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May 11, 2022

Consolidated Financial Results for the Three Months Ended March 31, 2022 (IFRS)

Company name: MODEC, INC.
 Listing: Tokyo Stock Exchange
 Securities code: 6269
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 Scheduled date to file quarterly securities report: May 12, 2022
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: None

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

1. Consolidated financial results for the three months ended March 31, 2022 (from January 1, 2022 to March 31, 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	%
Three months ended								
March 31, 2022	81,310	(34.8)	(1,557)	-	(2,488)	-	(2,042)	-
March 31, 2021	124,665	-	3,469	-	5,589	-	5,293	-

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	million yen	%	million yen	%	yen	yen
Three months ended						
March 31, 2022	(2,039)	-	8,955	(34.3)	(36.18)	(36.18)
March 31, 2021	5,221	-	13,637	-	92.65	92.61

(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				
March 31, 2022	405,955	76,826	74,153	18.3
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 three months ended March 31, 2022 and 2021 and for the year ended December 31, 2021 are presented in US dollars on page 4 of this material. For reference, the amount presented for consolidated operating results and consolidated financial position are converted into Japanese yen respectively as follows.

March 31, 2022 1 US dollar = 122.41 Japanese yen at the TTM rate of Sumitomo Mitsui Banking Corporation as of March 31, 2022.

March 31, 2021 1 US dollar = 110.71 Japanese yen at the TTM rate of Sumitomo Mitsui Banking Corporation as of March 31, 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
	yen	yen	yen	yen	yen
Year ended December 31, 2021	—	15.00	—	0.00	15.00
Year ended December 31, 2022	—				
Year ending December 31, 2022 (Forecast)		—	—	—	—

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

3. Earnings forecast for FY2022 (January 1, 2022 – 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: Revisions to the forecast most recently announced: None

Note: The original consolidated earnings forecast of the Company is presented in US dollars on page 4 of this material. For reference, the amount presented for the consolidated earnings forecast for the year ending December 31, 2022 is converted into Japanese yen at 115.01 yen, which is 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 March 31, 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 March 31, 2022	45,100 shares
As of December, 31, 2021	45,100 shares

(iii) Average number of shares outstanding during the period

Three months ended March 31, 2022	56,362,900 shares
Three months ended March 31, 2021	56,353,768 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 result for the three months ended March 31, 2021 are also presented in accordance with IFRS.
- Accompanying condensed quarterly consolidated financial statements and selected notes are presented in US dollars.
- Earnings forecast and other forward-looking statement included in this material are based on information currently available to the Company and using the assumptions deemed reasonable. Therefore, actual results may significantly differ due to various factors.

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

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

1. Consolidated financial results for the three months ended March 31, 2022 (from January 1, 2022 to March 31, 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	%
Three months ended								
March 31, 2022	664,247	(41.0)	(12,725)	-	(20,328)	-	(16,688)	-
March 31, 2021	1,126,055	-	31,335	-	50,490	-	47,817	-

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	US\$ thousand	%	US\$ thousand	%	US\$	US\$
Three months ended						
March 31, 2022	(16,657)	-	(73,162)	(40.6)	(0.30)	(0.30)
March 31, 2021	47,161	-	123,184	-	0.84	0.84

(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				
March 31, 2022	3,316,359	627,612	605,782	18.3
December 31, 2021	3,425,542	554,759	532,541	15.5

2. Earnings forecast for FY2022 (January 1, 2022 – 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 first quarter of this year the Japanese economy made continued recovery. While COVID-19 epidemic influence was still widespread, the recovery of personal consumption was lacking some momentum and the profitability of certain part of non-manufacturing business sector was fairly low. The recovery of global economy continues while COVID-19 epidemic gradually subsides. However, the further recovery of global economy is uncertain due to the risk of global geopolitics caused by Russian invasion of Ukraine.

Oil prices rose to US\$120 a barrel when US and UK prohibited the import of Russian oil in early March, but toward the end of March the oil prices were lower at around US\$100 a barrel as the US President Biden decided to release at the historically largest amount of oil reserve. 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.

