,616	$148,201

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
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.

The following tables summarize market value information as of December 31, 2013 and 2012 of derivative transactions for which hedge accounting has been applied

2013:
Currency related derivatives

		Millions of Japanese yen		
		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		¥418	–	¥25
To buy Euro		2,559	¥1,188	(41)
To buy Norwegian krone		110	–	1
				¥(15)

2012:
Currency related derivatives

		Millions of Japanese yen		
		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

2013:
Currency related derivatives

Type	Hedged Items	Thousands of U.S. dollars (Note 1 (a)) Contract Amount Total	Due after one year	Market Value
Forward contract (Principle method)	Accounts payable – trade and others			
To buy STG pounds		$3,971	–	$233
To buy Euro		24,289	$11,274	(385)
To buy Norwegian krone		1,040	–	6
				$(146)

2013:
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		¥4,550	¥3,716	¥(503)

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)

2013:
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		$43,185	$35,270	$(4,777)

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

2013:

Millions of Japanese yen					
Brazil	Ghana	Oceania	Asia	Other	Total
¥184,065	¥27,532	¥20,337	¥13,264	¥9,204	¥254,402

2012:

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

2013:

Thousands of U.S. dollars (Note 1 (a))					
Brazil	Ghana	Oceania	Asia	Other	Total
$1,746,847	$261,287	$193,003	$125,884	$87,346	$2,414,367

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

(b) Property and equipment

2013:

Millions of Japanese yen			
Australia	Vietnam	Other	Total
¥10,004	¥5,963	¥1,635	¥17,602

2012:

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

2013:

Thousands of U.S. dollars (Note 1 (a))			
Australia	Vietnam	Other	Total
$94,940	$56,592	$15,519	$167,051

(4) Information by major customer

2013:

Customer	Sales	Related Segment
	Millions of Japanese yen	
CERNAMBI NORTE MV26 B.V.	¥70,528	(note 1)
CERNAMBI SUL MV24 B.V.	54,944	(note 1)

2012:

Customer	Sales	Related Segment
	Millions of Japanese yen	
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)

2013:

Customer	Sales	Related Segment
	Thousands of U.S. dollars (Note 1 (a))	
CERNAMBI NORTE MV26 B.V.	$669,332	(note 1)
CERNAMBI SUL MV24 B.V.	521,435	(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, 2013 are as follows:

2013:

Related party	Transactions	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
GAS OPPORTUNITY MV20 B.V.	Disbursement of loans for capital expenditure	¥682	$6,472
TUPI PILOT MV22 B.V.	Disbursement of loans for capital expenditure	775	7,356
GUARA MV23 B.V.	Disbursement of loans for capital expenditure	34,957	331,758
GUARA MV23 B.V.	Collection of loans for working capital	39,762	377,357
CERNAMBI SUL MV24 B.V.	Construction of FPSO (Sales)	7,779	73,828
CERNAMBI SUL MV24 B.V.	Disbursement of loans for capital expenditure	7,895	74,929
CERNAMBI SUL MV24 B.V.	Guarantees of bank Loans	20,911	198,450
T.E.N. GHANA MV25 B.V.	Construction of FPSO (Sales)	18,370	174,342
T.E.N. GHANA MV25 B.V.	Disbursement of loans for capital expenditure	882	8,366
T.E.N. GHANA MV25 B.V.	Collection of loans for working capital	1,479	14,035
T.E.N. GHANA MV25 B.V.	Guarantees of bank Loans	2,634	25,000
CERNAMBI NORTE MV26 B.V.	Construction of FPSO (Sales)	10,073	95,593
CERNAMBI NORTE MV26 B.V.	Disbursement of loans for capital expenditure	82	782
CERNAMBI NORTE MV26 B.V.	Collection of loans for working capital	3,867	36,698
CERNAMBI NORTE MV26 B.V.	Guarantees of bank Loans	29,033	275,531
CARIOCA MV27 B.V.	Construction of FPSO (Sales)	3,606	34,222
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Construction of FPSO (Cost of sales)	3,525	33,455

2013:

Related party	Consolidated balance sheets accounts	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
ESPADARTE MV14 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	¥2,119	$20,109
PRA-1 MV15 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	2,269	21,531
OPPORTUNITY MV18 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	2,276	21,600
SONG DOC MV19 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	3,288	31,200
GAS OPPORTUNITY MV20 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	3,555	33,735
TUPI PILOT MV22 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	5,142	48,800
CERNAMBI SUL MV24 B.V.	Accounts receivable - trade	9,530	90,443
CERNAMBI SUL MV24 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	15,156	143,839
T.E.N. GHANA MV25 B.V.	Accounts receivable - trade	12,790	121,385
T.E.N. GHANA MV25 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	2,887	27,400
CERNAMBI NORTE MV26 B.V.	Accounts receivable - trade	7,414	70,365
CARIOCA MV27 B.V.	Accounts receivable - trade	3,606	34,222
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Accounts payable - trade	431	4,094

Significant related party transactions and corresponding balances between the consolidated subsidiaries and the parent company or major shareholders (corporation only) for the year ended December 31, 2013 are as follows:

2013:

Related party	Transactions	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
MITSUI & CO., LTD.	Proceeds from long-term loans payable	¥864	$8,200
MITSUI & CO., LTD.	Repayment of long-term loans payable	315	2,989

2013:

Related party	Consolidated balance sheets accounts	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
MITSUI & CO., LTD.	Current portion of long-term loans payable	¥367	$3,487
MITSUI & CO., LTD.	Long-term loans payable	2,820	26,758

Significant related party transactions and corresponding balances between the consolidated subsidiaries and unconsolidated subsidiaries or affiliates for the year ended December 31, 2013 are as follows:

2013:

Related party	Transactions	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
CERNAMBI SUL MV24 B.V.	Construction of FPSO (Sales)	¥46,601	$442,256
CERNAMBI NORTE MV26 B.V.	Construction of FPSO (Sales)	60,569	574,820
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Construction of FPSO (Cost of sales)	52,979	502,787

2013:

Related party	Consolidated balance sheets accounts	Millions of Japanese yen	Thousands of U.S. dollars (Note 1 (a))
CERNAMBI SUL MV24 B.V.	Accounts receivable - trade	¥1,092	$10,364
CERNAMBI NORTE MV26 B.V.	Accounts receivable - trade	4,396	41,720
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Accounts payable - trade	6,216	58,993

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
ESPADARTE MV14 B.V.	Collection of loans for working capital	¥424
PRA-1 MV15 B.V.	Collection of loans for working capital	250
GUARA MV23 B.V.	Construction of FPSO (Sales)	22,935
GUARA MV23 B.V.	Disbursement of loans for capital expenditure	17,383
GUARA MV23 B.V.	Collection of loans for capital expenditure	18,392
GUARA MV23 B.V.	Guarantees of bank Loans	33,923
CERNAMBI SUL MV24 B.V.	Construction of FPSO (Sales)	9,223
CERNAMBI SUL MV24 B.V.	Disbursement of loans for capital expenditure	10,462
CERNAMBI SUL MV24 B.V.	Collection of loans for capital expenditure	10,299
CERNAMBI SUL MV24 B.V.	Guarantees of bank Loans	12,495
CERNAMBI NORTE MV26 B.V.	Disbursement of loans for capital expenditure	3,098
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Construction of FPSO (Cost of sales)	16,653

2012 :

Related party	Consolidated balance sheets accounts	Millions of Japanese yen
ESPADARTE MV14 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	¥1,741
PRA-1 MV15 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	1,864
OPPORTUNITY MV18 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	1,870
SONG DOC MV19 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	2,701
GAS OPPORTUNITY MV20 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	2,314
TUPI PILOT MV22 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	3,532
GUARA MV23 B.V.	Accounts receivable - trade	13,080
CERNAMBI SUL MV24 B.V.	Accounts receivable - trade	4,598
CERNAMBI SUL MV24 B.V.	Long-term loans receivable from unconsolidated subsidiaries and affiliated companies	5,500
CERNAMBI NORTE MV26 B.V.	Short-term loans receivable	3,307
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE. LTD.	Accounts payable - trade	5,554

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	Consolidated balance sheets accounts	Millions of Japanese yen
MITSUI & CO., LTD.	Current portion of long-term loans payable	¥758
MITSUI & CO., LTD.	Long-term loans payable	1,409

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
CERNAMBI SUL MV24 B.V.	Construction of FPSO (Sales)	¥38,422

2012 :

Related party	Consolidated balance sheets accounts	Millions of Japanese yen
CERNAMBI SUL MV24 B.V.	Accounts receivable - trade	¥5,620

21. Subsequent Events

Issuance of new shares through public offering and third-party allotment, and sales of shares

The Board of Directors of the Company at its meeting held on April 7, 2014, resolved to issue new shares through public offering and third-party allotment and sales of shares.

