

THE JGC GROUP IN FISCAL 2008

In the first half of fiscal 2008, the market environment for JGC Group's total engineering business was supported by a high level of demand globally for natural resources and energy. Based on such demand, numerous capital investment projects were being planned and executed in oil- and gas-producing nations. However, following the September 2008 financial crisis stemming from the financial crisis in the U.S., market conditions became uncertain, as global economic conditions changed completely, leading to significant declines in the prices of crude oil and other natural resources, as well as a dramatic contraction of financial markets. As a result, the economic viability of projects declined, forcing clients to reexamine their plans and making it difficult to finance projects. Furthermore, some clients decided to put off capital investment projects, electing to wait and see how plant construction costs would fluctuate.

Amid this environment, the JGC Group paid close attention to a variety of risks and focused on executing more secure projects.

Despite the uncertainty in the market, oil majors and large state-owned oil companies are maintaining their level of investment in oil, gas and other upstream development from fiscal 2009 onward in anticipation of future growth in energy consumption, rather than being swayed by short-term economic trends and fluctuations in crude oil prices.

OIL AND GAS DEVELOPMENT PROJECTS

As discussed in Special Feature 2, "Initiatives in the Upstream Domain" (page 14), we received orders and executed multiple projects in the Middle East and North Africa in the field of oil and gas development in response to customers' continued capital investment activities.

In July 2008, JGC was awarded an engineering, procurement and construction (EPC) services contract by



NGL recovery plant for Saudi Aramco, Saudi Arabia

Sonatrach, Algeria's state-owned oil and gas company, for oil and gas gathering units, separation, desalting and other facilities in Algeria's Rhourde Nouss region, with completion targeted in the first half of 2011. In early fiscal 2009, we subsequently received another order from Sonatrach for the EPC services of a large-sized gas processing plant in the Gassi Touil field. This plant is scheduled for provisional acceptance in the first half of 2013.

In Saudi Arabia, in July 2008, we received an order for the EPC services of off-site facilities (including a water-injection system used in oil fields, crude oil storage tanks and shipping equipment) for a large-scale crude oil processing facility being developed by Saudi Aramco in the Manifa region of Saudi Arabia. In addition, in the second half of 2008, we completed construction of a large-scale natural gas liquids (NGL) recovery plant for Saudi Aramco in the Hawiyah region.

In Abu Dhabi, in early fiscal 2009, we have received Award Notification from Abu Dhabi Gas Industries Ltd. (GASCO) to provide the EPC and commissioning services for a large-scale gas processing plant and other facilities.

PETROLEUM REFINING PROJECTS

During fiscal year 2008, the JGC Group was engaged in petroleum refining projects in the Middle East and Asia. These projects were launched based on the increase in local demand for electric power and advances in motorization, both in response to population growth and economic development in oil-producing countries.

In Vietnam, JGC is constructing the country's first large-scale petroleum refinery and off-site facilities for Vietnam Oil and Gas Corporation (Petro Vietnam), the state-owned oil company, and test operations are currently being conducted, with completion scheduled in the second half of 2009. In Singapore, we are carrying out an oil refinery upgrade project for Singapore Refining Co. Pte. Ltd. with completion scheduled in the second half of 2009.

In Japan, we have won a new order for the revamping of a petroleum refinery and are constructing a heavy oil processing plant for a petroleum refining company.

As part of the process of further strengthening its overall health, safety and environment (HSE) management efforts, a major focus of the JGC Group is on these activities at construction sites. We received the Fiscal 2008 Award for Excellence from the Ministry of Health, Labour and Welfare which was presented with respect to the construction of a petroleum refining-related

plant for Fuji Oil Company's Sodegaura Refinery completed in the middle of 2008. This award recognizes the fact that during execution of the project, which lasted approximately 18 months, there were no accidents or injuries, and approximately 1,150,000 total hours of labor were logged without injury. In addition, the award acknowledges the safety assessment activities conducted along with the client, day-to-day safety activities, and the other various, detailed efforts aimed at ensuring safety and health.



Petroleum refining-related plant for Fuji Oil Company, Japan



LNG PROJECTS

As explained in our Special Feature 1, “Initiatives in the Expanding LNG Market” (page 12), LNG projects are being planned around the world in response to growing demand in Europe, China and India. In addition to conventional onshore LNG plant construction, plans in this field include the construction of floating LNG plants to develop small- and medium-sized gas fields under the sea-bed. As the leading LNG plant contractor, JGC is conducting feasibility studies and handling basic design for projects planned worldwide.

In January 2009, JGC was awarded the Front End Engineering and Design (FEED) services for the onshore component of the Ichthys Project in Australia to be developed by INPEX Browse, Ltd.

In Yemen, we are constructing the country's first-ever LNG plant, aiming for completion in the second half of 2009. In Indonesia, we continue to work on the Tangguh LNG project for BP Berau, Ltd. Shipments of LNG from Train 1 are expected to begin in the middle of 2009, while we expect to complete Train 2 in the near future.