However, 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 steadily take into account these changes in the business environment. While securing profits from existing businesses, it will steadily develop future sources of profits such as floating offshore wind turbines, underwater resource development and digital solution businesses.

Under these circumstances, for the first quarter of this year, the total orders on a consolidated basis resulted in US\$127,149 thousand (US\$473,759 thousand in 1Q 2021) due to the variation orders of FPSO construction projects. The consolidated revenue was US\$664,247 thousand (US\$1,126,055 thousand in 1Q 2021) due to progress in the construction of FPSOs.

In terms of profit, the operating loss was US\$12,725 thousand (operating profit of US\$31,335 thousand in 1Q 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, increase in finance costs from foreign currency exchange loss due to the significant appreciation of Brazil Real against US dollars and the recognition of expected credit loss for the additional loan to the related company which owns an FPSO resulted in the loss before tax for the current quarter of US\$20,328 thousand (income before tax of US\$50,490 thousand in 1Q 2021). As a result, the loss attributable to owners of the parent for the current quarter was US\$16,657 thousand (profit of US\$47,161 thousand in 1Q 2021).

(2) Financial position

The total assets at the end of first quarter of this year decreased by US\$109,183 thousand to US\$3,316,359 thousand from the end of previous year primarily due to decrease in cash and cash equivalents, and trade and other receivables.

The total liabilities decreased by US\$182,035 thousand to US\$2,688,747 thousand from the end of previous year primarily due to decrease in trade and other payables.

The total equity increased by US\$72,852 thousand to US\$627,612 thousand from the end of previous year primarily due to increase in other components of equity.

(3) Significant event related to going concern status

The Company reported US\$363,975 thousand of loss attributable to owners of the parent in previous year. This led to decrease in retained earnings, which resulted in breach of the financial covenants of bonds and borrowings. The Company is aware that such event and situation cause a going concern issue. However, the Company addressed the current situation to the lenders to resolve going concern issue and obtained the agreement not to address acceleration clause with regard to bonds and borrowings in breach of the financial covenants both at the end of previous year and the first quarter of this year. Therefore, the Company has judged that there is no significant uncertainty exists in the Company's status as a going concern.

2. Condensed quarterly consolidated financial statements and selected notes to the condensed quarterly consolidated financial statements

(1) CONDENSED QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

As of December 31, 2021 and March 31, 2022

(Unit : US\$ thousand)

	<u>As of December 31, 2021</u>	<u>As of March 31, 2022</u>
CURRENT ASSETS:		
Cash and cash equivalents	810,131	703,030
Trade and other receivables	379,394	333,173
Contract assets	704,730	674,351
Loans receivable	14,176	—
Other financial assets	14,171	14,904
Other current assets	138,134	161,234
Total current assets	<u>2,060,740</u>	<u>1,886,693</u>
NON-CURRENT ASSETS:		
Property, plant and equipment	51,366	48,905
Intangible assets	80,845	78,070
Investments accounted for using equity method	739,046	800,793
Loans receivable	398,562	398,562
Other financial assets	13,278	14,223
Deferred tax assets	54,941	63,394
Other non-current assets	26,760	25,714
Total non-current assets	<u>1,364,801</u>	<u>1,429,665</u>
Total assets	<u><u>3,425,542</u></u>	<u><u>3,316,359</u></u>

* The figures are rounded down to the nearest thousand US dollar.

LIABILITIES AND EQUITY

As of December 31, 2021 and March 31, 2022

(Unit : US\$ thousand)

	<u>As of December 31,</u> 2021	<u>As of March 31,</u> 2022
CURRENT LIABILITIES:		
Trade and other payables	1,356,472	1,267,915
Contract liabilities	405,807	368,965
Bonds and borrowings	426,867	406,690
Income taxes payable	40,564	44,822
Provisions	237,013	234,949
Other financial liabilities	94,549	96,981
Other current liabilities	103,483	101,564
Total current liabilities	2,664,758	2,521,888
NON-CURRENT LIABILITIES:		
Borrowings	55	—
Deferred tax liabilities	8	84
Defined benefit liability	54,693	54,724
Provisions	80,597	67,560
Other financial liabilities	23,584	22,210
Other non-current liabilities	47,084	22,278
Total non-current liabilities	206,024	166,858
Total liabilities	2,870,782	2,688,747
EQUITY:		
Share capital	282,292	282,292
Capital surplus	280,711	280,765
Retained earnings	85,957	69,301
Treasury shares	(1,291)	(1,291)
Other components of equity	(115,129)	(25,286)
Equity attributable to owners of parent	532,541	605,782
Non-controlling interests	22,218	21,829
Total equity	554,759	627,612
Total liabilities and equity	3,425,542	3,316,359

* The figures are rounded down to the nearest thousand US dollar.

