

# >> IMPROVING OUR CORPORATE VALUE BY FULFILLING OUR SOCIAL RESPONSIBILITIES

*JGC is keenly aware of the importance of corporate governance. Recognizing the need to foster that awareness in our corporate culture and climate, we have formulated the JGC Corporate Philosophy. Through awareness-raising, education and training, we will work to win the public's trust and maintain harmony with society in our corporate activities.*

*Under the JGC Corporate Philosophy, we are working to increase corporate value and realize the principles set out in this philosophy while keeping corporate social responsibility in mind. At the same time, we make it a rule to strive for fairness and transparency in our corporate activities, in accordance with the Company's code of conduct.*

## Corporate Governance Framework

### Executive Officer System

JGC has introduced an executive officer system, which clarifies the division of management decision-making and oversight functions from executive functions. This has further enhanced management efficiency and strengthened the Company's executive accountability system.

### Board of Directors

In fiscal 2007, the Board of Directors had 15 members (including one outside director) and met twice a month during the period under review, for a total of 17 times. The Company also has four corporate auditors (including two outside auditors) who regularly attend board meetings. The General Meeting of Shareholders in June 2008 increased the number of outside corporate auditors to three but the total number is unchanged; the Board of Directors still has 15 directors.

### Meeting for the Execution of Business Operations

The Company has a Director and Executive Officer Committee, which meets once a month for the purposes of sharing management policies and information, and reporting/confirming the status of operations. This committee met 12 times in fiscal 2007. The Chairman of the Board of Directors heads this committee, which is comprised of directors, executive officers, and corporate auditors.

The Management Strategy Committee meets once a week to examine and make decisions on important matters for the Company and the JGC Group relating to management strategy. The Chairman of the Board of Directors heads this committee, which is comprised of directors, corporate auditors, and other members. The committee met 27 times in fiscal 2007.

JGC has also established the Operations Steering Committee to make decisions related to the execution of operations of the Company and the JGC Group. Chaired by the president, this committee includes corporate auditors and other individuals selected by the president. The committee meets twice a month, and met 19 times in fiscal 2007.

In addition, a Nominating Committee and an Assessment Committee, the members of which include outside directors, have been established to enhance fairness and transparency in the selection of executive personnel and in the determination of compensation issues. The Nominating Committee and the Assessment Committee each met once in fiscal 2007.

### Board of Auditors

The Company has adopted the corporate auditor governance model. In fiscal 2007, the Board of Auditors comprised four corporate auditors, including two outside appointments. The Board of Auditors meets once a month in principle, and met 11 times in fiscal 2007. Following the conclusion of the General Meeting of Shareholders in June 2008, the four-member Board of Auditors now includes three outside corporate auditors, in a move aimed at strengthening auditing functions and enhancing corporate governance.

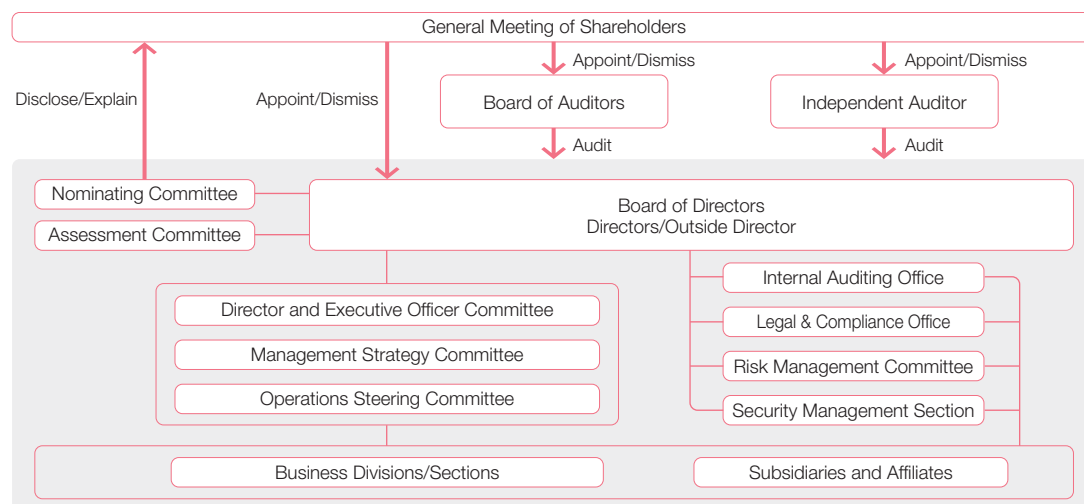
Corporate auditors attend meetings of the Board of Directors, the Director and Executive Officer Committee, the Management Strategy Committee, and the Operations Steering Committee, and when necessary, interview directors regarding the execution of operations, and examine and oversee directors in the execution of their duties. Where necessary, the Board of Auditors meets with the independent auditor on a case-by-case basis to exchange opinions and share information, aiming to enhance the effectiveness of audits. No personal, capital, or business ties that could lead to a conflict of interest exist between the Company and its outside corporate auditors.

