

CONTENTS

38 *SIX-YEAR SUMMARY—CONSOLIDATED*
39 *ANALYSIS OF PERFORMANCE AND FINANCIAL POSITION*
43 *RISKS IMPACTING OPERATIONS*
44 *CONSOLIDATED BALANCE SHEETS*
46 *CONSOLIDATED STATEMENTS OF INCOME*
47 *CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS*
48 *CONSOLIDATED STATEMENTS OF CASH FLOWS*
49 *NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*
60 *INDEPENDENT AUDITORS' REPORT*
61 *SIX-YEAR SUMMARY—NON-CONSOLIDATED*
62 *NON-CONSOLIDATED BALANCE SHEETS*
64 *NON-CONSOLIDATED STATEMENTS OF INCOME*
65 *NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS*
66 *NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS*
72 *INDEPENDENT AUDITORS' REPORT*

SIX-YEAR SUMMARY—CONSOLIDATED

For the six years ended March 31.
Yen amounts are in millions except per share data.

	2008	2007	2006	2005	2004	2003
Net Sales	¥551,062	¥608,530	¥ 550,301	¥435,198	¥409,962	¥378,064
Operating Income	44,896	26,413	20,389	13,221	15,486	17,080
Net Income	30,020	20,187	15,011	11,585	10,587	6,768
Total Current Assets	324,617	327,333	231,777	231,811	234,521	218,488
Total Current Liabilities	217,339	237,586	175,428	175,066	160,128	160,553
Working Capital	107,278	89,747	56,349	56,745	74,393	57,935
Current Ratio	149.4%	137.8%	132.1%	132.4%	146.5%	136.1%
Net Property and Equipment	68,450	67,220	65,688	65,887	67,171	68,874
Total Assets	466,773	470,286	375,288	367,438	355,009	335,778
Long-term Debt, Less Current Maturities	17,300	17,799	993	15,712	16,086	15,855
Total Shareholders' Equity	—	—	—	151,155	146,289	131,248
Total Net Assets	207,537	189,239	173,355	—	—	—
New Contracts	402,352	301,347	807,649	469,534	498,252	351,641
Outstanding Contracts	638,314	744,679	1,024,348	722,374	674,627	595,144
Net Income per Share (in yen)	118.33	79.52	58.33	44.93	40.88	25.65
Cash Dividends per Share (in yen)	21.0	15.0	11.0	8.5	8.0	6.0
Number of Employees	4,723	4,531	4,205	4,147	4,063	3,802

OUR VIEW OF THE OPERATING ENVIRONMENT

The global economy showed slower growth at the start of the fiscal year under review, but sustained modest growth overall. However, the financial markets saw increasing credit uneasiness due to large losses at some financial institutions in the U.S., the Eurozone and the U.K. as the subprime mortgage issue in the U.S. surfaced in a major way, with the fallout extending worldwide. As a result, the U.S. exhibited clear deceleration in business conditions, but high economic growth continued in the BRICs countries, beginning with China. Eurozone nations and the U.K. also sustained modest economic growth.

In the oil and gas producing countries, which have the greatest impact on the JGC Group (the Group), much capital investment is planned, supported by the continuation of high energy prices. Due to sharply higher prices for materials, machinery and equipment and a shortage of the required skilled labor, plant costs have risen significantly, and the timeframes for some projects are being reevaluated. However, capital investment remains strong. The Japanese economy's ongoing recovery was fettered by repercussions from the subprime mortgage issue, sharply higher prices for materials, machinery and equipment, as well as major moves in the stock market and the foreign exchange market. In conjunction, the outlook for the Japanese economy became increasingly unclear.

Under these conditions, the core total engineering business received orders below its initial target, reflecting major increases in construction costs due to such factors as sharply higher prices for materials, machinery and equipment and a shortage of the required skilled labor, which has caused some project customers to postpone final investment. As for project execution, the Group worked to strengthen its partnerships with suppliers and subcontractors and to enhance its manpower resources. Alongside this, the Group paid close attention to various risks and focused on ensuring steady project implementation.

RESULTS OF OPERATIONS

Consolidated net sales for the JGC Group in the year ended March 31, 2008 declined 9.4% to ¥551,062 million. Consolidated operating income increased 70.0% to ¥44,896 million, and consolidated net income was up 48.7% to ¥30,020 million. Consolidated net income marked a record high for the third consecutive year.

NET SALES

Reflecting project progress and the impact of exchange rates, consolidated net sales declined by ¥57,468 million compared with the previous fiscal year, totaling ¥551,062 million.

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE COSTS

As a result of the decline in net sales, cost of sales fell by ¥77,229 million to ¥487,362 million. Selling, general and administrative expenses increased by ¥1,278 million to ¥18,804 million.

OPERATING INCOME

Operating income increased by ¥18,483 million to ¥44,896 million. The operating income ratio rose 3.8 percentage points from 4.3% to 8.1%.

OTHER INCOME (EXPENSES)

Other income (expenses) declined by ¥3,398 million from ¥5,410 million (net) to ¥2,012 million (net). This was mainly due to exchange losses. Another major factor was losses on the retirement of stock due to the merger of consolidated subsidiaries. As a result, in the fiscal year ended March 31, 2008, the income before taxes on income increased by ¥15,085 million to ¥46,908 million.

TAXES ON INCOME

Income and other taxes increased by ¥6,610 million to ¥17,910 million due to the increase in income before taxes on income and minority interests in earnings of consolidated subsidiaries. Deferred income taxes were ¥1,042 million, and the Company's tax burden (net) increased by ¥5,256 million to ¥16,868 million.

MINORITY INTERESTS IN EARNINGS OF CONSOLIDATED SUBSIDIARIES

Minority interests, consisting of the earnings allocated to minority shareholders of consolidated subsidiary Japan NUS Co., Ltd., decreased by ¥4 million to ¥20 million.

NET INCOME

As a result of the foregoing, net income increased by ¥9,833 million to ¥30,020 million.

SEGMENT INFORMATION

INFORMATION BY BUSINESS SEGMENT

Net sales in the total engineering business declined by ¥64,746 million to ¥508,717 million due to progress in projects and the impact of exchange rates. Operating income increased by ¥18,727 million to ¥39,417 million due to higher gross profit margins on completed projects.

In the catalysts and fine products business, upgraded production capacity in each field in response to strong demand from customers led to an increase in net sales of ¥7,278 million to ¥42,345 million. Operating income declined by ¥241 million to ¥5,455 million due to sharp rises in prices for raw materials and fuel and an increase in depreciation along with new capital expenditures. The total engineering business accounts for 92% of net sales and 88% of operating income.

INFORMATION BY REGION

Overseas sales declined by ¥104,786 million to ¥343,459 million. The breakdown of consolidated sales is 62% overseas and 38% domestic.

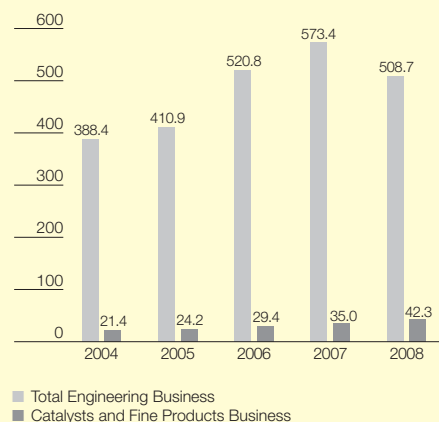
FINANCIAL POSITION

Consolidated total assets decreased by ¥3,513 million to ¥466,773 million due to a decline in accounts receivable. Total liabilities declined by ¥21,811 million to ¥259,236 million. Total net assets were up ¥18,298 million to ¥207,537 million. Shareholders' equity (total net assets-minority interests) was ¥207,255 million.

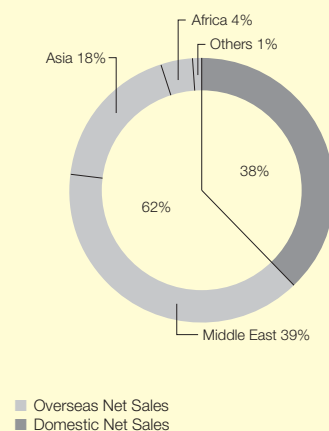
As a result of the above, the shareholders' equity ratio was 44.4%.

Effective from fiscal 2007, the Company adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" and the "Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet."

Segment Sales
(Billions of yen)



Ratio of Domestic and Overseas Net Sales
(%)



Balance sheet indicators for the JGC Group are as follows:

	Mar 2006	Mar 2007	Mar 2008
Current ratio (%)	132	138	149
Fixed assets ratio (%)	83	76	68

Notes: Current ratio: Current assets/current liabilities

Fixed asset ratio: (Net property and equipment + total other assets)/total net assets

All indicators are calculated using consolidated financial figures.

CASH FLOW

Cash and cash equivalents on a consolidated basis increased by ¥5,155 million to ¥164,617 million, excluding the increase associated with the merger of consolidated subsidiaries.

Net cash provided by operating activities was ¥28,865 million, mainly from ¥46,908 million in income before income taxes, reflecting the steady collection of receivables.

Net cash used in investing activities was ¥15,032 million, reflecting disbursements for loans to subsidiaries engaged in the natural resources development business.

Net cash provided by financing activities was ¥7,318 million, mainly due to the payment of dividends and the repurchase of the Company's own stock.

Cash flow indicators for the JGC Group are as follows:

	Mar 2006	Mar 2007	Mar 2008
Shareholders' equity ratio (%)	46.1	40.2	44.4
Shareholders' equity ratio (market basis, %)	156.6	104.4	82.5
Years to redemption of liabilities (years)	0.6	0.3	0.6
Interest coverage ratio (times)	91.3	308.2	62.8

Notes: Shareholders' equity ratio: (Total net assets-minority interests)/total assets

Shareholders' equity ratio (market basis): Total market value of shares/total assets

Years to redemption of liabilities: Interest-bearing liabilities/net cash

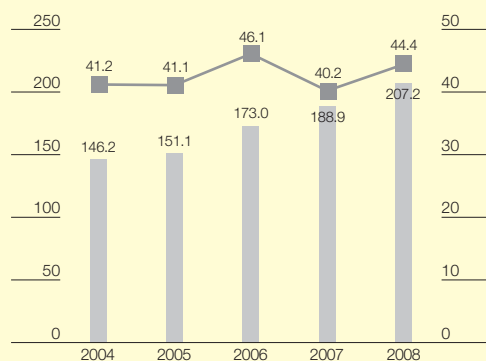
Interest coverage ratio: Net cash/interest expenses

All indicators are calculated using consolidated financial figures.

Interest bearing liabilities include all liabilities posted on the Consolidated Balance Sheets on which interest was paid. Net cash is taken from cash flow provided by operating activities, as reported in the Consolidated Statements of Cash Flows.