(2) CONDENSED QUARTERLY CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended March 31, 2021 and 2022

(Unit : US\$ thousand)

	Three months ended March 31, 2021	Three months ended March 31, 2022
Revenue	1,126,055	664,247
Cost of sales	(1,076,449)	(657,272)
Gross profit (loss)	49,605	6,975
Selling, general and administrative expenses	(35,598)	(44,171)
Share of profit (loss) of investments accounted for using equity method	14,642	24,750
Other income	2,692	114
Other expenses	(6)	(395)
Operating profit (loss)	31,335	(12,725)
Finance income	20,906	16,262
Finance costs	(1,751)	(23,865)
PROFIT (LOSS) BEFORE TAX	50,490	(20,328)
INCOME TAX EXPENSE	(2,673)	3,640
PROFIT (LOSS)	47,817	(16,688)
OWNERS OF PARENT	47,161	(16,657)
NON-CONTROLLING INTERESTS	655	(30)
PROFIT (LOSS)	47,817	(16,688)

* The figures are rounded down to the nearest thousand US dollar.

		(Unit : US\$)
Earnings (loss) per share	\$0.84	(\$0.30)
Diluted earnings (loss) per share	\$0.84	(\$0.30)

(2) CONDENSED QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 31, 2021 and 2022

	(Unit : US\$ thousand)	
	Three months ended	Three months ended
	<u>March 31, 2021</u>	<u>March 31, 2022</u>
PROFIT (LOSS)	47,817	(16,688)
OTHER COMPREHENSIVE INCOME:		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	49	1
Total of items that will not be reclassified to profit or loss	<u>49</u>	<u>1</u>
Items that may be reclassified to profit or loss		
Effective portion of cash flow hedges	(21,522)	825
Exchange differences on translation of foreign operations	(2,928)	(3,276)
Share of other comprehensive income of investments accounted for using equity method	99,767	92,300
Total of items that may be reclassified to profit or loss	<u>75,316</u>	<u>89,849</u>
Total other comprehensive income	<u>75,366</u>	<u>89,851</u>
COMPREHENSIVE INCOME	<u><u>123,184</u></u>	<u><u>73,162</u></u>
Owners of parent	122,803	73,187
Non-controlling interests	380	(24)

* The figures are rounded down to the nearest thousand US dollar.

(3) CONDENSED QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended March 31, 2021

(Unit : US\$ thousand)

	Equity attributable to owners of parent									Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity				Total equity attributable to owners of parent		
					Remeasurements of defined benefit plans	Effective portion of cash flow hedges	Foreign currency translation adjustment	Total other components of equity			
Balance at January 1, 2021	282,292	280,742	463,852	(1,553)	0	(161,648)	(14,745)	(176,394)	848,940	18,908	867,849
Profit (loss)	—	—	47,161	—	—	—	—	—	47,161	655	47,817
Other comprehensive income	—	—	—	—	49	78,519	(2,928)	75,641	75,641	(275)	75,366
Total comprehensive income (loss)	—	—	47,161	—	49	78,519	(2,928)	75,641	122,803	380	123,184
Dividends to owners of parent	—	—	(11,281)	—	—	—	—	—	(11,281)	—	(11,281)
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	—	(620)	(620)
Share-based payment	—	28	—	—	—	—	—	—	28	—	28
Transfer from other components of equity to retained earnings	—	—	49	—	(49)	—	—	(49)	—	—	—
Total transactions with owners	—	28	(11,231)	—	(49)	—	—	(49)	(11,252)	(620)	(11,873)
Balance at March 31, 2021	282,292	280,770	499,783	(1,553)	0	(83,128)	(17,673)	(100,802)	960,491	18,668	979,160

* The figures are rounded down to the nearest thousand US dollar.