1. Issuance of new shares through public offering (open to all parties)

(1)	Type and number of shares offered		3,096,000 shares of the common stock	
(2)	Issue price (offer price)		¥2,017 per share $19.14 per share	(Note 1 (a))
(3)	Total amount of issue price		¥6,245 million $59,264 thousand	(Note 1 (a))
(4)	Amount to be paid		¥1,933.8 per share $18.35 per share	(Note 1 (a))
(5)	Total amount to be paid		¥5,987 million $56,819 thousand	(Note 1 (a))
(6)	Amounts of capital and capital surplus to be increased	Amount of capital to be increased	¥2,994 million $28,410 thousand	(Note 1 (a))
		Amount of capital surplus to be increased	¥2,994 million $28,410 thousand	(Note 1 (a))
(7)	Payment date		April 22, 2014	

2. Issuance of new shares through third-party allotment with Mitsui Engineering & Shipbuilding Co., Ltd. and Mitsui & Co., Ltd. as allottees

(1)	Type and number of shares offered		6,439,800 shares of the common stock	
(2)	Amount to be paid		¥2,017 per share $19.14 per share	(Note 1 (a))
(3)	Total amount to be paid		¥12,989 million $123,271 thousand	(Note 1 (a))
(4)	Amounts of capital and capital surplus to be increased	Amount of capital to be increased	¥6,495 million $61,636 thousand	(Note 1 (a))
		Amount of capital surplus to be increased	¥6,495 million $61,636 thousand	(Note 1 (a))
(5)	Allottees and number of shares allotted	Mitsui Engineering & Shipbuilding Co., Ltd.	5,010,000 shares	
		Mitsui & Co., Ltd.	1,429,800 shares	
(6)	Payment date		April 22, 2014	

3. Sales of shares (sales through over-allotment)

(1)	Type and number of shares for sale	464,200 shares of the common stock	
(2)	Seller	SMBC Nikko Securities Inc.	
(3)	Sales price	¥2,017 per share $19.14 per share	(Note 1 (a))
(4)	Total amount of sales price	¥936 million $8,886 thousand	(Note 1 (a))
(5)	Delivery date	April 23, 2014	

4. Issuance of new shares through third-party allotment with SMBC Nikko Securities Inc. as allottee

<table>
<tr><td>(1)</td><td>Type and number of shares offered</td><td colspan="2">464,200 shares of the common stock</td><td></td></tr>
<tr><td>(2)</td><td>Amount to be paid</td><td colspan="2">¥1,933.8 per share
$18.35 per share</td><td>(Note 1 (a))</td></tr>
<tr><td>(3)</td><td>Total amount to be paid</td><td colspan="2">¥898 million
$8,519 thousand</td><td>(Note 1 (a))</td></tr>
<tr><td rowspan="2">(4)</td><td rowspan="2">Amounts of capital and capital surplus to be increased</td><td>Amount of capital to be increased</td><td>¥449 million
$4,260 thousand</td><td>(Note 1 (a))</td></tr>
<tr><td>Amount of capital surplus to be increased</td><td>¥449 million
$4,260 thousand</td><td>(Note 1 (a))</td></tr>
<tr><td>(5)</td><td>Subscription date</td><td colspan="2">May 20, 2014</td><td></td></tr>
<tr><td>(6)</td><td>Payment date</td><td colspan="2">May 21, 2014</td><td></td></tr>
</table>

5. Reason of the capital increase (use of funds to be raised)

All funds estimated to be raised through the public offering and third-party allotment are planned to be used for investments in and loans to special purpose companies established for the FPSO charter business.