Shareholders' Equity* and Shareholders' Equity Ratio

(Billions of yen/%)

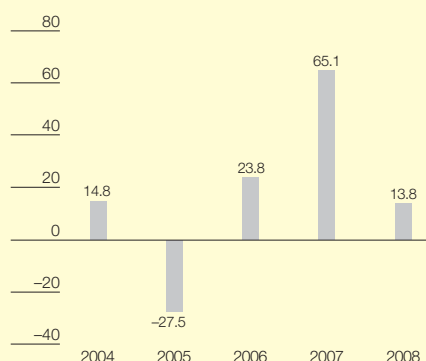


■ Shareholders' Equity
— Shareholders' Equity Ratio

* From 2006, equal to total net assets-minority interests

Free Cash Flows

(Billions of yen)



ANALYSIS OF NEW CONTRACTS

Consolidated-basis new contracts for the total engineering business were ¥402,352 million (up 33.5%), short of our initial forecast of ¥540,000 million at the start of the fiscal year under review. This was due to customers' postponing the final investment decision for some projects due to sharply higher plant construction costs as a result of significant increases in prices for materials, machinery and equipment and a shortage of the skilled labor required for such projects. However, decisions on projects originally projected for the previous fiscal year are expected to be made at the start of fiscal 2008.

Breakdown of new contracts by business sector and region is as follows:

NEW CONTRACTS BY BUSINESS SECTOR

(Billions of yen)

	Mar 2007	Mar 2008	Mar 2008 Percentage of new contracts
Oil and gas development projects	30.2	11.3	2.8
Petroleum refining projects	89.1	79.1	19.7
LNG projects	14.8	16.0	4.0
Chemical projects	61.5	243.9	60.6
Other projects	105.5	51.9	12.9

NEW CONTRACTS BY REGION

(Billions of yen)

	Mar 2007	Mar 2008	Mar 2008 Percentage of new contracts
Japan	165.2	135.7	33.7
Asia	63.9	15.1	3.8
Africa	9.0	7.5	1.9
Middle East	60.1	232.0	57.7
Other	2.9	11.8	2.9

The consolidated outstanding contracts totaled ¥638,314 million, after adjustments for currency exchange and revision to contract figures.

FUTURE OUTLOOK

In the total engineering business, capital investment in plant facilities is expected to remain robust, especially in our main markets of the Middle East and Africa. Viewed by business sector, capital investments can be expected in oil, gas and resource development, petroleum refining, LNG, and living and general production. Amidst this outlook, we will take into account project scale, profitability, region and sector in our order activities, while aggressively pursuing business activities aimed at the achievement of our Scenario 2010 medium-term business plan.

In the catalysts and fine products business, we will continue to aggressively carry out capital expenditures to reinforce the supply system for each product, while responding to sharp increases in raw materials prices through various measures, including passing on costs to selling prices, improving productivity and reducing expenses. Additionally, we will accelerate our expansion into the overseas markets for catalysts and fine chemicals, while pursuing the development of new materials and new functional materials that leverage our novel catalysts and nanotechnologies.

At the end of the fiscal year under review, we decided to merge Catalysts & Chemical Industries Co., Ltd., and Nikki Chemical Co., Ltd., on July 1, 2008 to form JGC Catalysts and Chemicals Ltd. With this merger, we will pursue synergies by promoting R&D using the combined technologies of each company and through quantitative and qualitative enhancement of R&D functions, boosting production capabilities through the use of a two-plant system, reducing production risk, expanding business scale by commercializing three core operations (petroleum refining catalysts, chemical catalysts and fine chemicals) and providing a more stable business foundation. In conjunction, we will further pursue the enhancement and expansion of our manufacturing business as called for in our Scenario 2010 medium-term business plan.

The following matters regarding risks associated with the businesses of the JGC Group could potentially have an effect on the judgments and decisions of investors.

Forward-looking statements are based on the best information available and give consideration to the overall activities of the JGC Group as of the date of publication of this annual report.

1. RISKS WITH OVERSEAS CAUSES

Overseas businesses generate about 60% of the JGC Group's total net sales. Such businesses are subject to country risks—economic, political and social. These include political unrest, wars, revolutions, civil strife, confiscation of property, changes in economic policy, default on foreign debts and changes in exchange and taxation systems. To minimize the effects arising from these risks on its businesses, the JGC Group continuously reviews and reinforces its risk management system, carries trade insurance, recovers receivables as early in a project as possible, forms joint ventures, and takes various other steps. However, when changes in the business environment are more radical than anticipated, and projects are canceled, suspended or delayed, the possibility of a negative impact on JGC's performance arises.

2. RISKS AFFECTING PROJECT EXECUTION

Almost all contracts for projects in which the JGC Group participates are lump-sum, full-turnkey contracts. However, to enable hedging of some of the risks in these contracts, the Group uses cost-plus-fee contracts and contracts based on the cost disclosure estimate method, depending on the project. The Group draws fully upon its past experience to anticipate and incorporate into each contract provisions for dealing with the risks that threaten to arise during its execution. When confronted with unforeseen impediments to the execution of a project, including sudden steep rises in costs of materials, equipment, machinery and labor, outbreaks of disease, natural disasters, or if the JGC Group's actions or a problem during project execution should cause a major accident, the economics of a project can be adversely affected, which can have a negative impact on the JGC Group's performance.

3. RISKS AFFECTING INVESTING ACTIVITIES

The JGC Group invests in resource development business, new types of fuel business, water and power generation business, and the global warming gas-emissions credits business. In making these decisions, specific criteria are in place to facilitate new investments and reinvestments, monitoring of existing businesses, as well as decisions to withdraw from businesses, thereby ensuring the execution of appropriate risk management. However, unanticipated dramatic changes in the investing environment, such as sudden price fluctuations in oil, gas or other energy resources, can have a negative impact on the JGC Group's performance.

4. RISKS OF CHANGES IN EXCHANGE RATES

Almost all of the income from JGC Group sales generated by overseas business is paid in foreign currencies. To hedge the associated exchange rate risk, we introduced countermeasures including project contracts denominated in multiple currencies, conducting overseas procurement and entering into foreign exchange contracts. However, sudden exchange rate fluctuations could negatively affect the JGC Group's performance.

CONSOLIDATED BALANCE SHEETS

JGC CORPORATION
March 31, 2008 and 2007

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current Assets:			
Cash and deposits (Note 13)	¥ 93,617	¥100,811	\$ 934,394
Marketable securities (Notes 9 & 13)	71,000	58,600	708,654
Notes and accounts receivable (Note 2)	68,131	80,004	680,018
Inventories:			
Contract works in progress	58,497	50,152	583,861
Products and others	10,247	9,548	102,275
Deferred tax assets (Note 12)	9,136	9,859	91,187
Other current assets (Note 2)	14,522	19,048	144,945
Allowance for doubtful accounts	(533)	(689)	(5,320)
Total Current Assets	324,617	327,333	3,240,014
Property and Equipment (Note 3):			
Land (Note 14)	26,517	26,412	264,667
Buildings and structures	54,827	53,606	547,230
Machinery and equipment	43,316	39,122	432,339
Construction in progress	96	1,042	958
	124,756	120,182	1,245,194
Less accumulated depreciation	(56,306)	(52,962)	(561,992)
Net Property and Equipment	68,450	67,220	683,202
Other Assets:			
Investments in unconsolidated subsidiaries and affiliates (Note 9)	18,663	13,858	186,276
Marketable and investment securities (Note 9)	29,033	38,317	289,779
Long-term loans receivable (Note 2)	13,694	14,820	136,680
Deferred tax assets (Note 12)	6,188	2,011	61,763
Goodwill	1,211	2,018	12,087
Other	4,917	4,709	49,077
Total Other Assets	73,706	75,733	735,662
Total Assets	¥466,773	¥470,286	\$4,658,878

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current Liabilities:			
Short-term loans and current maturities of long-term debt (Notes 2 & 3)	¥ 762	¥ 3,134	\$ 7,606
Notes and accounts payable (Note 2)	82,017	113,158	818,615
Advances received on uncompleted contracts (Note 2)	111,955	100,278	1,117,427
Reserve for job warranty costs	695	1,656	6,937
Reserve for losses on contracts	2,611	5,014	26,060
Income taxes payable	9,368	3,921	93,502
Other current liabilities (Notes 2 & 12)	9,931	10,425	99,121
Total Current Liabilities	217,339	237,586	2,169,268
Long-Term Debt, Less Current Maturities (Note 3)	17,300	17,799	172,672
Retirement and Severance Benefits (Note 5)	16,214	17,060	161,833
Deferred Tax Liabilities for Land Revaluation (Notes 12 & 14)	3,783	3,783	37,758
Other Non-Current Liabilities	4,600	4,819	45,913
Total Liabilities	259,236	281,047	2,587,444
Contingencies (Note 6)			
Net Assets (Note 7):			
Common stock			
Authorized — 600,000,000 shares,			
Issued — 259,052,929 shares in 2008 and 2007	23,511	23,511	234,664
Capital surplus	25,593	25,586	255,445
Retained earnings	160,311	134,300	1,600,070
Treasury stock, at cost	(5,532)	(4,032)	(55,215)
Net unrealized holding gains on securities	8,056	14,853	80,407
Deferred gains on hedges	331	—	3,304
Land revaluation, net of deferred tax portion (Note 14)	(6,590)	(6,590)	(65,775)
Foreign currency translation adjustments	1,575	1,337	15,720
Minority interests	282	274	2,814
Total Net Assets	207,537	189,239	2,071,434
Total Liabilities and Net Assets	¥466,773	¥470,286	\$4,658,878

CONSOLIDATED STATEMENTS OF INCOME

JGC CORPORATION
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Net Sales (Notes 8 & 11)	¥551,062	¥608,530	¥550,301	\$5,500,170
Cost of Sales	487,362	564,591	514,071	4,864,378
Gross profit	63,700	43,939	36,230	635,792
Selling, General and Administrative Expenses	18,804	17,526	15,841	187,683
Operating income	44,896	26,413	20,389	448,109
Other Income (Expenses):				
Interest and dividend income	6,593	5,184	3,078	65,805
Interest expense	(558)	(358)	(294)	(5,569)
Loss on sales and disposal of property and equipment	(177)	(286)	(115)	(1,767)
Loss on devaluation of property and equipment	—	—	(2)	—
Loss on devaluation of marketable and investment securities	(24)	(26)	(29)	(240)
Exchange gain (loss), net	(8,152)	(120)	358	(81,365)
Equity in earnings of affiliates	5,078	3,199	1,279	50,684
Gain on sales of marketable and investment securities	148	36	162	1,477
Gain on transition to new defined contribution pension plan	—	81	—	—
Provision for doubtful accounts	(1,424)	(1,776)	(1,415)	(14,213)
Loss on devaluation of investment in unconsolidated subsidiaries	—	—	(679)	—
Loss on withdrawal from certain business	—	(920)	—	—
Gain on release from the substitutional portion of the government's welfare pension insurance scheme	—	—	171	—
Reversal of (provision for) retirement and severance benefits	—	(117)	295	—
Impairment loss	—	—	(23)	—
Loss on sale of investments in consolidated subsidiary	—	—	(137)	—
Other, net	528	513	346	5,270
	2,012	5,410	2,995	20,082
Income before taxes on income and minority interests in earnings of consolidated subsidiaries	46,908	31,823	23,384	468,191
Taxes on Income (Note 12):				
Current	17,910	11,300	9,763	178,760
Deferred	(1,042)	312	(1,508)	(10,400)
Income before minority interests	30,040	20,211	15,129	299,831
Minority Interests in Earnings of Consolidated Subsidiaries	(20)	(24)	(118)	(200)
Net Income	¥ 30,020	¥ 20,187	¥ 15,011	\$ 299,631
Amounts Per Share of Common Stock				
Net income	¥118.33	¥79.52	¥58.33	\$1.18
Cash dividends applicable to the year	¥ 21.00	¥15.00	¥11.00	\$0.21