For the three months ended March 31, 2022

(Unit : US\$ thousand)

	Equity attributable to owners of parent									Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity				Total equity attributable to owners of parent		
					Remeasurements of defined benefit plans	Effective portion of cash flow hedges	Foreign currency translation adjustment	Total other components of equity			
Balance at January 1, 2022	282,292	280,711	85,957	(1,291)	—	(90,866)	(24,262)	(115,129)	532,541	22,218	554,759
Profit (loss)	—	—	(16,657)	—	—	—	—	—	(16,657)	(30)	(16,688)
Other comprehensive income	—	—	—	—	1	92,848	(3,005)	89,844	89,844	6	89,851
Total comprehensive income (loss)	—	—	(16,657)	—	1	92,848	(3,005)	89,844	73,187	(24)	73,162
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	—	(364)	(364)
Share-based payment	—	53	—	—	—	—	—	—	53	—	53
Transfer from other components of equity to retained earnings	—	—	1	—	(1)	—	—	(1)	—	—	—
Total transactions with owners	—	53	1	—	(1)	—	—	(1)	53	(364)	(310)
Balance at March 31, 2022	282,292	280,765	69,301	(1,291)	—	1,982	(27,268)	(25,286)	605,782	21,829	627,612

* The figures are rounded down to the nearest thousand US dollar.

(4) CONDENSED QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOW

For the three months ended March 31, 2021 and 2022

(Unit : US\$ thousand)

	Three months ended March 31, 2021	Three months ended March 31, 2022
CASH FLOW FROM OPERATING ACTIVITIES:		
Profit (loss) before tax	50,490	(20,328)
Depreciation and amortization	8,950	9,800
Increase (decrease) in provisions	(6,641)	(18,011)
Increase (decrease) in retirement benefit liability	1,342	30
Finance income and finance costs	(19,154)	7,603
Share of loss (profit) of investments accounted for using equity method	(14,642)	(24,750)
Decrease (increase) in trade and other receivables	(12,763)	40,150
Decrease (increase) in contract assets	(222,811)	30,420
Increase (decrease) in trade and other payables	92,012	(93,037)
Increase (decrease) in contract liabilities	107,248	(47,693)
Decrease (increase) in other current assets	175,522	(342)
Other	(5,110)	(4,961)
Subtotal	154,442	(121,120)
Interest received	8,397	8,944
Dividends received	15,424	33,349
Interest paid	(1,898)	(3,789)
Income taxes paid	(11,602)	(11,951)
Net cash provided by (used in) operating activities	164,763	(94,568)
CASH FLOW FROM INVESTING ACTIVITIES:		
Net decrease (increase) in short-term loans receivable	(56,065)	1,204
Payments for long-term loans receivable	(13,000)	—
Purchase of property, plant and equipment, and intangible assets	(2,699)	(2,564)
Proceeds from return of capital from investments accounted for using equity method	—	9,749
Net cash provided by (used in) investing activities	(71,764)	8,390
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayments of long-term borrowings	(20,706)	(20,242)
Dividends paid	(11,147)	(3)
Dividends paid to non-controlling interests	(620)	(364)
Proceeds from derivatives contracts	1,691	582
Subsidy income	931	—
Repayments of lease liabilities	(5,714)	(5,161)
Net cash provided by (used in) financing activities	(35,565)	(25,189)
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(4,756)	4,265
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	52,676	(107,101)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	617,149	810,131
CASH AND CASH EQUIVALENTS AT END OF PERIOD	669,826	703,030

* The figures are rounded down to the nearest thousand US dollar.

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

(Note to the ability to continue as a going concern)

There were no significant events applicable.

(Change in accounting policy)

The accounting policy of current quarter condensed consolidated financial statements is the same as the previous year annual consolidated financial statements.

Corporate income tax is calculated using the estimated annual effective tax rate in the current quarter condensed consolidated financial statements.