CHEMICAL PROJECTS

In the chemical field, the weakening of the market for petrochemical and chemical products has cast uncertainty over the timing of execution of new project plans, but many projects are being carried out in Japan and the Middle East based on previously robust capital investment activity.



High olefin FCC facility and ethane crackers for Rabigh Refining and Petrochemical Company, Saudi Arabia

In Saudi Arabia, JGC is working on a project to construct large-scale ethylene units and other facilities for Saudi Polymers Company. In the first half of 2008, we completed construction of an ethylene unit and a large-scale styrene monomer facility for Jubail Chevron Phillips Company in Saudi Arabia. Also in the second half of 2008, we completed construction of the core high olefin FCC (fluid catalytic cracking) facility and one of the world's largest ethane crackers for the company's petroleum refining and petrochemical complex for Rabigh Refining and Petrochemical Company, a joint venture between the state-owned oil company Saudi Aramco and Sumitomo Chemical Co., Ltd.

In Japan, we have worked on the construction of a petrochemical plant for a major chemical company as well as the construction of a chemical plant.

Since the beginning of fiscal 2009, we have been awarded a contract by Saudi Aramco and Sumitomo Chemical Co., Ltd. for the project management services for the feasibility study of the development of the Rabigh Phase II Project (Rabigh II Project).

POWER GENERATION, NUCLEAR POWER AND NEW ENERGY PROJECTS

In the new energy field, we are active in the area of gas to liquids (GTL) as well as in dimethyl ether (DME) and other projects.

Currently in Qatar, JGC is providing project management services for the world's largest GTL project for Qatar Shell GTL Limited, a subsidiary of Royal Dutch Shell. In addition, JGC's role includes project management as well as EPCM activities for GTL synthesis.

In the DME field, in Japan we completed construction of a DME manufacturing plant for Fuel DME Production Co., Ltd. in August 2008 and made the first delivery to a customer in January 2009. Fuel DME Production was established in 2007 by nine companies, including Mitsubishi Gas Chemical Company, Inc. and JGC, for the purpose of promoting the spread of DME. This company is working to commercialize this new fuel by supplying the manufactured DME for use in a variety of fields, including as fuel for boilers, power generators (including fuel cells) and automobiles, and chemical raw materials.

In the nuclear power field, Japan Nuclear Fuel Ltd. (JNFL) has been constructing a spent nuclear fuel reprocessing facility in Rokkasho, Aomori Prefecture, since 1993. JGC has installed piping in the active galleries of the facility, and is now conducting trial operations in preparation for the start of commercial operations.



A DME manufacturing plant for Fuel DME Production Co., Ltd., Japan

LIVING AND GENERAL PRODUCTION PROJECTS

In the pharmaceutical field, in addition to our wide range of services related to pharmaceutical production, including EPC services for pharmaceutical-related facilities and equipment, and good manufacturing practice (GMP) compliance, we are also focused on providing the fullest possible range of pharmaceutical services from new drug development to clinical development and commercial production, areas where business is likely to expand in the future.

In July 2008, JGC signed Memorandum of Understanding (MOU) with the provincial authority in Liaoning, China, for providing consulting services for the drafting of a master plan for an industrial park focusing on biomedical and pharmaceutical products. We also received a contract from TOA EIYO Ltd., a circulatory and cardiovascular medication manufacturer, for construction of a technology center, as well as a contract from a Japanese pharmaceuticals company to upgrade its drug manufacturing facility. In addition, we are working on other multiple projects to construct drug manufacturing facilities. In the middle of 2008, we completed a project to build a packaging plant for Kanae Co., Ltd. in Hyogo Prefecture and a bio plant for Asahi Glass Co., Ltd. in Chiba Prefecture.

In non-ferrous refining, in the Philippines in early 2009 we completed Phase 2 construction of a nickel refining plant as part of a project being led by Sumitomo Metal Mining Co., Ltd. We also worked on Phase 1 construction of this plant, and will leverage this track record to focus on growth in the field of non-ferrous metal refining.



Second phase construction of nickel refining plant for Coral Bay Nickel Corporation, the Philippines

ENVIRONMENTAL PROTECTION, SOCIAL DEVELOPMENT AND IT PROJECTS

In the medical facilities field, JGC constructed high-quality medical facilities throughout Japan and offered project management services, both of which received high marks from many customers.

In March 2008, we were selected by the Tokyo Metropolitan Government for the refurbishing and management of the (tentatively named) Mental Health Center. For this Center, the Tokyo Metropolitan Government has used a Private Finance Initiative (PFI) method. JGC is the first domestic engineering contractor to have participated in a hospital PFI business and in September 2008 a project management company was established and the company is currently proceeding with execution design work. We also received an order from the Niigata Medicalcare Cooperative for the rebuilding of Kido Hospital in Niigata Prefecture.

Elsewhere, we completed several construction projects during the year. In the second half of 2008 we completed construction work on a research center in Gunma

Prefecture for Sanden Corporation, Japan's leading manufacturer of automotive compressors. In early 2009, we completed the Seiryokai Foundation's Shosha Hospital expansion project in Hyogo Prefecture and the Yoshikawa Hospital relocation and new construction project for the Shijinkai Foundation in Saitama Prefecture.