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

JGC CORPORATION
Years ended March 31, 2008, 2007 and 2006

	Thousands of shares		Millions of yen							
	Common stock		Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains (losses) on securities	Deferred gains on hedges	Land revaluation, net of deferred tax portion (Note 14)	Foreign currency translation adjustments	Minority Interests
Shares	Amount									
Balance at March 31, 2005	259,053	¥23,511	¥25,581	¥105,396	¥(3,598)	¥ 7,284	¥ —	¥(6,733)	¥ (286)	¥301
Net income for the year				15,011						
Effect of change in accounting standard for a foreign affiliate				(1,083)						
Cash dividends				(2,159)						
Bonuses to directors and corporate statutory auditors				(164)						
Gain on retirement of treasury stock			1							
Land revaluation, net of deferred tax portion				(151)				151		
Net unrealized holding gains on securities						10,153				—
Foreign currency translation adjustments									431	
Increase of treasury stock					(281)					
Net changes during the year										(10)
Balance at March 31, 2006	259,053	¥23,511	¥25,582	¥116,850	¥(3,879)	¥17,437	¥ —	¥(6,582)	¥ 145	¥291
Net income for the year				20,187						
Effect of change in scope of consolidation				240						
Cash dividends				(2,793)						
Bonuses to directors and corporate statutory auditors				(192)						
Gain on retirement of treasury stock			4		2					
Land revaluation, net of deferred tax portion				8				(8)		
Net unrealized holding gains on securities						(2,584)				—
Foreign currency translation adjustments									1,192	
Increase of treasury stock					(155)					
Net changes during the year										(17)
Balance at March 31, 2007	259,053	¥23,511	¥25,586	¥134,300	¥(4,032)	¥14,853	¥ —	¥(6,590)	¥1,337	¥274
Net income for the year				30,020						
Effect of change in scope of consolidation				(202)						
Cash dividends				(3,807)						
Gain on retirement of treasury stock			7		6					
Land revaluation, net of deferred tax portion										
Net unrealized holding gains on securities						(6,797)				
Net deferred gains on hedges							331			
Foreign currency translation adjustments									238	
Increase of treasury stock					(1,506)					
Net changes during the year										8
Balance at March 31, 2008	259,053	¥23,511	¥25,593	¥160,311	¥(5,532)	¥ 8,056	¥331	¥(6,590)	¥1,575	¥282

	Thousands of U.S. dollars (Note1)									
	Common stock		Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains (losses) on securities	Deferred gains on hedges	Land revaluation, net of deferred tax portion (Note 14)	Foreign currency translation adjustments	Minority Interests
Shares	Amount									
Balance at March 31, 2007		\$234,664	\$255,375	\$1,340,453	\$(40,244)	\$148,248	\$ —	\$(65,775)	\$13,345	\$2,735
Net income for the year				299,631						
Effect of change in scope of consolidation				(2,016)						
Cash dividends				(37,998)						
Gain on retirement of treasury stock			70		60					
Land revaluation, net of deferred tax portion										—
Net unrealized holding gains on securities						(67,841)				
Net deferred gains on hedges							3,304			
Foreign currency translation adjustments									2,375	
Increase of treasury stock					(15,031)					
Net changes during the year										79
Balance at March 31, 2008		\$234,664	\$255,445	\$1,600,070	\$(55,215)	\$ 80,407	\$3,304	\$(65,775)	\$15,720	\$2,814

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

JGC CORPORATION
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Cash Flows From Operating Activities:				
Income before taxes on income and minority interests in earnings of consolidated subsidiaries	¥ 46,908	¥ 31,823	¥23,384	\$ 468,191
Adjustments to reconcile income before taxes on income and minority interests in earnings of consolidated subsidiaries to net cash provided by operating activities:				
Depreciation and amortization	6,081	5,394	4,817	60,694
Loss on impairment	—	—	23	—
Amortization of goodwill	734	734	740	7,326
Increase (decrease) in allowance for doubtful accounts	1,421	(938)	1,617	14,183
Increase (decrease) in reserve for losses on contracts	(2,403)	1,747	1,193	(23,985)
Increase (decrease) in retirement and severance benefits	(928)	82	389	(9,262)
Interest and dividend income	(6,593)	(5,184)	(3,078)	(65,805)
Interest expense	558	358	294	5,569
Exchange (gain) loss	5,005	(402)	(3)	49,955
Equity in earnings of affiliates	(5,078)	(3,199)	(1,279)	(50,684)
Gain on sales of marketable and investment securities	(148)	(36)	(162)	(1,477)
Loss on devaluation of marketable and investment securities	24	26	29	240
Loss on sales of investments in consolidated subsidiary	—	—	137	—
Loss on sales and disposal of property and equipment	177	286	115	1,767
Loss on devaluation of property and equipment	—	—	2	—
Loss on devaluation of investment in unconsolidated subsidiaries	—	—	679	—
Loss on withdrawal from certain businesses	—	920	—	—
Increase (decrease) in notes and accounts receivable	12,300	(9,564)	(4,953)	122,767
Decrease (increase) in inventories	(9,038)	(2,848)	25,208	(90,209)
Decrease (increase) in other assets	176	(682)	(1,834)	1,756
Increase (decrease) in notes and accounts payable	(27,782)	23,917	14,200	(277,293)
Increase (decrease) in advances received on uncompleted contracts	11,676	42,907	(34,247)	116,538
Gain on release from the substitutional portion of the government's welfare pension insurance scheme	—	—	(171)	—
Other	(40)	1,450	78	(399)
Subtotal	33,050	86,791	27,178	329,872
Interest and dividends received	8,801	6,206	6,241	87,843
Interest paid	(460)	(256)	(293)	(4,591)
Income taxes paid	(12,526)	(13,627)	(6,315)	(125,022)
Net Cash Provided by Operating Activities	28,865	79,114	26,811	288,102
Cash Flows From Investing Activities:				
Payments for purchases of property and equipment	(6,494)	(7,098)	(3,327)	(64,817)
Proceeds from sales of property and equipment	133	51	61	1,327
Payments for purchase of intangible fixed assets	(997)	(698)	(484)	(9,951)
Payments for purchase of marketable and investment securities	(3,872)	(6,077)	(1,618)	(38,647)
Proceeds from sales of marketable and investment securities	550	508	390	5,490
Payments for sales of shares of subsidiary excluded from the consolidation scope	—	—	(76)	—
Decrease (increase) in short-term loans receivable	293	421	(523)	2,924
Payments for long-term loans receivable	(5,233)	(1,672)	(850)	(52,231)
Proceeds from long-term loans receivable	658	199	3,368	6,568
Other	(70)	356	95	(698)
Net Cash Used in Investing Activities	(15,032)	(14,010)	(2,964)	(150,035)
Cash Flows From Financing Activities:				
Increase (decrease) in short-term loans	(2,389)	2,351	(352)	(23,844)
Proceeds from long-term bank loans	1,050	17,482	550	10,480
Repayments of long-term bank loans	(670)	(15,300)	(162)	(6,687)
Payments for purchase of treasury stock	(1,492)	(150)	(279)	(14,892)
Cash dividends paid	(3,805)	(2,790)	(2,159)	(37,978)
Cash dividends paid to minority shareholders	(12)	(40)	(22)	(120)
Net Cash Provided by (Used in) Financing Activities	(7,318)	1,553	(2,424)	(73,041)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1,360)	966	1,141	(13,574)
Net Increase in Cash and Cash Equivalents	5,155	67,623	22,564	51,452
Cash and Cash Equivalents at Beginning of Year	159,411	91,489	68,925	1,591,087
Increase in Cash and Cash Equivalents From Newly Consolidated Subsidiaries	—	299	—	—
Increase in Cash and Cash Equivalents From Subsidiaries Merged	51	—	—	509
Cash and Cash Equivalents at End of Year (Note 13)	¥164,617	¥159,411	¥91,489	\$1,643,048

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF ACCOUNTING POLICIES

(A) BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

The accounts of overseas subsidiaries are based on accounting records maintained in conformity with generally accepted accounting principles prevailing in their respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of changes in net assets for 2006) 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 Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 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) REPORTING ENTITY

The consolidated financial statements include the accounts of the Company and its significant subsidiaries that include less than 50% owned affiliates controlled through substantial ownership of majority voting rights or existence of substantial control. All significant inter-company transactions and account balances are eliminated in consolidation.

Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for by the equity method.

The number of consolidated subsidiaries and affiliates accounted for using the equity method at March 31, 2008, 2007 and 2006, was as follows:

	2008	2007	2006
Consolidated subsidiaries	13	13	12
Affiliates under the equity method	3	2	2

Investments in non-consolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost, adjusted for any substantial and non-recoverable decline in value. The effect on net income (loss) and retained earnings from those investments not accounted for under the equity method is immaterial.

(C) CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(D) CONVERSION OF FOREIGN CURRENCIES AND TRANSLATION OF STATEMENTS

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates except for net assets accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

(E) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Notes and accounts receivables, including loans and other receivables, are valued by providing individually estimated uncollectible amounts plus the amounts for probable losses calculated by applying a percentage based on collection experience to the remaining accounts.

(F) MARKETABLE SECURITIES, INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES, AND MARKETABLE AND INVESTMENT SECURITIES

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using the moving-average method. Other securities with no available fair market value are stated at moving-average cost. Equity securities issued by subsidiaries and affiliates, which are not consolidated or accounted for using the equity method, are stated at moving-average cost.

The companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes, (b) debt securities intended to be held to maturities, (c) equity securities issued by subsidiaries and affiliates, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities"). The Company and its domestic consolidated subsidiaries did not have the securities defined as (a) and (b) above in the years ended March 31, 2008 and 2007.

If the market value of available-for-sale securities declines significantly, such securities are restated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of decline (see Note 9). For equity securities with no available fair market value, if the net asset value of the investee declines significantly, such securities are required to be written down to the net asset value with the corresponding losses in the period of decline. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(G) RECOGNITION OF SALES, CONTRACT WORKS IN PROGRESS AND ADVANCES RECEIVED ON UNCOMPLETED CONTRACTS

The Company recognizes sales on contracts using the completed-contract method. Under this method, costs and advances received on uncompleted contracts are accumulated during the period of construction. These costs and advances received on uncompleted contracts are not offset and are shown as contract works in progress and advances received on uncompleted contracts in the accompanying consolidated balance sheets. Accordingly, no profits or losses are recorded before the contract is completed.

Sales on other contracts for relatively large projects, which require long periods for completion and which generally include engineering, procurement (components, parts, etc.) and construction on a full-turnkey basis, are recognized on the percentage-of-completion method, primarily based on contract costs incurred to date compared with total estimated costs for contract completion. The percentage-of-completion method is adopted for large jobs for which the construction period exceeds 24 months and the contract amount exceeds ¥5,000 million (including jobs whose construction period exceeds 36 months and the contract amount exceeds ¥3,000 million). Revisions in contract revenue and cost estimates are recognized in the period in which they are determined.