(Change in accounting estimate)

The significant judgements and estimates made by the Company's management including the financial impact of the COVID-19 epidemic in preparing these condensed quarterly consolidated financial statements were the same as the previous year annual consolidated financial statements.

The impact of Russian invasion of Ukraine is considered insignificant to the Company at the end of first quarter.

(Additional information)

Financial covenants

Borrowings and bonds are subject to the financial covenants, and the detail are as follows.

1. Term loan contract

Loan balance: US\$96,000 thousand

Total equity in the consolidated statement of financial position and the net assets of Company's stand-alone balance sheet must be equal to or more than 75% of previous year consolidated statement of financial position and balance sheet, respectively, and equal to or more than 75% of them at the end of December 2014, respectively.

2. Syndicated loan contract

Loan balance: US\$64,000 thousand

Total equity in the consolidated statement of financial position at December 31, 2021 and yearends thereafter must be equal to or more than 75% of consolidated statement of financial position at December 31, 2020.

3. US dollar bonds

Bond balance: US\$225,000 thousand

Total equity must be equal to or more than US\$688,514 thousand at the end of each quarter.

The borrowings and bonds listed above were in breach of the financial covenants both at the end of previous year and first quarter of this year. However, the Company obtained the agreement with the lenders not to address acceleration clause in February and April 2022, respectively.

MODEC, Inc. 2022 1Q Financial Results Supplementary Presentation

May 11, 2022



(Note)

From the end of FY2021 consolidated fiscal year, the Company's consolidated financial results have applied International Financial Reporting Standards (IFRS) instead of the conventional Japanese GAAP. In addition, the currency unit has been changed to the US dollar instead of the conventional Japanese yen.

As a result, the figures for previous years in this document are handled as below.

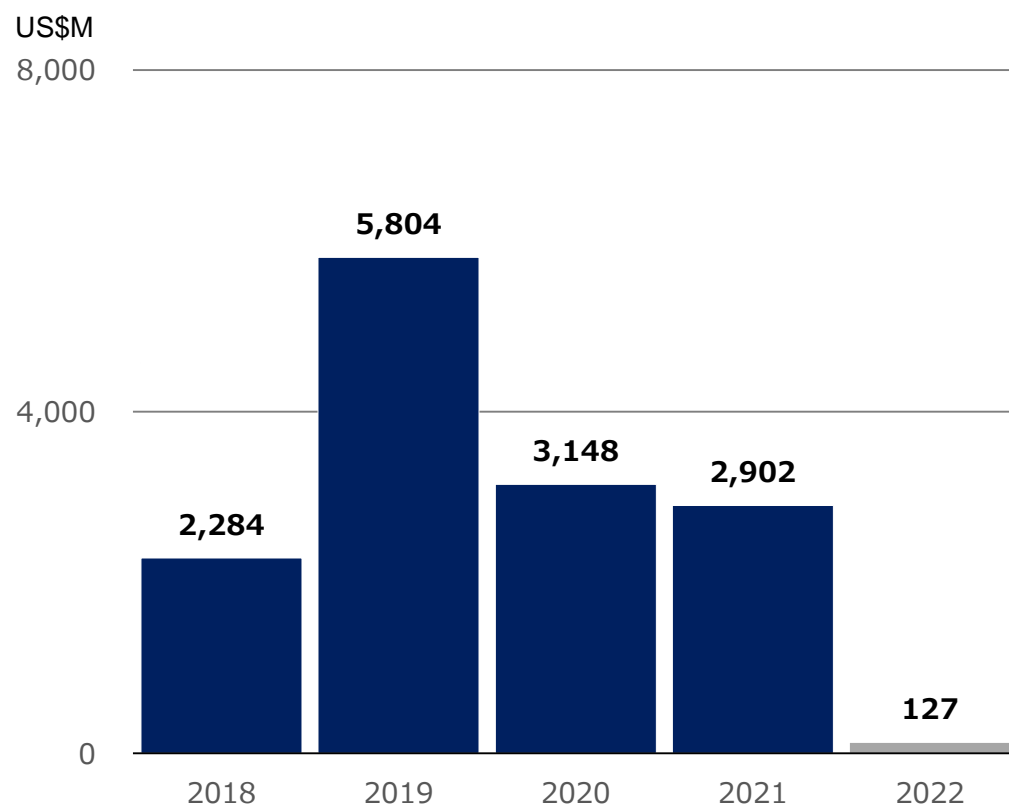
- Before FY2019: Japanese standard (Japanese yen) figures are converted to US dollars at the midpoint of the market price of telegraph spots for customers at the end of each year.