Research center for Sanden Corporation, Japan

ENTERPRISE INVESTMENT BUSINESS

Under the JGC Group's medium-term management plan, "Scenario 2010," which ends in fiscal 2010, we are focusing on expanding the enterprise investment business into a business pillar alongside the EPC business and the catalysts and fine products business.

In April 2008, in Abu Dhabi, UAE, JGC acquired business rights to own and operate the Taweelah A2 IWPP (Independent Water and Power Project). The plant, consisting of combined cycle gas turbine power distiller units, is located in Abu Dhabi's Taweelah district and produces 710 MW of power and 230,000 tons of water per day. We acquired 15% of the 40% of shares held in the business by Japanese trading company (6% of total shares). A new plant including power generation and



The Rabigh cogeneration, steam and desalination plant, Saudi Arabia

desalination facilities in Abu Dhabi's Taweelah B IWPP, in which we acquired a business interest in January 2005, began commercial operation in the second half of 2008, and is operating smoothly along with the existing plants.

Furthermore, the Rabigh IWSP (Independent Water, Steam and Power Project) in Saudi Arabia began operating in the middle of 2008.

In Algeria, JGC, through a newly-established joint venture company, has been awarded Operation & Maintenance (O&M) services contracts for gas-fired power plants in Algeria. The new company is the first investment activity related to the Algerian power sector by any Japanese enterprise.

In the Clean Development Mechanism (CDM) business, the CDM project that we are advancing in China's Anhui Province, which involves the installation of a waste-heat power generation facility for a local cement plant of Anhui Huaibei Mining (Group) Cement Co. Ltd., received official approval from the United Nations CDM Executive Board in September 2008. Likewise, in March 2009, a raw material replacement CDM project for a cement plant being worked on in China and the Inner Mongolia Autonomous Region received approval from the United Nations CDM Executive Board.

In the resource development business, we acquired interests in an oil and gas field in Louisiana in the U.S., and as an operator we are hard at work on development and production.

CATALYSTS AND FINE PRODUCTS BUSINESS

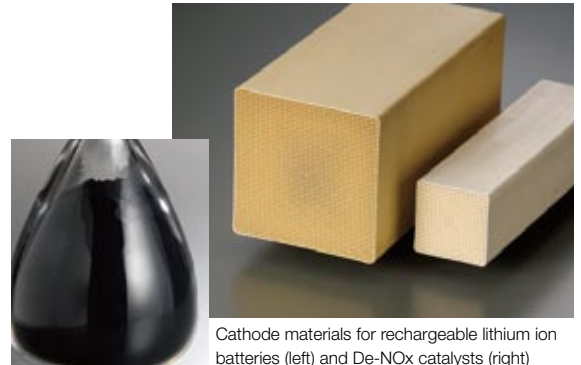
The JGC Group's core companies in the catalysts and fine products business, Catalysts and Chemicals Industries Co., Ltd. and Nikki Chemical Co., Ltd. merged on July 1, 2008, with the objective of further strengthening and growing the business. The new company, JGC Catalysts and Chemicals Ltd., got off to a new start during the period.

The business environment in fiscal 2008 was extremely unfavorable, as the business environment changed more than anticipated. Impacted by the global economic slowdown in conjunction with the financial crisis triggered in the U.S., customers both delayed and reexamined business plans, while at the same time the product market contracted and the prices of rare metals, which are key raw materials in catalysts, were very volatile. In response to this environment, JGC Group companies engaged in the catalyst and fine products business made efforts to improve profitability, such as raising product production efficiency, as well as reducing fixed costs. However, despite these efforts, the business saw a decline in both revenue and profits, as it was negatively impacted by the drop in sales in conjunction with the global economic downturn as well as the loss on valuation losses of inventory due to a drop in the prices of rare metals.

In the catalysts business, sales of FCC catalysts, for which we hold the leading market share in Japan, steadily increased in Japan, but revenues for our hydrotreating catalyst declined due to the fact that customers pushed back deliveries and used recycled products after reviewing their business plans. With respect to our environmental protection catalysts, the best known of which are our De-NOx catalysts, sales increased significantly, as in addition to a rise in replacement-driven domestic demand, there were firm exports of raw materials to the U.S. and Europe as well as strong exports of products to China. Revenues from petrochemical catalysts fell, due to customers postponing deliveries after reviewing business plans and the suspension of business.

In the fine products business, revenues fell for semiconductor abrasives as well as antireflective and antistatic materials for flat-panel displays. This trend was triggered by production declines and inventory adjustments in both the automobile industry and electronics industry.

The market environment for the catalysts and fine products business is expected to remain challenging in fiscal 2009. However, with increasingly stringent environmental regulations around the world, demand for catalysts for thermal electric power plants and automobiles is firm, while demand for cathode materials used in rechargeable lithium ion batteries for IT equipment, electric cars, hybrid vehicles and other uses is expected to grow in the future. Consequently, we will take steps to bolster the business platform in this field, continuing to make capital investments while keeping a close watch on market trends.



Cathode materials for rechargeable lithium ion batteries (left) and De-NOx catalysts (right)