Contract works in progress are stated at cost determined by a specific identification method and comprised of direct materials, components and parts, direct labor, subcontractors' fees and other items directly attributable to the contract, and job-related overheads. Selling, general and administrative expenses are charged to operations as incurred and are not allocated to contract job work costs.

The Company normally receives payments from customers on a progress basis in accordance with the terms of the respective construction contracts.

(H) PRODUCTS AND OTHERS

Products and others are stated primarily at cost, determined by the moving-average method.

(I) OPERATING CYCLE

Assets and liabilities related to long-term contract jobs are included in current assets and current liabilities in the accompanying consolidated balance sheets, as they will be liquidated in the normal course of contract completion, although it may require more than one year.

(J) PROPERTY AND EQUIPMENT, DEPRECIATION AND FINANCE LEASES

Property and equipment are stated at cost, except for certain revalued land as explained in Note 14. Depreciation of property and equipment is calculated primarily using the straight-line method for buildings used for business operation, and the declining-balance method for other property and equipment over the estimated useful lives of the assets based on the Corporate Tax Law in Japan.

Effective as of the consolidated accounting period ended March 31, 2008, the Company and its domestic subsidiaries have changed their depreciation procedure based on an amendment in corporation tax law for the tangible assets acquired on and after April 1, 2007. The effect of this change on the financial result is immaterial.

Effective as of the consolidated accounting period ended March 31, 2008, the Company and its domestic subsidiaries have changed their depreciation procedure, which book value became 5% of the acquired cost based on an amendment in corporation tax law for the tangible assets acquired before March 31, 2007. The tangible assets which book value became 5% of the acquired cost are amortized by straight-line method over 5 years. The effect of this change on the financial result is immaterial.

Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

Expenditures for new facilities and those that substantially increase the useful lives of existing property and equipment are capitalized. Maintenance, repair and minor renewals are charged to expenses as incurred.

The cost and accumulated depreciation applicable to assets retired or otherwise disposed of are eliminated from the related accounts and the gain or loss on disposal is credited or charged to income.

(K) IMPAIRMENT OF FIXED ASSETS

Effective from the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result, income before taxes on income and minority interests in earnings of consolidated subsidiaries decreased by ¥23 million for the year ended March 31, 2006.

Accumulated loss from impairment is deducted directly from the acquisition costs of the related assets in accordance with the revised disclosure requirements.

(L) RETIREMENT AND SEVERANCE BENEFITS AND PENSION COSTS

(1) Employees' severance and retirement benefits

The Company and its consolidated subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

Some consolidated subsidiaries also have a defined contribution pension plan, which was transferred from a portion of the defined benefit pension plan.

The Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2008 and 2007, based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions and the fair value of the plan assets at that date.

From the year ended March 31, 2007, one consolidated subsidiary changed the calculation method of the allowance for employees' severance and retirement benefits from 100% of the lump-sum retirement benefits payable to actuarial calculation.

As a result, income before taxes on income and minority interests in earnings of consolidated subsidiaries decreased by ¥117 million for the year ended March 31, 2007.

The Company and its consolidated subsidiaries recognize prior service costs as expenses in equal amounts over the average of the estimated remaining service lives of employees (12 or 15 years), and actuarial gains and losses as expenses using the declining-balance method over the average of the estimated remaining service lives (12 or 15 years) commencing in the following period.

From the year ended March 31, 2007, the Company changed the amortizing periods for the unrecognized actuarial gains and losses and the unrecognized prior service costs from 15 years to 12 years, because the average service period of its employees declined below 14 years as of March 31, 2007.

As a result, operating income and income before taxes on income and minority interests in earnings of consolidated subsidiaries decreased by ¥171 million for the year ended March 31, 2007.

However, some consolidated subsidiaries recognized net transition obligation, prior service costs, and actuarial differences as expenses in the period incurred.

In addition, from the year ended March 31, 2007, one consolidated subsidiary discontinued and combined part of its defined benefit pension plans and transferred to the new defined benefit pension plan.

As a result of the implementation of the new defined benefit pension plan in accordance with "Accounting Standard for Transfer among the Retirement and Severance Benefit Plans" (the Financial Accounting Standard Implementation Guidance No. 1 issued by the Accounting Standards Board of Japan), income before taxes on income and minority interests in earnings of consolidated subsidiaries increased by ¥81 million for the year ended March 31, 2007.

(2) Officers' severance and retirement benefits

Domestic consolidated subsidiaries provide for liabilities in respect of lump-sum severance and retirement benefits to directors and corporate statutory auditors computed on the assumption that all officers retired at a year-end.

(M) RESEARCH AND DEVELOPMENT COSTS

Research and development costs for the improvement of existing skills and technologies or the development of new skills and technologies, including basic research and fundamental development costs, are charged to operations in the period incurred.

(N) TAXES ON INCOME

The Company and its consolidated subsidiaries provide tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(O) RESERVE FOR JOB WARRANTY COSTS

A reserve for the estimated cost of warranty obligations is provided for the Company's engineering, procurement and construction work at the time the related sales on contracts are recorded.

(P) RESERVE FOR LOSSES ON CONTRACTS

A reserve for losses on contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress.

(Q) PER SHARE INFORMATION

Cash dividends per share have been presented on an accrual basis and include dividends to be approved after the balance sheet date but applicable to the year then ended.

(R) AMORTIZATION OF GOODWILL

Goodwill is amortized over five years on a straight-line basis, and either debited to the selling, general and administrative expenses, or credited to other income.

(S) DERIVATIVES AND HEDGE ACCOUNTING

The accounting standard for financial instruments requires companies to state derivative financial instruments at fair value and to recognize changes in fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its domestic consolidated subsidiaries defer 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 an existing foreign currency receivable or payable,
 - (i) 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 statement of income in the period which includes the inception date, and
 - (ii) 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, where 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.

(T) ACCOUNTING STANDARD FOR PRESENTATION OF NET ASSETS IN THE BALANCE SHEET

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently compared to the previous presentation. Minority interests are required to be included in the net assets section under the New Accounting Standards. Under the previous presentation rules, companies were required to present minority interests between the non-current liabilities and shareholders' equity sections.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, shareholders' equity amounting to ¥188,965 million would have been presented.

(U) ACCOUNTING STANDARD FOR STATEMENT OF CHANGES IN NET ASSETS

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statements of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

(V) ACCRUED BONUSES TO DIRECTORS AND CORPORATE AUDITORS

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Bonuses to Directors" (Statement No.4 issued by the Accounting Standards Board of Japan on November 29, 2005).

Under the new accounting standards, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings.

As a result, operating income and income before taxes on income and minority interests in earnings of consolidated subsidiaries decreased by ¥236 million for the year ended March 31, 2007.

(W) ACCOUNTING STANDARDS FOR BUSINESS COMBINATIONS AND BUSINESS DIVESTITURES

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Business Combinations" (issued by Business Accounting Council on October 31, 2003), "Accounting Standard for Business Divestitures" (Statement No.7 issued by the Accounting Standards Board of Japan on December 27, 2005) and the related implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (the Financial Accounting Standard Implementation Guidance No. 10 issued by the Accounting Standards Board of Japan on December 27, 2005).

The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the years ended March 31, 2007.

(X) RECLASSIFICATION AND RESTATEMENT

Certain prior year amounts have been reclassified to conform to the current year presentation.

These reclassifications had no impact on previously reported results of operations or retained earnings.

NOTE 2 — RECEIVABLES FROM AND PAYABLES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Significant receivables from and payables to unconsolidated subsidiaries and affiliates at March 31, 2008 and 2007, were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2008	2007	(Note 1)
Notes and accounts receivable	¥ 11	¥ 1	\$ 110
Other current assets	884	296	8,823
Long-term loans receivable	5,257	1,327	52,470
Notes and accounts payable	1,179	2,333	11,768
Short-term loans	—	89	—
Advances received on uncompleted contracts	—	54	—
Other current liabilities	454	531	4,531

NOTE 3 — BORROWINGS

Short-term loans consisted mainly of unsecured notes and bank overdrafts and bore interest at the annual rates of 0.80% to 1.36% and 0.63% to 1.20% at March 31, 2008 and 2007, respectively. Such loans are generally renewable at maturity.

Long-term debt consisted of the following:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Secured Loans			
0.55% – 1.75% loans from a governmental institution due serially through 2013	¥ 2,349	¥ 1,886	\$ 23,445
Unsecured Debt			
1.31% – 5.27% loans from banks and insurance companies due serially through 2013	15,613	16,558	155,834
	17,962	18,444	179,279
Less current maturities	(662)	(645)	(6,607)
Long-term debt due after one year	¥17,300	¥17,799	\$172,672

Assets pledged as collateral for long-term debt and other non-current liabilities at March 31, 2008 and 2007, were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Land	¥ 5,071	¥ 5,071	\$ 50,614
Buildings and structures, at net book value	3,991	4,035	39,834
Machinery and equipment, at net book value	5,725	3,662	57,142
Total	¥14,787	¥12,768	\$147,590

The annual maturities of long-term debt outstanding at March 31, 2008 were as follows:

Year ending March 31,	Amount	
	Millions of yen	Thousands of U.S. dollars (Note 1)
2009	¥ 662	\$ 6,607
2010	617	6,158
2011	557	5,559
2012	14,946	149,177
2013 and thereafter	1,180	11,778
Total	¥17,962	\$179,279

NOTE 4 — LEASE TRANSACTIONS

A. LESSEE LEASES

(a) FINANCE LEASE TRANSACTIONS WITHOUT OWNERSHIP TRANSFER TO LESSEE

(1) Purchase price equivalents, accumulated depreciation equivalents, and book value equivalents:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Machinery and equipment and others:			
Purchase price equivalents	¥1,725	¥1,862	\$17,217
Accumulated depreciation equivalents	(839)	(843)	(8,374)
Book value equivalents	¥ 886	¥1,019	\$ 8,843

Purchase price equivalents are calculated using the inclusive-of-interest method.

(2) Lease commitments:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Due within one year	¥312	¥ 328	\$3,114
Due after one year	574	691	5,729
Total	¥886	¥1,019	\$8,843

Lease commitments as lessee are calculated using the inclusive-of-interest method.

(3) Lease payments and depreciation equivalents:

Year ending March 31,	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Lease payments	¥358	¥387	¥340	\$3,573
Depreciation equivalents	358	387	340	3,573

(4) Calculation method of depreciation equivalents:

Depreciation equivalents are computed by the straight-line method over the lease period without considering residual value.

(b) OPERATING LEASE TRANSACTIONS

Lease commitments under non-cancelable operating leases:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Due within one year	¥1	¥—	\$10
Due after one year	1	—	10
Total	¥2	¥—	\$20

B. LESSOR LEASES

(a) FINANCE LEASE TRANSACTIONS WITHOUT OWNERSHIP TRANSFER TO LESSEE

(1) Purchase price, accumulated depreciation and book value:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Machinery and equipment:			
Purchase price	¥ 350	¥ 442	\$ 3,493
Accumulated depreciation	(214)	(241)	(2,136)
Book value	¥ 136	¥ 201	\$ 1,357

(2) Lease commitments:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Due within one year	¥ 72	¥100	\$ 718
Due after one year	77	117	769
Total	¥149	¥217	\$1,487

Lease commitments as lessor were calculated using the inclusive-of-interest method.