### Outside Directors

In fiscal 2007, JGC appointed one outside director, Setsuzo Kosaka, General Partner and Japan Representative for Compass Partners L.L.C. Mr. Kosaka was appointed as an outside director based on his experience and expertise in Itochu Corporation's plant facility business, and his experience and insight as an executive at Kurita Water Industries Ltd.

## Corporate Governance System

(→) denotes "Direct" and "Report"



No outside director was appointed to the Company at the June 2008 General Meeting of Shareholders. However, the Company will again consider the appointment of outside directors in the future based on the availability of candidates with a high degree of engineering and construction business knowledge and who are well-versed in a wide range of business activities.

### Independent Auditor

The certified public accountants who audit JGC's accounts are Yasuaki Takayama, Makoto Ishikawa, and Yoshihisa Uchida of KPMG AZSA & Co. Two other CPAs, five assistant CPAs, and two other individuals assist with these audits.

### Executive Compensation

- Total annual compensation for internal directors: ¥570 million
- Total annual compensation for the outside director: ¥8 million
- Total annual compensation for corporate auditors: ¥57 million

### Compensation for Audits

- Fees paid for audit services as defined by Article 2-1 of the Certified Public Accountants Law (Law No. 103, 1948): ¥53 million
- Fees paid for other services: ¥9 million

## Status of the Internal Control System

JGC has established an Internal Auditing Office to monitor, evaluate and improve the effectiveness of the internal control systems of JGC and of the Group as a whole, as well as to carry out individual audits where necessary. Additionally, JGC has created management authority regulations that specify the authority and responsibilities of all management personnel, thereby clarifying the system of accountability for corporate management and executive functions. JGC has also established Group management regulations for each Group member firm.

In terms of compliance, JGC's Legal & Compliance Office has compiled a corporate ethics and regulatory compliance manual, and conducts regular education and training to ensure a high level of fairness and transparency in all the Group's corporate activities. In addition, we are working through our PR and IR department to strengthen timely and appropriate disclosure of corporate information.

### Status of the Risk Management System

JGC has established a Risk Management Committee as part of a comprehensive risk management system designed to systematically identify risks throughout the Group. In particular, project risk management is conducted in three broad stages: 1) the project selection stage, 2) the estimate and bidding stage, and 3) the execution stage.

### 1) Project selection stage

Sales divisions are constantly gathering a wide range of project information based on various factors such as region, customer, and technical field, and activities to obtain orders are conducted based on the study and evaluation of the following points.

- Project size (value)
- Technical expertise and experience required
- Country risk
- Allocation of engineers
- Competitive environment, etc.

The results of these studies and evaluations are used in determining JGC's level of interest in the respective projects.

### 2) Estimate and bidding stage

After acquiring requirement documents from the customer, the Business Divisions organize an estimate team, and examine the details of the bid. After the details have been identified, a Risk Study Committee meeting is held to analyze project-specific risks.

Major risk management points are:

- Clarity of project plan and scope of responsibility
- Customer's project funding plan and project execution policy
- Level of technology required and degree of difficulty
- Price and supply-demand trends for materials, machinery and labor
- Degree of difficulty in meeting deadlines
- Existence of excessive contractual obligations
- Competitiveness of bidding environment
- Appropriateness of project execution plan

A detailed estimate policy is drawn up and an estimate is created based on this risk analysis.

### 3) Execution stage

Problems and other matters affecting the budget and timing that occur during execution of the project are reported in a timely manner, and problem areas are analyzed.

The Business Divisions regularly hold Project Review Committee meetings to ask the project manager for status reports, and if improvement is needed, smooth project management is supported through instructions and assistance designed to bring about appropriate improvements.

Regarding crisis management, the Company has established a Security Management Section to gather and process information related to risk management, conduct risk management training, and respond to any urgent issues that arise.

The JGC Group has also established a Personal Information Protection Policy and Personal Information Protection Regulations, to build a system for managing personal information, centered on those employees with duties that involve the handling of this information.