2018: 1 US dollar = 111.02 yen

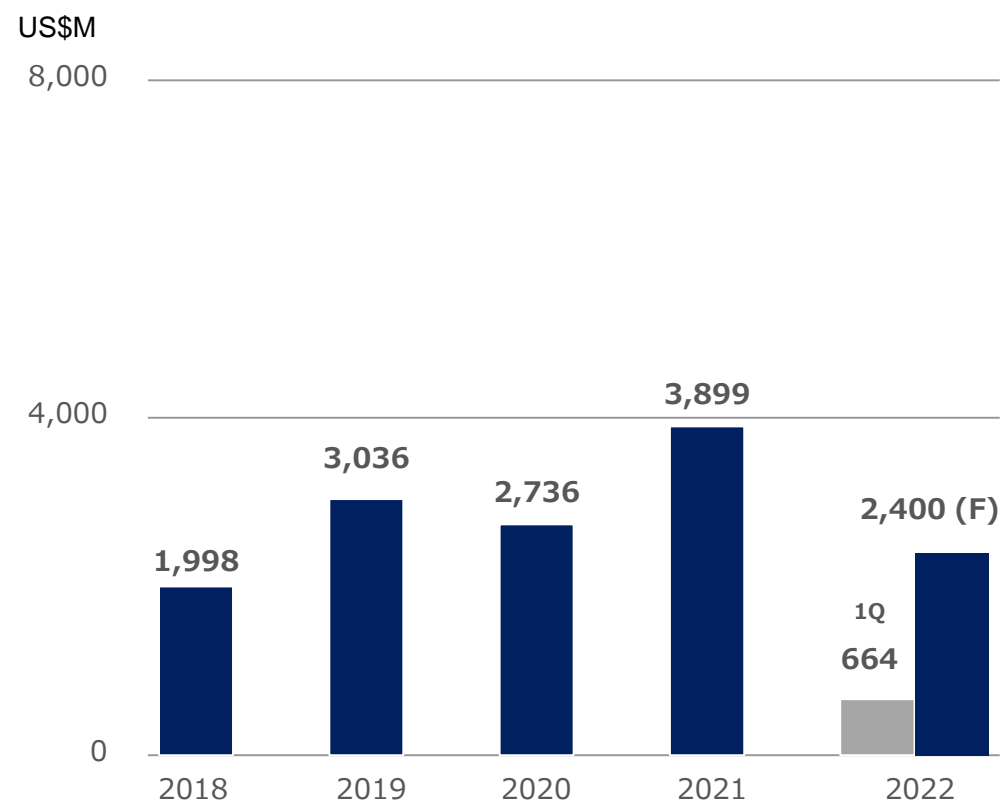
2019: 1 US dollar = 109.54 yen

New Orders / Revenue

New Orders



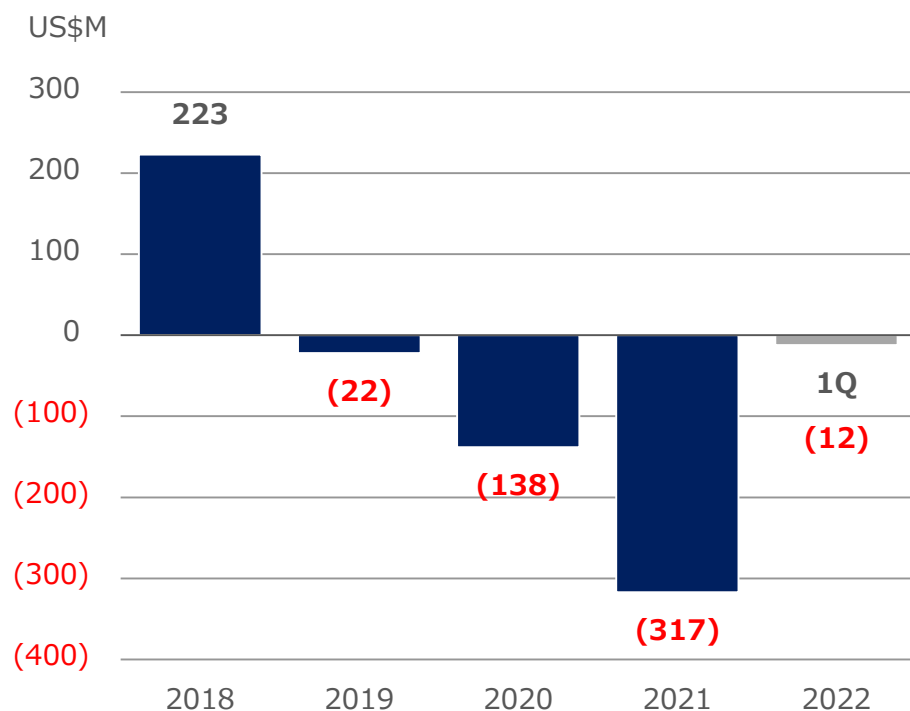
Revenue



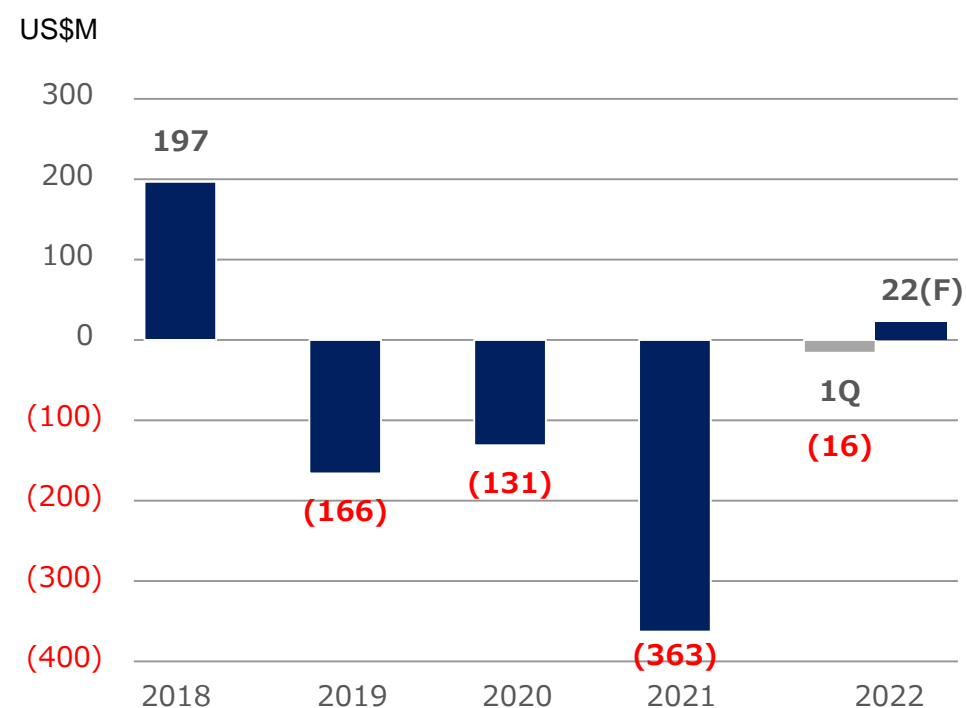
- Orders received are US\$127M due to design changes in the FPSO construction project.
- Revenues are progressing steadily, although there are lags in the perception of progress rates in accounting.

Operating Profit / Profit Attributable to Owners of Parent

Operating Profit



Profit Attributable to Owners of Parent



(Note) For 2018-2019, Equity in Earnings of Affiliates is added to JGAAP operating profit

- Gross profit decreased in the first quarter due to special maintenance campaign of old vessels and lags in the perception of progress rates in accounting. As a result, fixed costs such as SG&A expenses could not be recovered, and a net loss of US\$16M was recorded.
- Full-year forecast remains unchanged because there is no significant change in the first quarter results from the initial forecast.