(3) Rental income and depreciation:

Year ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Rental income	¥99	¥146	¥127	\$988
Depreciation	91	136	117	908

NOTE 5 — EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for employees' severance and retirement benefits included in retirement and severance benefits in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Projected benefit obligation	¥ 48,795	¥ 49,384	\$ 487,025
Less fair value of pension assets	(28,213)	(29,772)	(281,595)
Unfunded projected benefit obligation	20,582	19,612	205,430
Less unrecognized net transition obligation	(150)	(171)	(1,497)
Unrecognized actuarial differences	(6,930)	(5,296)	(69,169)
Unrecognized prior service costs	2,197	2,459	21,928
Net liability for employees' severance and retirement benefits	15,699	16,604	156,692
Subtotal	15,699	16,604	156,692
Allowance for officers' lump-sum severance benefits	515	456	5,141
Retirement and severance benefits	¥ 16,214	¥ 17,060	\$ 161,833

Included in the consolidated statements of income for the years ended March 31, 2008 and 2007, were severance and retirement benefit expenses comprising the following:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Service costs — benefits earned during the year	¥1,746	¥1,628	\$17,427
Interest cost on projected benefit obligation	739	717	7,376
Expected return on plan assets	(447)	(431)	(4,462)
Amortization of net transition obligation	21	138	210
Amortization of actuarial differences	958	1,209	9,562
Amortization of prior service costs	(262)	(260)	(2,615)
Severance and retirement benefit expenses	¥2,755	¥3,001	\$27,498

The discount rate used by the Company and its domestic consolidated subsidiaries was 1.5% at March 31, 2008 and 2007. However, some consolidated subsidiaries used the rate of 2.0% at March 31, 2008 and 2007. The rate of expected return on plan assets used by the Company and its domestic consolidated subsidiaries was 1.5% for March 31, 2008 and 2007. However, some consolidated subsidiaries used the rates of 2.0% and 2.0% to 3.5% for March 31, 2008 and 2007, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial differences are recognized in consolidated statements of income using the declining-balance method over 12 years and 15 years for the year ended March 31, 2008 and 2007, respectively, beginning the following fiscal year of recognition. Prior service costs are recognized using the straight-line method over 12 years and 15 years for the year ended March 31, 2008 and 2007, respectively, from the fiscal year incurred. Net transition obligation is amortized over 15 years. However, some consolidated subsidiaries recognize net transition obligations, prior service costs, and actuarial differences as expenses in the period incurred.

NOTE 6 — CONTINGENCIES

- (1) It is a business practice in Japan for a company to guarantee the indebtedness of certain of its trading agents, suppliers, subcontractors and certain subsidiaries and affiliates. The aggregate amount of such guarantees were ¥15,839 million (\$158,090 thousand) and ¥20,864 million at March 31, 2008 and 2007, respectively.
- (2) The Company and one consolidated subsidiary have guaranteed employees' housing loans and others from banks in the amount of ¥24 million (\$240 thousand) and ¥34 million at March 31, 2008 and 2007, respectively.

NOTE 7 — NET ASSETS

As described in Note 1 (t), net assets comprises four subsections, which are owners' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

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 price of the new shares as additional paid-in capital, which is included in capital surplus.

Under 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 Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. 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 non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting of the Company held on June 27, 2008, the shareholders approved cash dividends amounting to ¥5,310 million (\$52,999 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

During the years ended March 31, 2008, 2007 and 2006, the Company issued no share.

NOTE 8 — NET SALES

Net sales recognized on the percentage-of-completion method for the years ended March 31, 2008, 2007 and 2006, were ¥396,618 million (\$3,958,659 thousand), ¥465,956 million, and ¥375,408 million, respectively.

NOTE 9 — INFORMATION ON SECURITIES

A. The following tables summarize acquisition costs and book values stated at the fair value of securities with available fair values as of March 31, 2008 and 2007.

(a) AVAILABLE-FOR-SALE SECURITIES WITH AVAILABLE FAIR VALUES:

(1) Securities with book values exceeding acquisition costs:

March 31, 2008	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥10,139	¥23,303	¥13,164

March 31, 2007	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥11,123	¥34,440	¥23,317

March 31, 2008	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Book value	Difference
Equity securities	\$101,198	\$232,588	\$131,390

(2) Securities with book values not exceeding acquisition costs:

March 31, 2008	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥2,158	¥1,622	¥(536)

March 31, 2007	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥157	¥128	¥(29)

March 31, 2008	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Book value	Difference
Equity securities	\$21,539	\$16,189	\$(5,350)

B. The following tables summarize book values of securities with no available fair values or securities not valued by fair market prices as of March 31, 2008 and 2007:

(a) **AVAILABLE-FOR-SALE SECURITIES:**

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Non-listed equity securities	¥ 3,165	¥ 2,806	\$ 31,590
Subscription certificate	938	938	9,362
Bonds	5	5	50
Negotiable certificate of deposit	71,000	58,600	708,654
Total	¥75,108	¥62,349	\$749,656

(b) **UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES:**

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Securities of unconsolidated subsidiaries	¥ 8,423	¥ 6,258	\$ 84,070
Securities of affiliates	10,240	7,600	102,206
Total	¥18,663	¥13,858	\$186,276

C. Available-for-sale securities with maturities are as follows:

March 31, 2008	Millions of yen				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
Negotiable certificate of deposit	¥71,000	¥—	¥—	¥—	¥71,000
Commercial paper	—	—	—	—	—
Total	¥71,000	¥—	¥—	¥—	¥71,000

March 31, 2007	Millions of yen				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
Negotiable certificate of deposit	¥58,600	¥—	¥—	¥—	¥58,600
Commercial paper	—	—	—	—	—
Total	¥58,600	¥—	¥—	¥—	¥58,600

March 31, 2008	Thousands of U.S. dollars (Note 1)				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
Negotiable certificate of deposit	\$708,654	\$—	\$—	\$—	\$708,654
Commercial paper	—	—	—	—	—
Total	\$708,654	\$—	\$—	\$—	\$708,654

The Company follows a policy of devaluation of available-for-sale securities. The policy of devaluation for the Company and its domestic consolidated subsidiaries is that if the available fair value of the securities declines by 50% or more, compared with acquisition cost, all the corresponding securities are devalued as such decline in value is considered to be substantial and non-recoverable. In addition, in the case whereby the available fair value of the securities declines by more than 30% but by less than 50%, the Company and its domestic consolidated subsidiaries examine the recoverability of the fair value of the securities and devalue them if those securities are considered to be non-recoverable.

NOTE 10 — DERIVATIVE TRANSACTIONS AND HEDGE ACCOUNTING

As explained in Note 1 (s), the accounting standard for financial instruments requires companies to state derivative financial instruments at fair value and to recognize changes in fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

The Company utilizes foreign currency forward contracts and interest rate swap contracts as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates with respect to foreign currency receivables and payables, mitigating future risks of interest rate increases and lowering the financing costs with respect to borrowings.

Foreign currency forward contracts and interest rate swap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The derivative transactions are executed and managed in accordance with the established policies and within the specified limits on the amount of derivative transactions allowed.

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

Hedging instruments:	Hedged items:
Foreign currency forward contracts	Foreign currency trade receivables, payables and future transactions denominated in a foreign currency
Foreign currency deposit	Foreign currency trade receivables, payables and future transactions denominated in a foreign currency
Interest rate swap contracts	Interest on loans payable

The Company evaluates hedge effectiveness semi-annually by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments. However, where the principal conditions underlying the hedging instruments and the hedged assets or liabilities are similar, the evaluation of hedge effectiveness is not performed.

The Company's financial instrument counterparties were all prime banks operating domestically in Japan, and the Company does not expect non-performance by the counterparties.

Fair value of derivative transactions as of March 31, 2008 and 2007 was summarized as follows:

March 31, 2008	Millions of yen				
	Contract amounts in yen equivalent			Fair value	Difference
	Due within one year	Due after one year	Total		
Forward exchange contracts					
Sell U.S. dollars	¥9,967	¥—	¥9,967	¥9,954	¥13

March 31, 2007	Millions of yen				
	Contract amounts in yen equivalent			Fair value	Difference
	Due within one year	Due after one year	Total		
Forward exchange contracts					
Sell U.S. dollars	¥11,666	¥—	¥11,666	¥11,671	¥(5)

March 31, 2008	Thousands of U.S. dollars (Note 1)				
	Contract amounts in U.S. dollar equivalent			Fair value	Difference
	Due within one year	Due after one year	Total		
Forward exchange contracts					
Sell U.S. dollars	\$99,481	\$—	\$99,481	\$99,351	\$130

Fair value of forward exchange contracts is stated based on the quoted market price.

Derivative transactions with hedge accounting applied are excluded in the above table.

NOTE 11 — SEGMENT INFORMATION

(A) INFORMATION BY BUSINESS SEGMENT

The operations of the Company and its consolidated subsidiaries are classified into two reportable segments: the total engineering business and the catalysts and fine products business.

Major activities included in the total engineering business are design, procurement, construction and performance test services of machinery and plants for petroleum, petroleum refining, petrochemicals, gas, chemicals, nuclear energy, metal refining, biochemical, food, pharmaceuticals, medical, logistics, information technology, environment conservation and pollution control. Major activities in the catalysts and fine products business include manufacturing and distribution of chemical and catalyst products (FCC catalysts, hydrotreating catalysts, deNOx catalysts, petrochemical catalysts, etc), and new functional material products (colloidal silica, coating materials for surface treatment on cathode ray tubes, material for semiconductors, cathode materials and cosmetic products, etc.).

From the year ended March 31, 2008, we have changed the segment name of "Catalyst and fine chemical products" business to the "Catalysts and fine products" business. There is no substantial change in the nature of the business, but the renaming reflects more closely the realities of the activities involved.

The following is information by business segment for the years ended March 31, 2008, 2007 and 2006:

Year ended March 31, 2008	Millions of yen				
	Total engineering	Catalysts and fine products	Total	Elimination or corporate	Consolidated
Net sales:					
External customers	¥508,717	¥42,345	¥551,062	¥ —	¥551,062
Inter-segment	32	6	38	(38)	—
Total	508,749	42,351	551,100	(38)	551,062
Operating expenses	469,332	36,896	506,228	(62)	506,166
Operating profit	¥ 39,417	¥ 5,455	¥ 44,872	¥ 24	¥ 44,896
Identifiable assets	¥429,567	¥40,188	¥469,755	¥(2,982)	¥466,773
Depreciation and amortization	¥ 3,706	¥ 2,375	¥ 6,081	¥ (0)	¥ 6,081
Capital expenditures	¥ 2,560	¥ 6,029	¥ 8,589	¥ —	¥ 8,589

Year ended March 31, 2007	Millions of yen				
	Total engineering	Catalysts and fine chemical products	Total	Elimination or corporate	Consolidated
Net sales:					
External customers	¥573,463	¥35,067	¥608,530	¥ —	¥608,530
Inter-segment	36	29	65	(65)	—
Total	573,499	35,096	608,595	(65)	608,530
Operating expenses	552,809	29,400	582,209	(92)	582,117
Operating profit	¥ 20,690	¥ 5,696	¥ 26,386	¥ 27	¥ 26,413
Identifiable assets	¥434,138	¥37,507	¥471,645	¥(1,359)	¥470,286
Depreciation and amortization	¥ 3,650	¥ 1,744	¥ 5,394	¥ (0)	¥ 5,394
Capital expenditures	¥ 2,811	¥ 2,493	¥ 5,304	¥ —	¥ 5,304

Year ended March 31, 2006	Millions of yen				
	Total engineering	Catalysts and fine chemical products	Total	Elimination or corporate	Consolidated
Net sales:					
External customers	¥520,835	¥29,466	¥550,301	¥ —	¥550,301
Inter-segment	44	2	46	(46)	—
Total	520,879	29,468	550,347	(46)	550,301
Operating expenses	504,670	25,289	529,959	(47)	529,912
Operating profit	¥ 16,209	¥ 4,179	¥ 20,388	¥ 1	¥ 20,389
Identifiable assets	¥347,234	¥28,826	¥376,060	¥(772)	¥375,288
Depreciation and amortization	¥ 3,522	¥ 1,295	¥ 4,817	¥ (0)	¥ 4,817
Capital expenditures	¥ 2,299	¥ 2,385	¥ 4,684	¥ —	¥ 4,684

Thousands of U.S. dollars (Note 1)					
Year ended March 31, 2008	Total engineering	Catalysts and fine products	Elimination or Total corporate	Consolidated	
Net sales:					
External customers	\$5,077,523	\$422,647	\$5,500,170	\$ —	\$5,500,170
Inter-segment	319	60	379	(379)	—
Total	5,077,842	422,707	5,500,549	(379)	5,500,170
Operating expenses	4,684,420	368,260	5,052,680	(619)	5,052,061
Operating profit	\$ 393,422	\$ 54,447	\$ 447,869	\$ 240	\$ 448,109
Identifiable assets	\$4,287,524	\$401,118	\$4,688,642	\$(29,764)	\$4,658,878
Depreciation and amortization	\$ 36,990	\$ 23,704	\$ 60,694	\$ (0)	\$ 60,694
Capital expenditures	\$ 25,551	\$ 60,176	\$ 85,727	\$ —	\$ 85,727

(B) INFORMATION BY GEOGRAPHIC SEGMENT

Geographic segment information is not disclosed, as the Company and its consolidated subsidiaries operate mainly within Japan.

(C) OVERSEAS SALES

The following is overseas sales information by geographic area for the years ended March 31, 2008, 2007 and 2006:

March 31,	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
East Asia	¥ 6,537	¥ 9,124	¥ 26,634	\$ 65,246
Southeast Asia	94,170	78,123	47,640	939,914
Middle East	213,437	322,539	276,312	2,130,323
Africa	21,494	32,695	43,455	214,532
Other	7,821	5,764	16,808	78,062
Total overseas sales	¥343,459	¥448,245	¥410,849	\$3,428,077
Consolidated sales	¥551,062	¥608,530	¥550,301	\$5,500,170
Percentage of overseas sales over consolidated sales	62.3%	73.7%	74.7%	62.3%

Major countries and areas included in each geographic area are as follows:

East Asia:	China
Southeast Asia:	Indonesia, Vietnam, the Philippines
Middle East:	Qatar, Saudi Arabia, Yemen
Africa:	Algeria, Nigeria
Other:	Kazakhstan, the United States, Australia

NOTE 12 — TAXES ON INCOME

The statutory tax rate for 2008, 2007 and 2006 was 36.2%.

The following table summarizes the significant differences between the statutory tax rate and the Company's and its consolidated subsidiaries' effective tax rate for financial statement purposes for the years ended March 31, 2008, 2007 and 2006:

	2008	2007	2006
Statutory tax rate	36.2%	36.2%	36.2%
Non-deductible expenses	0.3	0.7	0.8
Non-taxable dividend income	(0.7)	(0.6)	(0.6)
Valuation allowance	(1.5)	(1.8)	(1.0)
Tax credit utilized	(2.1)	(1.9)	(1.8)
Differences in tax rate applied to certain subsidiaries	1.2	1.2	1.2
Other	2.6	2.7	0.5
Effective tax rate	36.0%	36.5%	35.3%

Significant components of the Company and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2008 and 2007, were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current deferred taxes			
Deferred tax assets:			
Excess accrued employees' bonuses	¥ 2,540	¥2,290	\$ 25,352
Excess reserve for losses on contracts	950	1,817	9,482
Other	7,151	5,752	71,374
Total current deferred tax assets	10,641	9,859	106,208
Deferred tax liabilities:			
Retained earnings of foreign subsidiaries	(1,286)	—	(12,835)
Other	(219)	—	(2,186)
Total current deferred tax liabilities	(1,505)	—	(15,021)
Net current deferred tax assets	¥ 9,136	¥9,859	\$ 91,187
Deferred tax liabilities:			
Retained earnings of foreign subsidiaries	¥ —	¥1,137	\$ —
Other	36	15	359
Total current deferred tax liabilities	¥ 36	¥1,152	\$ 359

For the year ended March 31, 2008 and 2007, the valuation allowances of ¥192 million (\$1,916 thousand) and ¥170 million have been deducted from the gross amount of the current deferred tax assets, respectively.

Non-current deferred taxes

Deferred tax assets:

Loss recognized on percentage-of-completion method not deductible for income tax purposes	¥ 196	¥ 196	\$ 1,956
Retirement benefits	5,820	6,160	58,090
Excess bad debt expenses	3,293	3,021	32,867
Other	1,602	1,147	15,990

Total non-current deferred tax assets	10,911	10,524	108,903
---------------------------------------	--------	--------	---------

Deferred tax liabilities:

Unrealized gains on securities	(4,573)	(8,436)	(45,643)
Other	(150)	(77)	(1,497)

Total non-current deferred tax liabilities	(4,723)	(8,513)	(47,140)
--	---------	---------	----------

Net non-current deferred tax assets	¥ 6,188	¥ 2,011	\$ 61,763
-------------------------------------	---------	---------	-----------

For the year ended March 31, 2008 and 2007, the valuation allowances of ¥924 million (\$9,222 thousand) and ¥1,044 million have been deducted from the gross amount of the non-current deferred tax assets, respectively.

Deferred tax liabilities for land revaluation	¥3,783	¥3,783	\$37,758
Deferred tax liabilities for full revaluation of the consolidated subsidiary	¥ 66	¥ 223	\$ 659

NOTE 13 — NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(A) RECONCILIATION OF CASH

Reconciliation of cash in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows is as follows:

March 31,	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Cash and deposits	¥ 93,617	¥100,811	¥49,191	\$ 934,394
Marketable securities	71,000	58,600	42,298	708,654
Cash and cash equivalents	¥164,617	¥159,411	¥91,489	\$1,643,048

NOTE 14 — LAND REVALUATION

Pursuant to Article 2 of the Enforcement Ordinance for the Law Concerning Land Revaluation (the "Law") effective March 31, 1998, the Company recorded its owned land used for business at the fair value as of March 31, 2002, and the related revaluation difference, net of income taxes, was debited to "land revaluation, net of deferred tax portion" in the net assets section. The applicable income tax portion was reported as DEFERRED TAX LIABILITIES FOR LAND REVALUATION in the consolidated balance sheet at March 31, 2008 and 2007. When such land is sold, land revaluation is reversed and debited to retained earnings.

Fair value of the revalued land as of March 31, 2008 was ¥4,662 million (\$46,532 thousand) less than the book value as of March 31, 2008.

NOTE 15 — RELATED PARTY TRANSACTIONS

Significant transaction with related party as of and for the years ended March 31, 2008, 2007 and 2006 were as follows:

March 31,	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Rabigh Arabian Water and Electricity Co., Ltd. (affiliated company) — guarantee obligation	¥8,289	¥9,903	¥10,001	\$82,733

The Company doesn't receive a guarantee charge from Rabigh Arabian Water and Electricity Co., Ltd.

NOTE 16 — SUBSEQUENT EVENTS

The Company's wholly owned subsidiaries, Catalysts & Chemicals Industries Co., Ltd. and Nikki Chemical Co., Ltd. agreed to merge on May 1, 2008 and will merge effective as of July 1, 2008. The new company will be called JGC Catalysts & Chemicals Ltd.

INDEPENDENT AUDITORS' REPORT

JGC Corporation

To the Shareholders and Board of Directors of JGC Corporation (Nikki Kabushiki Kaisha):

We have audited the accompanying consolidated balance sheets of JGC Corporation (a Japanese corporation) and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2008, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of JGC Corporation and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 27, 2008

SIX-YEAR SUMMARY—NON-CONSOLIDATED

For the six years ended March 31.
Yen amounts are in millions except per share data.

	2008	2007	2006	2005	2004	2003
Net Sales	¥460,161	¥528,794	¥ 484,382	¥386,041	¥367,741	¥338,946
Operating Income	30,550	14,432	12,221	7,748	11,171	13,164
Income Before Taxes on Income	32,832	21,538	16,652	12,787	12,934	7,411
Net Income	21,312	15,183	11,412	8,690	8,265	5,307
Total Current Assets	270,646	278,627	191,149	201,338	207,037	193,500
Total Current Liabilities	194,470	216,473	158,011	161,881	147,385	147,994
Working Capital	76,176	62,154	33,138	39,457	59,652	45,506
Current Ratio	139.2%	128.7%	121.0%	124.4%	140.5%	130.7%
Net Property and Equipment	51,115	53,081	53,745	54,897	56,355	59,767
Total Assets	404,424	418,285	333,545	332,727	319,109	303,527
Long-term Debt, Less Current Maturities	15,519	16,382	176	15,227	15,277	15,328
Total Net Assets	174,795	165,191	155,636	136,660	134,860	121,985
New Contracts	348,755	255,015	765,188	439,355	477,955	336,213
Outstanding Contracts	616,763	728,168	1,009,515	714,214	652,247	561,080
Net Income per Share (in yen)	84.01	59.81	44.49	33.82	31.98	20.13
Cash Dividends per Share (in yen)	21.0	15.0	11.0	8.5	8.0	6.0
Number of Employees	2,014	1,953	1,868	1,804	1,719	1,705

NON-CONSOLIDATED BALANCE SHEETS

JGC CORPORATION
March 31, 2008 and 2007

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current Assets:			
Cash and deposits	¥ 81,876	¥ 90,122	\$ 817,207
Marketable securities	71,000	58,600	708,654
Notes and accounts receivable (Note 2)	40,882	53,591	408,045
Contract works in progress	57,255	52,413	571,464
Deferred tax assets (Note 8)	7,773	8,054	77,583
Other current assets (Note 2)	12,449	16,543	124,254
Allowance for doubtful accounts	(589)	(696)	(5,879)
Total Current Assets	270,646	278,627	2,701,328
Property and Equipment (Note 3):			
Land (Note 9)	22,493	22,493	224,504
Buildings and structures	46,547	46,640	464,587
Machinery and equipment	8,562	8,742	85,458
Construction in progress	31	119	309
	77,633	77,994	774,858
Less accumulated depreciation	(26,518)	(24,913)	(264,677)
Net Property and Equipment	51,115	53,081	510,181
Other Assets:			
Investments in subsidiaries and affiliates	31,222	29,562	311,628
Marketable and investment securities	28,872	38,065	288,172
Long-term loans receivable (Note 2)	14,719	15,703	146,911
Deferred tax assets (Note 8)	4,263	—	42,549
Other	3,587	3,247	35,802
Total Other Assets	82,663	86,577	825,062
Total Assets	¥404,424	¥418,285	\$4,036,571

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current Liabilities:			
Short-term loans and current maturities of long-term debt (Notes 2 & 3)	¥ 16,537	¥ 11,939	\$ 165,056
Notes and accounts payable (Note 2)	55,082	92,332	549,775
Advances received on uncompleted contracts (Note 2)	109,102	98,398	1,088,951
Reserve for job warranty costs	616	1,552	6,148
Reserve for losses on contracts	2,497	4,964	24,923
Income taxes payable	5,413	1,384	54,027
Other current liabilities (Note 2)	5,223	5,904	52,132
Total Current Liabilities	194,470	216,473	1,941,012
Long-Term Debt, Less Current Maturities (Note 3)	15,519	16,382	154,896
Retirement and Severance Benefits	11,722	12,190	116,998
Deferred Tax Liabilities for Land Revaluation (Notes 8 & 9)	3,783	3,783	37,758
Other Non-Current Liabilities (Note 8)	4,135	4,266	41,272
Total Liabilities	229,629	253,094	2,291,936
Contingencies (Note 5)			
Net Assets (Note 6):			
Common stock			
Authorized — 600,000,000 shares,			
Issued — 259,052,929 shares in 2008 and 2007	23,511	23,511	234,664
Capital surplus	25,593	25,586	255,445
Legal earnings reserve	2,693	2,693	26,879
Retained earnings	126,880	109,375	1,266,394
Treasury stock, at cost	(5,651)	(4,151)	(56,403)
Net unrealized holding gains on securities	8,028	14,767	80,127
Deferred gains on hedges	331	—	3,304
Land revaluation, net of deferred tax portion (Note 9)	(6,590)	(6,590)	(65,775)
Total Net Assets	174,795	165,191	1,744,635
Total Liabilities and Net Assets	¥404,424	¥418,285	\$4,036,571

NON-CONSOLIDATED STATEMENTS OF INCOME

JGC CORPORATION
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Net Sales (Note 7)	¥460,161	¥528,794	¥484,382	\$4,592,884
Cost of Sales	420,019	505,273	463,668	4,192,225
Gross profit	40,142	23,521	20,714	400,659
Selling, General and Administrative Expenses	9,592	9,089	8,493	95,738
Operating income	30,550	14,432	12,221	304,921
Other Income (Expenses):				
Interest and dividend income	11,701	9,651	5,650	116,788
Interest expense	(604)	(344)	(284)	(6,029)
Loss on sales and disposal of property and equipment	(22)	(32)	(38)	(220)
Loss on devaluation of property and equipment	—	—	(2)	—
Gain on sales of marketable and investment securities	161	—	162	1,607
Loss on devaluation of investment in unconsolidated subsidiaries	—	—	(679)	—
Loss on devaluation of marketable and investment securities	(24)	(26)	(29)	(240)
Exchange gain (loss), net	(7,963)	(15)	479	(79,479)
Loss on withdrawal from certain business	—	(920)	—	—
Provision for doubtful accounts	(1,477)	(1,790)	(1,422)	(14,742)
Gain on release from the substitutional portion of the government's welfare pension insurance scheme	—	—	171	—
Impairment loss	—	—	(13)	—
Other, net	510	582	436	5,090
	2,282	7,106	4,431	22,775
Income before taxes on income	32,832	21,538	16,652	327,696
Taxes on Income (Note 8):				
Current	11,997	7,117	6,334	119,742
Deferred	(477)	(762)	(1,094)	(4,761)
Net Income	¥ 21,312	¥ 15,183	¥ 11,412	\$ 212,715
Amounts Per Share of Common Stock				
Net income	¥84.01	¥59.81	¥44.49	\$0.84
Cash dividends applicable to the year	¥21.00	¥15.00	¥11.00	\$0.21

The accompanying notes are an integral part of these statements.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

JGC CORPORATION
Years ended March 31, 2008, 2007 and 2006

	Thousands of shares		Millions of yen						
	Common stock		Capital surplus	Legal reserve	Retained earnings	Treasury stock at cost	Net unrealized holding gains (losses) on securities	Deferred gains on hedges	Land revaluation, net of deferred tax portion (Note 9)
	Shares	Amount							
Balance at March 31, 2005	259,053	¥23,511	¥25,581	¥2,693	¥ 88,084	¥(3,717)	¥ 7,241	¥ —	¥(6,733)
Net income for the year					11,412				
Cash dividends					(2,159)				
Bonuses to directors and corporate statutory auditors					(96)				
Land revaluation, net of deferred tax portion					(151)				151
Gain on retirement of treasury stock			1						
Net unrealized holding gains on securities							10,098		
Increase of treasury stock						(280)			
Balance at March 31, 2006	259,053	¥23,511	¥25,582	¥2,693	¥ 97,090	¥(3,997)	¥17,339	¥ —	¥(6,582)
Net income for the year					15,183				
Cash dividends					(2,793)				
Bonuses to directors and corporate statutory auditors					(113)				
Land revaluation, net of deferred tax portion					8				(8)
Gain on retirement of treasury stock			4			2			
Net unrealized holding gains on securities							(2,572)		
Increase of treasury stock						(156)			
Balance at March 31, 2007	259,053	¥23,511	¥25,586	¥2,693	¥109,375	¥(4,151)	¥14,767	¥ —	¥(6,590)
Net income for the year					21,312				
Cash dividends					(3,807)				
Land revaluation, net of deferred tax portion									
Gain on retirement of treasury stock			7			6			
Net unrealized holding gains on securities							(6,739)		
Net deferred gains on hedges								331	
Increase of treasury stock						(1,506)			
Balance at March 31, 2008	259,053	¥23,511	¥25,593	¥2,693	¥126,880	¥(5,651)	¥ 8,028	¥331	¥(6,590)

	Thousands of U.S. dollars (Note1)								
	Common stock		Capital surplus	Legal reserve	Retained earnings	Treasury stock at cost	Net unrealized holding gains (losses) on securities	Deferred gains on hedges	Land revaluation, net of deferred tax portion (Note 9)
	Common stock	Amount							
Balance at March 31, 2007	\$234,664	\$255,375	\$26,879	\$1,091,677	\$(41,431)	\$147,390	\$ —	\$(65,775)	
Net income for the year				212,715					
Cash dividends				(37,998)					
Land revaluation, net of deferred tax portion									
Gain on retirement of treasury stock			70		60				
Net unrealized holding gains on securities						(67,263)			
Net deferred gains on hedges							3,304		
Increase of treasury stock					(15,032)				
Balance at March 31, 2008	\$234,664	\$255,445	\$26,879	\$1,266,394	\$(56,403)	\$ 80,127	\$3,304	\$(65,775)	

The accompanying notes are an integral part of these statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF ACCOUNTING POLICIES

(A) BASIS OF PRESENTING NON-CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying non-consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of non-consolidated statements of changes in net assets for 2006) from the non-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 Law. Certain supplementary information included in the statutory Japanese language non-consolidated financial statements, but not required for fair presentation, is not presented in the accompanying non-consolidated financial statements.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 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) CONVERSION OF FOREIGN CURRENCIES

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

(C) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Notes and accounts receivables, including loans and other receivables, are valued by providing individually estimated uncollectible amounts plus the amounts for probable losses calculated by applying a percentage based on collection experience to the remaining accounts.

(D) MARKETABLE SECURITIES, INVESTMENTS IN SUBSIDIARIES AND AFFILIATES, AND MARKETABLE AND INVESTMENT SECURITIES

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using the moving-average method. Other securities with no available fair market value are stated at moving-average cost.

The companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes, (b) debt securities intended to be held to maturities, (c) equity securities

issued by subsidiaries and affiliates, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities"). The Company did not have the securities defined as (a) and (b) above in the years ended March 31, 2008 and 2007.

If the market value of available-for-sale securities declines significantly, such securities are restated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of decline. For equity securities with no available fair market value, if the net asset value of the investee declines significantly, such securities are required to be written down to the net asset value with the corresponding losses in the period of decline. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(E) RECOGNITION OF SALES, CONTRACT WORKS IN PROGRESS AND ADVANCES RECEIVED ON UNCOMPLETED CONTRACTS

The Company recognizes sales on contracts using the completed-contract method. Under this method, costs and advances received on uncompleted contracts are accumulated during the period of construction. These costs and advances received on uncompleted contracts are not offset and are shown as contract works in progress and advances received on uncompleted contracts in the accompanying non-consolidated balance sheets. Accordingly, no profits or losses are recorded before the contract is completed.

Sales on other contracts for relatively large projects which require long periods for completion and which generally include engineering, procurement (components, parts, etc.) and construction on a full-turnkey basis, are recognized on the percentage-of-completion method, primarily based on contract costs incurred to date compared with total estimated costs for contract completion. The percentage-of-completion method is adopted for large jobs for which the construction period exceeds 24 months and the contract amount exceeds ¥5,000 million (including jobs whose construction period exceeds 36 months and the contract amount exceeds ¥3,000 million). Revisions in contract revenue and cost estimates are recognized in the period in which they are determined.

Contract works in progress are stated at cost determined by a specific identification method and comprised of direct materials, components and parts, direct labor, subcontractors' fees and other items directly attributable to the contract, and job-related overheads. Selling, general and administrative expenses are charged to operations as incurred and are not allocated to contract job work costs.

The Company normally receives payments from customers on a progress basis in accordance with the terms of the respective construction contracts.

(F) OPERATING CYCLE

Assets and liabilities related to long-term contract jobs are included in current assets and current liabilities in the accompanying non-consolidated balance sheets, as they will be liquidated in the normal course of contract completion, although it may require more than one year.

(G) PROPERTY AND EQUIPMENT, DEPRECIATION AND FINANCE LEASES

Property and equipment are stated at cost, except for certain revalued land as explained in Note 9. Depreciation on property and equipment is calculated using the straight-line method for buildings used for business operation, and the declining-balance method for other property and equipment over the estimated useful lives of the assets based on the Corporate Income Tax Law in Japan.

Effective as of the consolidated accounting period ended March 31, 2008, the Company and its domestic subsidiaries have changed their depreciation procedure based on an amendment in corporation tax law for the tangible assets acquired on and after April 1, 2007. The effect of this change on the financial result is immaterial.

Effective as of the consolidated accounting period ended March 31, 2008, the Company and its domestic subsidiaries have changed their depreciation procedure, which book value became 5% of the acquired cost based on an amendment in corporation tax law for the tangible assets acquired before March 31, 2007. The tangible assets which book value became 5% of the acquired cost are amortized by straight-line method over 5 years. The effect of this change on the financial result is immaterial.

Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

Expenditures for new facilities and those that substantially increase the useful lives of existing property and equipment are capitalized. Maintenance, repair and minor renewals are charged to expenses as incurred.

The cost and accumulated depreciation applicable to assets retired or otherwise disposed of are eliminated from the related accounts and the gain or loss on disposal is credited or charged to income.

(H) IMPAIRMENT OF FIXED ASSETS

Effective from the year ended March 31, 2006, the Company adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result, income before taxes on income decreased by ¥13 million for the year ended March 31, 2006.

Accumulated loss from impairment is deducted directly from the acquisition costs of the related assets in accordance with the revised disclosure requirements.

(I) RETIREMENT AND SEVERANCE BENEFITS AND PENSION COSTS

The Company provides two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company provided allowance for employees' severance and retirement benefits at March 31, 2008 and 2007, based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions, and the fair value of the plan assets at that date.

Prior service costs are recognized as expenses in equal amounts over the average of the estimated remaining service lives of employees (12 years), and actuarial gains and losses are recognized as expenses using the declining-balance method over the average of the estimated remaining service lives (12 years) commencing in the following period.

From the year ended March 31, 2007, the Company changed the amortizing periods for the unrecognized actuarial gains and losses and the unrecognized prior service cost from 15 years to 12 years, because the average service period of its employees declined below 14 years as of March 31, 2007.

As a result, operating income and income before taxes on income decreased by ¥171 million for the year ended March 31, 2007.

(J) RESEARCH AND DEVELOPMENT COSTS

Research and development costs for the improvement of existing skills and technologies or the development of new skills and technologies, including basic research and fundamental development costs, are charged to operations in the period incurred.

(K) TAXES ON INCOME

The Company provides tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(L) RESERVE FOR JOB WARRANTY COSTS

A reserve for the estimated cost of warranty obligations is provided for the Company's engineering, procurement and construction work at the time the related sales on contracts are recorded.

(M) RESERVE FOR LOSSES ON CONTRACTS

A reserve for losses on contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress.

(N) ACCOUNTING STANDARD FOR PRESENTATION OF NET ASSETS IN THE BALANCE SHEET

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities and the shareholders' equity sections.

The amount of net assets as of March 31, 2007, is the same as the amount of the shareholders' equity that would have been presented if the previous presentation rules had been applied at that date.

The adoption of the New Accounting Standards had no impact on the non-consolidated statements of income for the year ended March 31, 2007.

(O) ACCOUNTING STANDARD FOR STATEMENT OF CHANGES IN NET ASSETS

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the non-consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, statements of shareholders' equity were prepared for the purpose of inclusion in the non-consolidated financial statements although such statements were not required under Japanese GAAP.

(P) PER SHARE INFORMATION

Cash dividends per share have been presented on an accrual basis and include dividends to be approved after the balance sheet date but applicable to the year then ended.

(Q) DERIVATIVES AND HEDGE ACCOUNTING

The accounting standard for financial instruments requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless the 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 of 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 an existing foreign currency receivable or payable,
 - (i) 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 statement of income in the period which includes the inception date, and
 - (ii) 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 are recognized.

Also, where 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.

(R) ACCRUED BONUSES TO DIRECTORS AND CORPORATE AUDITORS

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard, "Accounting Standard for Bonuses to Directors" (Statement No.4 issued by the Accounting Standards Board of Japan on November 29, 2005).

Under the new accounting standards, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings.

As a result, operating income and income before taxes on income decreased by ¥143 million for the year ended March 31, 2007.

(S) RECLASSIFICATION AND RESTATEMENT

Certain prior year amounts have been reclassified to conform to the current year presentation.

These reclassifications had no impact on previously reported results of operations or retained earnings.

NOTE 2 — RECEIVABLES FROM AND PAYABLES TO SUBSIDIARIES AND AFFILIATES

Significant receivables from and payables to subsidiaries and affiliates at March 31, 2008 and 2007, were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Notes and accounts receivable	¥ 75	¥ 29	\$ 749
Other current assets	3,478	509	34,714
Long-term loans receivable	5,957	1,883	59,457
Notes and accounts payable	14,716	28,190	146,881
Short-term loans	16,537	11,763	165,056
Advances received on uncompleted contracts	1	99	10
Other current liabilities	451	531	4,501

NOTE 3 — BORROWINGS

At March 31, 2008 and at March 31, 2007, short-term loans consisted of unsecured debt from subsidiaries and bore interest at TIBOR.

Long-term debt consisted of the following:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Unsecured Debt			
1.36% – 5.27% loans from banks and insurance companies, due serially through 2013	¥15,519	¥16,558	\$154,896
Less current maturities	—	(176)	—
Long-term debt due after one year	¥15,519	¥16,382	\$154,896

Assets pledged as collateral for long-term debt and other non-current liabilities at March 31, 2008 and 2007, were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Land	¥4,280	¥4,280	\$42,719
Buildings and structures, at net book value	2,684	2,828	26,789
Machinery and equipment, at net book value	10	12	100
Total	¥6,974	¥7,120	\$69,608

The annual maturities of long-term debt outstanding at March 31, 2008, were as follows:

Year ending March 31,	Amount	
	Millions of yen	Thousands of U.S. dollars (Note 1)
2009	¥ —	\$ —
2010	—	—
2011	—	—
2012	14,517	144,895
2013 and thereafter	1,002	10,001
Total	¥15,519	\$154,896

NOTE 4 — LEASE TRANSACTIONS

(A) FINANCE LEASE TRANSACTIONS WITHOUT OWNERSHIP TRANSFER TO LESSEE

(1) Purchase price equivalents, accumulated depreciation equivalents, and book value equivalents:

March 31,	Millions of yen	
	2008	2007
Purchase price equivalents	¥ 92	¥ 63
Accumulated depreciation equivalents	(14)	(52)
Book value equivalents	¥ 78	¥ 11

March 31,	Thousands of U.S. dollars (Note 1)	
	2008	2007
Purchase price equivalents	\$ 918	
Accumulated depreciation equivalents	(139)	
Book value equivalents	\$ 779	

Purchase price equivalents are calculated using the inclusive-of-interest method.

(2) Lease commitments:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Due within one year	¥22	¥11	\$220
Due after one year	56	—	559
Total	¥78	¥11	\$779

Lease commitments are calculated using the inclusive-of-interest method.

(3) Lease payments and depreciation equivalents:

Year ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Lease payments	¥25	¥14	¥57	\$250
Depreciation equivalents	25	14	57	250

(4) Calculation method of depreciation equivalents:

Depreciation equivalents are computed by the straight-line method over the lease period without considering residual value.

(B) OPERATING LEASE TRANSACTIONS

Lease commitments under non-cancelable operating leases:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Due within one year	¥1	¥—	\$10
Due after one year	1	—	10
Total	¥2	¥—	\$20

NOTE 5 — CONTINGENCIES

(1) It is a business practice in Japan for a company to guarantee the indebtedness of certain of its trading agents, suppliers, subcontractors and certain subsidiaries and affiliates. The aggregate amount of such guarantees was ¥15,839 million (\$158,090 thousand) and ¥20,814 million at March 31, 2008 and 2007, respectively.

(2) The Company has guaranteed employees' housing loans and others from banks in the amount of ¥23 million (\$230 thousand) and ¥32 million at March 31, 2008 and 2007, respectively.

NOTE 6 — NET ASSETS

As described in Note 1 (n), net assets comprises three subsections, which are owners' equity, accumulated gains (losses) from valuation and translation adjustments and share subscription rights.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

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 price of the new shares as additional paid-in capital, which is included in capital surplus.

Under 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.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. 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 non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 27, 2008, the shareholders approved cash dividends amounting to ¥5,310 million (\$52,999 thousand). Such appropriations have not been accrued in the non-consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

During the years ended March 31, 2008, 2007 and 2006, the Company issued no share.

NOTE 7 — NET SALES

Net sales recognized on the percentage-of-completion method for the years ended March 31, 2008, 2007 and 2006, were ¥396,618 million (\$3,958,659 thousand), ¥465,956 million, and ¥375,408 million, respectively.

NOTE 8 — TAXES ON INCOME

The statutory tax rate for 2008, 2007 and 2006 was 36.2%.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2008, 2007 and 2006:

	2008	2007	2006
Statutory tax rate	36.2%	36.2%	36.2%
Non-deductible expenses	0.5	0.7	0.7
Non-taxable dividend income	(4.4)	(6.1)	(5.2)
Tax credits utilized	(0.5)	(0.8)	(1.2)
Past year's income tax adjustment	2.1	(1.3)	1.4
Other	1.2	0.8	(0.4)
Effective tax rate	35.1%	29.5%	31.5%

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2008 and 2007, were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current deferred taxes			
Deferred tax assets:			
Excess accrued employees' bonuses	¥1,440	¥1,357	\$14,373
Excess reserve for losses on contracts	904	1,797	9,023
Other	5,647	4,900	56,363
Total current deferred tax assets	7,991	8,054	79,759
Deferred tax liabilities:			
Other	(218)	—	(2,176)
Net current deferred tax assets	¥7,773	¥8,054	\$77,583

For the years ended March 31, 2008 and 2007, the valuation allowances of ¥192 million (\$1,916 thousand) and ¥170 million have been deducted from the gross amount of the current deferred tax assets, respectively.

Non-current deferred taxes

Deferred tax assets:			
Loss recognized on percentage-of-completion method not deductible for income tax purposes	¥ 196	¥ 196	\$ 1,956
Retirement benefits	4,243	4,413	42,350
Excess bad debt expenses	3,284	3,016	32,778
Other	1,232	804	12,296
Total non-current deferred tax assets	8,955	8,429	89,380
Deferred tax liabilities:			
Net unrealized holding gains on securities	(4,554)	(8,378)	(45,454)
Other	(138)	(183)	(1,377)
Total deferred tax liabilities	(4,692)	(8,561)	(46,831)
Net non-current deferred tax assets (liabilities)	¥ 4,263	¥ (132)	\$ 42,549
Deferred tax liabilities for land revaluation	¥ 3,783	¥ 3,783	\$ 37,758

For the years ended March 31, 2008 and 2007, the valuation allowances of ¥211 million (\$2,106 thousand) and ¥246 million have been deducted from the gross amount of the non-current deferred tax assets, respectively.

NOTE 9 — LAND REVALUATION

Pursuant to Article 2 of the Enforcement Ordinance for the Law Concerning Land Revaluation (the "Law") effective March 31, 1998, the Company recorded its owned land used for business at the fair value as of March 31, 2002, and the related revaluation difference, net of income taxes, was debited to "land revaluation, net of deferred tax portion" in the net assets section. The applicable income tax portion was reported as DEFERRED TAX LIABILITIES FOR LAND REVALUATION in the non-consolidated balance sheet at March 31, 2008 and 2007. When such land is sold, land revaluation is reversed and debited to retained earnings.

Fair value of revalued land as of March 31, 2008 was ¥4,662 million (\$46,532 thousand) less than the book value as of March 31, 2008.

INDEPENDENT AUDITORS' REPORT

JGC Corporation

To the Shareholders and Board of Directors of JGC Corporation (Nikki Kabushiki Kaisha):

We have audited the accompanying non-consolidated balance sheets of JGC Corporation (a Japanese corporation) as of March 31, 2008 and 2007, and the related non-consolidated statements of income, changes in net assets for each of the three years in the period ended March 31, 2008, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of JGC Corporation as of March 31, 2008 and 2007, and the non-consolidated results of their operations for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the non-consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 27, 2008